

Kingdom of Cambodia
Ministry of Industry and Handicraft

KINGDOM OF CAMBODIA
Project for Strategic Strengthening of
Small and Medium Enterprise (SME)
Support System
FINAL REPORT

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List of Abbreviations

ABC	Association of Bankers in Cambodia
ADB	Asian Development Bank
AEC	ASEAN Economic Community
APO	Asian Productivity Organization
ASEAN	Association of South-East Asian Nations
AusAID	Australian Agency for International Development
BACK	Bar Association of the Kingdom of Cambodia
BDS	Business Development Services
BDSP	Business Development Services Provider
BEE	Business Enabling Environment
BOI	Board of Investment
CAM-CONTROL	The Cambodia Import-Export Inspection and Fraud Repression Directorate-General
CAS	Cambodian Accounting Standard
CAVAC	Cambodia Agriculture Value Chain Program
CBC	Credit Bureau of Cambodia
CGF	Credit Guarantee Fund
CIC	Cambodia Investor Club
CIC	Cambodia Information Center
CIFRS	Cambodia International Financial Reporting Standards
CIFRS for SMEs	Cambodia International Financial Reporting Standards for SMEs
CJCC	Cambodia-Japan Cooperation Center
CNCW	Cambodian National Council for Women
C/P	Counterpart
CWEA	Cambodia Women Entrepreneurs Association
DAI	Department of Agro-Industry
DIA	Department of Industrial Affairs
DIT	Department of Industrial Techniques
DSIH	Department of Small Industry and Handicraft
DTIS	Diagnostic Trade Integration Study
EBRD	European Bank for Reconstruction and Development
EMCS	Electric Marketing Communication System
ERP	Enterprise Resource Planning
EU	European Union
FASMEC	Federation of Associations for SME of Cambodia

FDI	Foreign Direct Investment
FRT	Financial Reporting Template
FTA	Free Trade Agreement
GDI	General Department of Industry
GD-SMEH	General Department of SME and Handicraft
GDT	General Department of Taxation
GHP	Good Hygiene Practice
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH (German Federal Enterprise for International Cooperation)
GMP	Good Manufacturing Practice
GMS	Great Mekong Sub-region
G-PSF	Government-Private Sector Forum
GSC	Global Supply Chain
HACCP	Hazard Analysis and Critical Control Point
HRM	Human Resource Management
IDN	Indonesia
IDP	Industry Development Policy
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
ILCC	Industrial Laboratory Center of Cambodia
ILO	International Labour Organization
IPA	Investment Promotion Agency
IPR	Intellectual Property Right
ISC	Institute of Standard of Cambodia
ISO	International Organization for Standardization
ITA	Investment Tax Allowance
JBAC	Japanese Business Association of Cambodia
JCC	Joint Coordination Committee
JD	Job Description
JETRO	Japan External Trade Organization
JICA	Japan International Cooperation Agency
JPY	Japanese Yen
KFW	Kreditanstalt für Wiederaufbau
KHR	Khmer Riels
KICPAA	Kampuchea Institute of Certified Public Accountants
KOICA	Korea International Cooperation Agency
KPI	Key Performance Indicators

LAAP	Law on Corporate Accounts, their Audit, and the Accounting Profession
MAFF	Ministry of Agriculture Forestry and Fisheries
MCFA	Ministry of Culture and Fine Arts
MEF	Ministry of Economy and Finance
MFIs	Microfinance Institutions
MIH	Ministry of Industry and Handicraft
MIME	Ministry of Industry Mines and Energy
M/M	Minutes of Meeting
MNE	Multi-National Enterprise
MOC	Ministry of Commerce
MOP	Ministry of Planning
MOT	Ministry of Tourism
MOU	Minutes of Understanding
MOWA	Ministry of Women's Affairs
MOYP	Ministry of Education, Youth and Sport
MWEP	Ministry of Public Works and Transport
NAC	National Accounting Council
NCOST	National Committee on Science and Technology
NIS	National Institute of Statistics
NMC	National Metrology Center
NPCC	National Productivity Center of Cambodia
NSDP	National Strategic Development Plan
NSTMP	Cambodia's National Science and Technology Master Plan
ODA	Official Development Assistance
OJT	On the Job Training
OSS	One Stop Service
ORS	One Roof Service
PDM	Project Design Matrix
PO	Plan of Operation
PPSEZ	Phnom Penh Special Economic Zone
PSMIA	Phnom Penh Small & Medium Industry Association
QCD	Quality Cost and Delivery
QIP	Qualified Investment Project
R/D	Record of Discussions
R&D	Research and Development
RGC	Royal Government of Cambodia

RS III	Rectangular Strategy Phase III
SEZ	Special Economic Zone
SME(s)	Small and Medium Enterprise(s)
SNEC	Supreme National Economic Council of Cambodia
TDF	Technology Development Fund
TDP	Trade Promotion Department
TOT	Training of Trainers
UNIDO	United Nations Industrial Development Organization
USAID	United States Agency for International Development
VAT	Value Added Tax
WTO	World Trade Organization
YEAC	Young Entrepreneurs Association of Cambodia

Chapter 1 Overview of the Project (Background, Process, Objectives, and Achievements)

1.1 Background and Process

Small and Medium Enterprise (SME¹) is considered to be the basis of Cambodia's industry sector. According to the 2011 Economic Census, the SMEs were the dominant type of establishments in industry. The numbers of small & medium enterprises are 10,041 and 801 respectively while that of micro enterprises with a number of employees less than 10 amounts to 493,544. The number of large-scale enterprises is only 781 (0.15% share) of the total establishments of all the enterprises in Cambodia, totaling 505,134. As far as the number of establishments is concerned, 99.8% of the industry consists of SME, including micro enterprises.

The promotion of SME has been considered one of the essential elements in Cambodia's economic development, and creation of new employment opportunities has been included ever since in the basic national policies such as Rectangular Strategy (July 2004), and National Strategic Development Plan (November 2004), up to Rectangular Strategy Phase III (Sept. 2013) and draft Industry Development Policy (2014).

However, it would not be an overstatement to say that there is not yet a concrete and comprehensive SME promotion policy after the initial policy direction developed by Asian Development Bank in 2005 was recognized as the SME Development Framework. The implementable policy in this area still has a need for the immense significance of SME to be recognized in Cambodia's economy. Having recognized the circumstances for SME when the world financial crisis in 2008 also impacted Cambodia's economy and SME, the Royal Government of Cambodia (RGC) requested Japan International Cooperation Agency (JICA) for assistance.

Responding to the request, JICA has dispatched a project formulation mission in December 2012 and conducted research on the current situation and its background. The RGC and JICA have, then, reached a mutual consent on the principles and details of the Project. The initial counterpart of the Project was General Department of Industry (GDI) of the former Ministry of Industry, Mines and Energy (MIME). The capacity development assistance was aimed at two Departments of the GDI, Department of Small Industry and Handicraft (DSIH) on SME promotion policy formulation and National Productivity Center of Cambodia (NPCC) on company diagnosis and related consulting.

The Governmental institutional organization was restructured in January 2014. Accordingly, the counterpart of the Project was moved to the new authority. The Ministry of Industry and Handicraft has become the new counterpart, and General Department of SME & Handicraft (GD-SMEH) is the counterpart on policy formulation while NPCC remains such for company diagnosis and related consulting under the GD-I. (The background of the restructuring process is referred in a later section.

1.2 Outline of the Project

The Overall Goal and Project Purpose of this Project are as follows. Under this Project, it is understood that the strengthening of function to "formulate SME policy" and the function to "implement measures based on the SME support needs" in the Project Purpose will enable to promote the SME support system, which are set as the Objectives of the Project².

¹ The term "SME" in this report includes Micro Enterprises.

² The names of General Department and Department indicated in the context have been modified according to the new organization established since January 2014.

(1) Target of the Project

Overall Goal: SMEs are promoted through the “SME support system” of MIH.

Project Purpose: “SME support system” of Ministry of Industry and Handicraft (MIH) is strengthened to formulate the SME policy and to implement measures based on the SME support needs.

(2) Outputs and Activities of the Project

Output 1: GD-SMEH drafts the SME policy based on the initial policy outline developed by the Taskforce of the Ministry; and policy formulation process is refined.

Output 2: NPCC strengthens its capacity through company diagnosis consultancy; and develops related SME supporting benchmarks for business performance.

Output 3: NPCC institutionalizes the training programs for the company diagnosis consulting.

The Project was implemented in the major three activity areas; which were; 1) policy formulation process, 2) company diagnosis consulting, and 3) strengthening of NPCC’s consulting program. These three areas were backed up with consideration of related accounting and financial affairs.

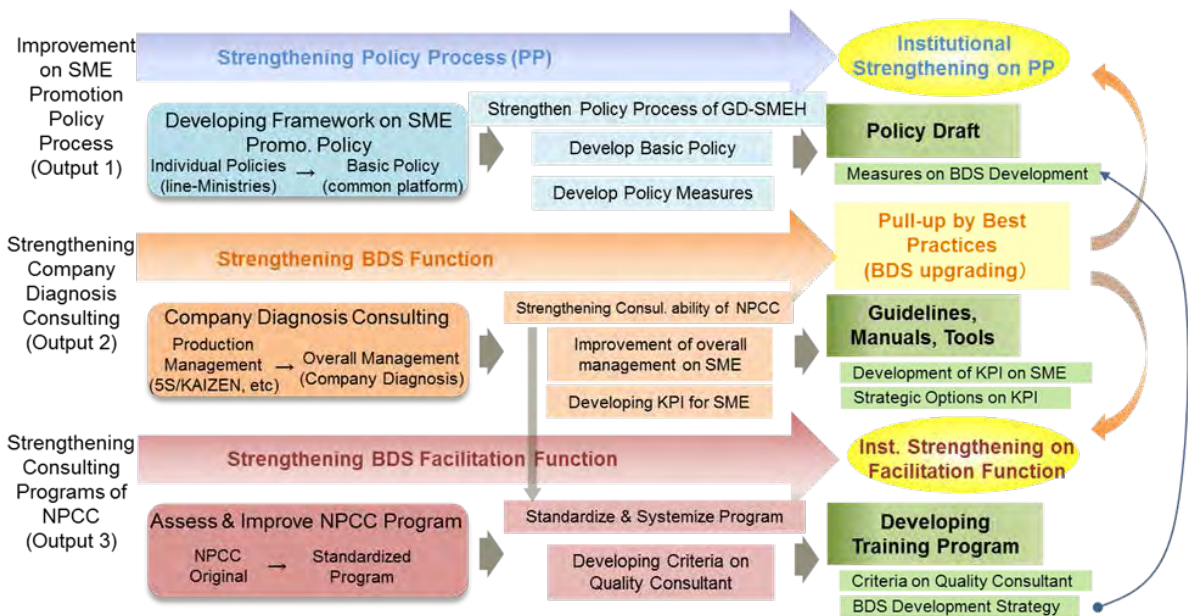


Figure 1-1 Overview of the Project Components

(3) Project Sites

As for the activities relating to Output 1, Phnom Penh is the major area as MIH and other governmental agencies are located there, while fact-finding survey covered other areas such as Siem Reap, Battambang, Pursat, Sihanoukville, Kampong Cham and others. Whole regions of Cambodia were taken into consideration for policy discussions.

For the pilot activities relating to Output 2, it mainly covers Phnom Penh and its surrounding areas, where accumulation of the targeted SMEs is observed. In addition, a part of the activities were implemented in Battambang and Pursat, a production area of rice, where NPCC had been providing consultation to rice millers.

(4) Counterpart and Other Related Agencies

Counterpart: Ministry of Industry and Handicraft (MIH)

- General Department of SME and Handicraft (GD-SMEH)
- National Productivity Center of Cambodia (NPCC)

The chart below shows other major agencies/organizations of the Project, including SME Secretariat, other departments of MIH, business organizations including FASMEC, etc.

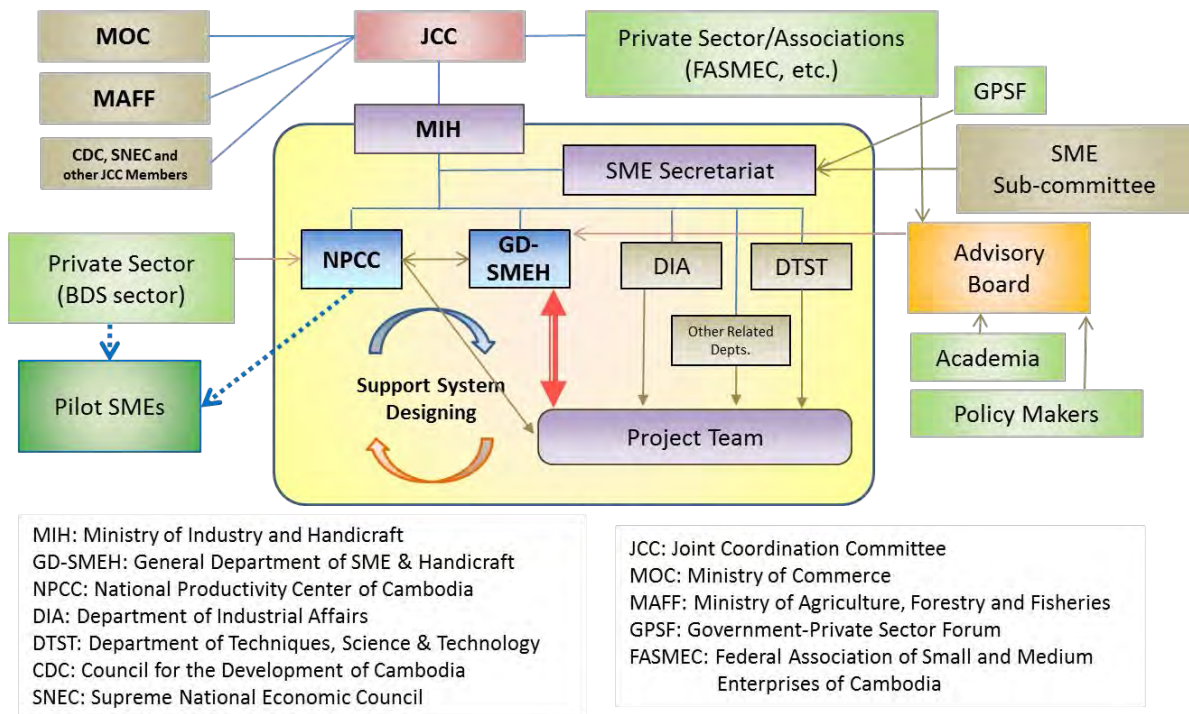


Figure 1-2 Counterpart and Major Stakeholders

1.3 Achievements of Project Activities

The following is the summary of achievements of project activities according to the verified indicators of PDM.

(1) Overall Goal: SMEs are promoted through “SME support system” of MIH.

【Indicators】

- | |
|--|
| <ol style="list-style-type: none">1. MIH implements the company diagnosis consulting at 12 SMEs in the Project sites.2. Performance of the Pilot SMEs is improved in the Project sites. |
|--|

【Achievement】

The number of the pilot SMEs has been increased to 12 from 10 as originally scheduled upon the requests by C/P and stakeholders. Introduction of company diagnosis consulting has strengthened the capacity of NPCC which is a major vehicle of SME support system of MIH. Further than production management consulting, company diagnosis consulting performed enriched BDS to pilot SMEs and brought steady improvement at each pilot SME. The improvement was confirmed in the entire 12 pilot SMEs at least for 2 areas of the SME supporting benchmarks for business performance that was introduced as a consulting tool for the SME promotion. The benchmarks consist of 6 areas for the assessment - which are management, finance, products/services, sales, organization /human resource, and production.

The capacity development was achieved for NPCC as an important part of the “SME support system” of MIH. The inclusion of private sector BDS to the NPCC activities also contributed to present the good practice of BDS in the future. The achievement in the objective of the overall goal is expected to contribute to the further SME supporting system development reflecting on the realization of recommendation in the “Output 3” and development of private sector BDS providers.

(2) Project Purpose: “SME support system” of Ministry of Industry and Handicraft (MIH) is strengthened to formulate SME policy and to implement measures based on the SME support needs.

【Indicators】

- | |
|---|
| <ol style="list-style-type: none">1. The draft of SME policy is approved by MIH |
|---|

【Achievement】

As the effective project duration shortened from 2 years to 1 year due to the institutional restructuring of the counterpart in the middle of total project duration, the final output of “the policy draft” was modified to read “the SME policy framework draft” with the “policy concept note” to be based on. The policy framework draft has been completed and publicly announced for comments from the major stakeholders including relevant ministries through individual meetings and the policy seminars. The policy framework was approved by MIH and JCC in April 2015.

In terms of the capacity development on the SME supporting system, it is considered that there are still continuous effort remained to further strengthening policy formulation function of MIH as the original plans were not applicable and needed to be redesigned to assist structuring an initial foundation for the policy formulation due to the restructuring of ministry. The Project activities successfully set out the foundation to tackle with policy formulation but strengthening of it for further and actual policy formulation was limited for its sustainable enrichment of mission tasks.

(3) Outputs

Output 1: GD-SMEH drafts the SME policy based on the initial policy outline developed by the Taskforce of the Ministry; and policy formulation process is refined.

【Indicators】

1-1. The draft of SME policy is developed.

1-2. 10 coordination meetings among related entities are held.

1-3. 1 seminar to disseminate the outcomes of the SME policy formulation process is held.

【Achievement】

1-1. As stated above, the “SME policy framework” was formulated substituting to the SME policy itself.

1-2. The total of 17 coordination meeting were held as follows; seminars and follow-up meetings for 6 times on the “concept note” and the “SME policy framework”, and individual dialogue meetings for 9 times with stakeholders in advance to the public announcement of the policy framework.

1-3. The reporting seminar was held in April 2015 on the outcomes of the SME policy formulation process.

Output 2: NPCC strengthens its capacity through company diagnosis consultancy; and develops related SME supporting benchmarks for business performance.

【Indicators】

2-1. SME supporting benchmarks for business performance are developed.

2-2. The performance of the pilot SMEs are improved at least in 2 categories of the benchmarks as indicated in 2-1.

【Achievement】

2-1. The SME supporting benchmarks for business performance were developed and completed. The benchmarks are consisted of check list in 6 major areas and for 65 items - of which areas are “management”, “finance”, “sales”, “products/services”, “organization and human resource”, and “production”. The benchmarks were utilized in the company diagnosis consulting activities.

2-2. After 2 years of consulting activities to pilot 12 SMEs, the improvement of the benchmark index was confirmed in all of 12 companies in at least 2 major areas. Besides the assessment by the indicators, one of the pilot companies introduced ERP (Enterprise Resource Planning) system, and two of them were awarded G-Mark Award (the Japanese award for good design) -which is considered another proof for the improvement of their business performance.

Output 3: NPCC institutionalizes the training programs for the company diagnosis consulting.

【Indicators】

- 3-1. The continuous training programs for sustainable quality consulting services for SME support are developed.
- 3-2. The criteria of a quality consultant for SME support is produced.
- 3-3. 1 seminar to demonstrate the significance of company diagnosis consulting and 1 workshop for SMEs and stakeholders to disseminate the good practices resulted from the Project Activities are held.

【Achievement】

3-1 With regard to the Output 3, while promoting synergetic effect with company diagnosis activities, it was originally designed to refine and standardize the training program that NPCC outlined, “Advanced 5S”, based on their experiences of OJT programs and consulting activities - which was combination of various management methodologies set out based on 5S/KAIZEN framework. However, the program “Advanced 5S” has been faded out due to loss of budgetary foundation and loss of clear initiatives for continuation caused by the restructuring of Ministry. Thus, instead of “develop” training programs, it was agreed to be modified to make a recommendation for the prospective relevant training programs. The recommendation is duly indicated as the form of options in the “Prospective outlook for the future development of BDS market (direction for the future role of NPCC)”.

3-2 It was so agreed that the criteria of a quality consultant are significant in guaranteeing the minimum quality of consulting services not only directly provided from NPCC but also provided from prospective private sector BDS. This will also provide a clear and objective mechanism including guidelines for bridging NPCC’s BDS to that of private sector’s. The criteria are set in the Project and also utilized to evaluate self-assessment of NPCC consultants.

3-3 In August 2013, the Awareness Raising Seminar was organized to aim for the promotion of awareness on company diagnosis consulting (approx. 120 participation). It also provided workshop for the pilot diagnosis exercise. In April 2015, the final seminar was organized to disseminate the outcomes of the Project and the good practices demonstrated by the 12 pilot SMEs (approx. 240 participation).. The workshop programs were incorporated with the seminar on the subject of human resource management and production management.

<The restructuring and setting up the institutional organization of
the new Ministry of Industry and Handicraft>

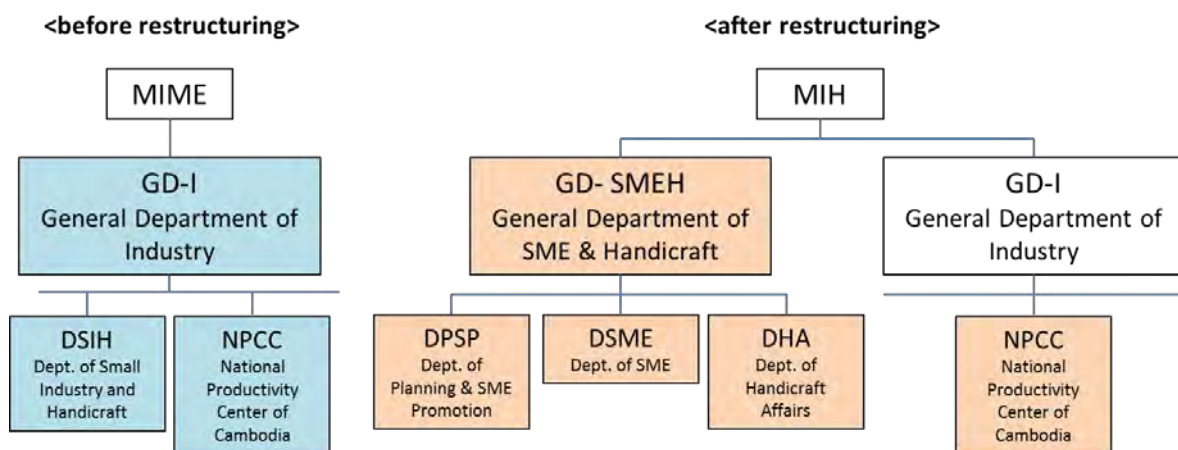
This Project has launched by agreement on the contents and structure thereof among H.E. Saktheara, DG of GDI, Mr. Bunna, Director of NPCC and Mr. Dimanche, Director of DSIH and JICA Team during JICA Expert Team’s first activity period in June 2013.

After the reorganization of the Ministry, the assignment of Project Director and Mangers by Senior Minister was announced on 10 March 2014 as follows;

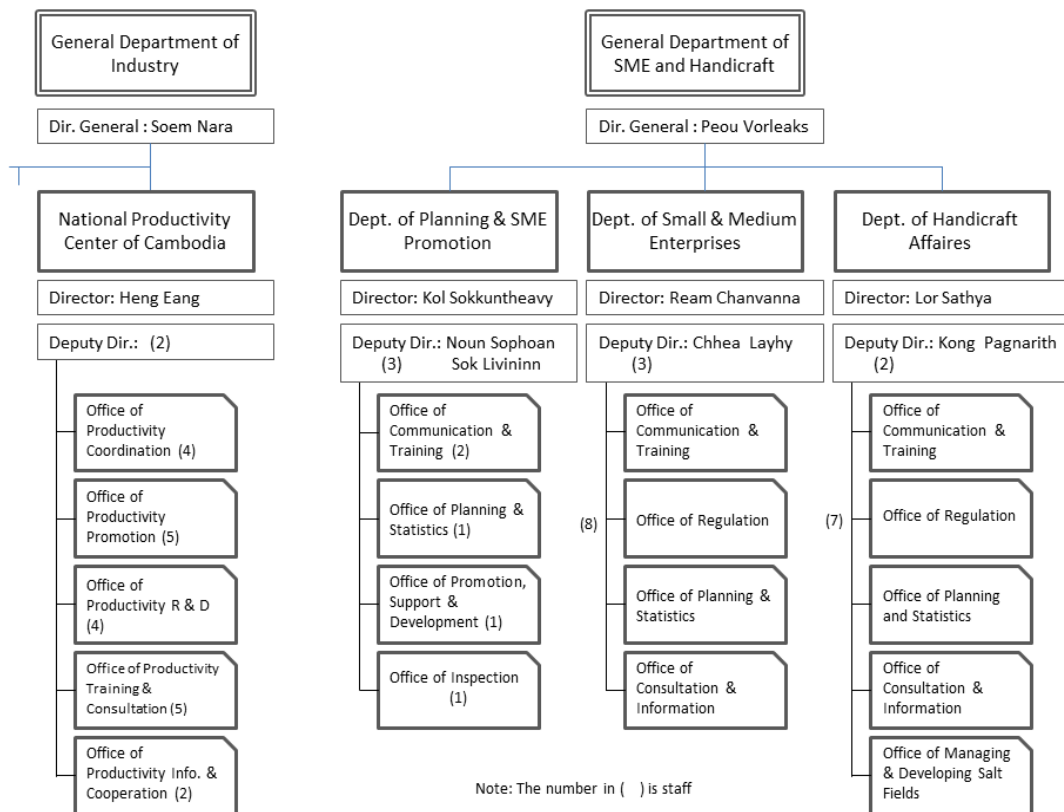
- Chairman of JCC : H.E. Senior Minister Cham Prasidh,
- Acting Chairman of JCC: H.E. Heng Sokkung, Secretary of State
- Project Director : Ms. Peou Vorleaks, Director General, GD SME & Handicraft
- Acting Project Director : Mrs. Kong Sedhika, Deputy Director General, GD-SMEH
- Project Manager : Mr. Yea Bunna, Deputy Director General, GD-SMEH
- Acting Project Manager : Mr. Heng Eang, Director, NPCC, GD Industry

Also, in March, staff-level team members were assigned. On March 24, the Ministerial Order and the Prakas were issued to decide the structure and officials of the General Department. The former DSIH was promoted to the General Department of SME and Handicraft (GD-SMEH). Three Departments were attached to the GD-SMEH. (NPCC remained under the General Department of Industry (GD-I)).

On April 25, the first meeting of the Policy Team was held, and assignment of the members was confirmed. The first JCC was held on April 29 to announce the official launch of the Project.



**Figure 1-3 Positioning of Counterpart in the Ministry
(Before-and-After the restructuring of Ministry)**



Source: Prakas and interviews

Figure 1-4 Institutional Structure of the Counterpart in MIH

<Mission of Departments of MIH>

1) Department of Planning & SME Promotion

- Being an executive body of the General Department of SME and Handicraft on planning and SME promotion;
- Developing policy, strategy, direction and planning for SME development align with national strategic plan of the government;
- Developing legislation and other regulations relevant to SME development;
- Reviewing, monitoring and evaluating the implementation of policy, strategy and joint planning of SME sector;
- Collaborating with line ministries, institutions, national and international organizations and developing partners in promoting SME development;
- Cooperating with technical entities to promote and support entrepreneurship, innovation, technology, invention and initiative, as well as promoting the consumption of green technology in SME sector;
- Proposing, coordinating and monitoring the implementation of public investment on SME sector;
- Executing of inspections on SME and handicraft;
- Cooperating with line ministries, institutions to receive and provide data for statistical planning;
- Consolidating, compiling data and statistics and publishing bulletin on SME and Handicraft;

- Implementing other tasks assigned by the management team.

2) Department of Small and Medium Enterprises

- Being an executive body of the General Department of SME and Handicraft on SME affairs;
- Implementing policy, strategic plan for SME development aligned with the government's national strategic plan;
- Collaborating with other countries, institutions, national and international organizations in promoting SME development;
- Cooperating with technical entities to promote and support entrepreneurship, innovation, technology, invention and initiative as well as promoting the consumption of green technology in the SME sector;
- Expanding and developing the SME sector;
- Reviewing, evaluating and approving of private sector investment projects of SME;
- Managing and monitoring the registration and operation of SME;
- Preparing Prakas on establishment and certification on the operation of SME;
- Preparing and registering SME products;
- Certifying that the category and quantity of raw materials used by SME complies with technical standards;
- Issuing any certificates relevant to SME production;
- Implementing other tasks assigned by the director of the Department.

3) Department of Handicraft Affairs

- Being an executive body of the General Department of SME and Handicraft on handicraft affairs;
- Implementing policy, strategic plan for SME development aligned with the government's national strategic plan ;
- Collaboration with relevant ministries, institutions, national and international organizations in promoting Handicraft development;
- Cooperating with technical entities to promote and support entrepreneurship, innovation, technology, invention and initiative as well as promoting the consumption of green technology in Handicraft sector;
- Expanding and developing Handicraft sector;
- Reviewing, evaluating and approving on private sector investment projects of handicrafts;
- Managing and monitoring the registration and operation of handicrafts;
- Preparing Prakas on establishment and certification on the operation of handicrafts;
- Preparing and registering handicraft products;
- Certifying that category and quantity of raw-materials used by handicraft shall be complied with technical standard;
- Issuing any certificates relevant to handicraft production;
- Managing and developing salt fields;
- Implementing other tasks assigned by the management team.

4) National Productivity Center of Cambodia

- Developing and implementing policy, strategy and action plan aiming to develop productivity sector supporting social economy align with national strategic plan of the government;
- Managing and leading national productivity tasks;
- Cooperating, coordinating and promoting the productivity movement in the Kingdom of Cambodia;
- Monitoring of the implementation of policy/program for productivity, quality and efficiency improvement to both national and sub-national level activities;
- Performing and fulfilling the obligations of being a member of Asian Productivity Organization (APO);
- Communicating, collaborating with other country members of APO, ASEAN and other developing partners;
- Cooperating with APO to develop the procedure and implement national productivity improvement projects and encourage outstanding organizations/individual in productivity work in Cambodia;
- Reviewing, evaluating and promoting benchmarking on productivity level of public institutions, enterprises, and private sector to speed up the productivity improvement;
- Coordinating with relevant entities and private sector to promote productivity;
- Developing procedures, standards on productivity concept following the trend of socio-economic development;
- Being an executive body of the National Productivity Council;
- Providing training and consultation on productivity;
- Furthering outstanding organizations/individual in productivity work in Cambodia;
- Fostering productivity and quality, particularly productivity culture and competitive capacity;
- Conducting research, compiling statistics and productivity indication and disseminating productivity information;
- Incorporating the productivity notion in the society on both national and sub-national level via educational sector and other sectors;
- Consolidating reports, job performance evaluation and progress in productivity to the General Department of Industry
- Implementing other tasks assigned by the Ministry.

Source: related Prakas listed in Appendix JP (7)-1-10~13

Chapter 2 Project Activities

The overviews and outcomes of project activities, activities in components of policy formulation, and company diagnosis consulting (consulting activities and training program development), are reported in following sections.

2.1 (Output 1) Formulation of SME Policy Draft and Refinement of Policy Formulation Process

【Output 1】 GD-SMEH drafts the SME policy based on the initial policy outline developed by the Taskforce of the Ministry; and policy formulation process is refined.

(1) Activities for Output 1

- Activity 1-1: GD-SMEH reviews the existing SME policies in other countries, and conduct research on the issues and difficulties surrounding Cambodia’s SMEs in order to evaluate their support needs for improvement.
- Activity 1-2: GD-SMEH identifies the relevant SME policy based on the outcomes from the activity 1-1, and substantiates the initial policy outline developed by the Taskforce of the Ministry.
- Activity 1-3: GD-SMEH develops the setting to invite views from and consult with stakeholders such as the ones from academia, private sectors as well as public entities.
- Activity 1-4: GD-SMEH puts the policy into actions through NPCC; and NPCC feedbacks the results from Activity 2-1 to 2-6.
- Activity 1-5: GD-SMEH organizes the seminars to disseminate the outcomes of the SME policy formulation process.
- Activity 1-6: GD-SMEH drafts SME policy and prepare a proposal for the improvement of the SME policy formulation process through the Activities 1-1 to 1-5.
- Activity 1-7: GD-SMEH institutionalizes the improved policy formulation process.

(With regard to the Activity 1-4, due to the impact of the restructuring of Ministry, the actual conduct of activity remained information sharing between GD-SMEH and NPCC rather than “feedbacks of the results from Activity 2-1- to 2-6”)

(2) Overview of the Activities

The activities for “Output 1” mainly focused on 2 major areas, which are “formulation of policy draft” and “improvement of policy formulation process”. The research was conducted on the issues and difficulties of SME for the former activity. The seminars, advisory meetings, and public hearing were also organized for discussion on the SME policy framework based on the research activity. In order to pursue for effective performance in these 2 areas, the related functions of GD-SMEH should be strengthened. The activities, thus, aimed to strengthen the following four (4) functions necessary for policy formulation while drafting SME promotion policy framework. They are;

- i) Policy Formulation Function: including policy drafting process which is the core of policy formulation process to design and structure the policy with relevant policy measures (consideration on solutions to the improvement of difficulties SMEs are facing),
- ii) Coordination Function: to coordinate with other authorities and stakeholders (consensus coordination, public hearing, etc.)
- iii) Research Function: such as identification of SME needs and difficulties to be improved including current situation of policies (survey on the current situation, reviews of existing related policies and policy measures, etc.), and
- iv) Monitoring Function: including checking how policies are implemented and received (including reviews and assessments of existing related policy measures).

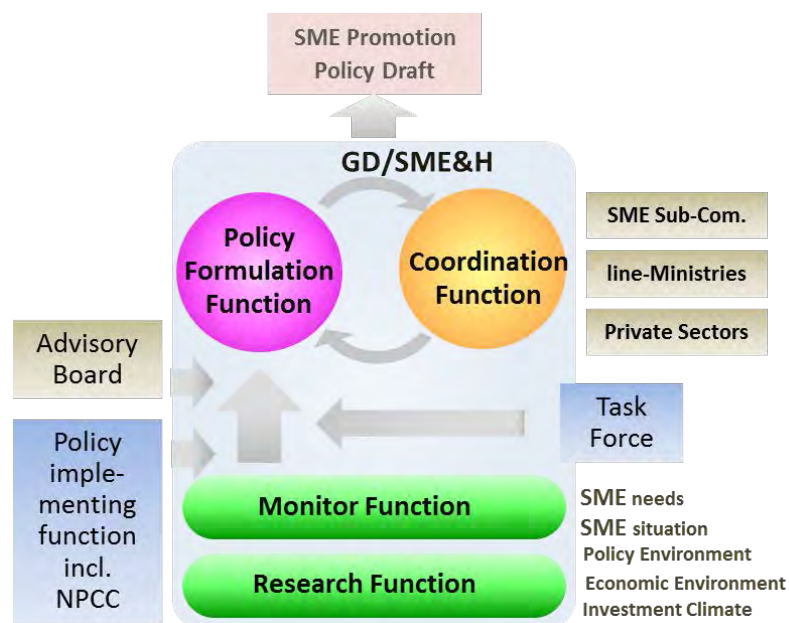


Figure 2-1 Policy formulation process and related functions of GD-SMEH

(3) Activities Achievement Summary

Under the former administration, before the restructuring, the following activities were conducted which are; i) reviews and information collection/analysis on SME issues (related policies, interview surveys, documents surveys, etc.), ii) sub-contracted questionnaire survey (including methodology to manage over-all questionnaire survey process), and iii) formulation of a concept note (the skeleton of the policy).

With the team under the new administration, the activities were restarted from the scratch except for the sub-contracted questionnaire survey. In addition to the above, major activities were iv) the first policy seminar on the concept note was organized in July, 2014, v) follow-up dialogues/meetings with stakeholders were continued, vi) advisory board setting up and meeting in August, 2014, vii) formulation of the policy framework based on the concept note after January, 2015, viii) detailed dialogues with stakeholders on the policy framework for March to April, 2015, and ix) organizing final seminar on the policy framework and JCC in April 28 and 29, 2015.

2.1.1 (Activity 1-1) Research on the issues and difficulties surrounding Cambodia's SMEs

Activity 1-1: GD-SMEH reviews the existing SME policies in other countries, and conduct research on the issues and difficulties surrounding Cambodia's SMEs in order to evaluate their support needs for improvement.

In this Project, difficulties and challenges to be addressed have been identified from previous activities. Therefore, the activities focused to analyze the new and known challenges in detail, and put the emphasis to lead the positions and view for additional information gathering. During the process, capacity development of the Team members also progressed, especially in the policy formulation function.

(1) Reviews on SME related policies, measures and institutions in Cambodia

1-1) Activity Approach

In Cambodia, there had not been a specific set of SME policies in existence, while other policies and strategies touch upon the SME. For the deepening of understanding on the existing policies, the Team was encouraged to gather the major strategies and policies to study, including Rectangular Strategy Phase III (September 2013), SME Development Framework (2005), Concept Paper by the previous GDI of MINE for Policy Formulation Team under previous administration, and SNEC's Industry Development Policy 2014-2024 for the team under MIH, in addition to the listed, Integrated Trade Comprehensive Strategy and National Trade Integrated Strategy were also taken up. The Japanese Expert Team provided the extracts of the relevant policies to promote the understanding and study of the Policy Formulation Team under GD-SMEH (Appendix (7)-1-3~(4)-1-5 "Policy Review Paper #1, #2, and #4"), stressing the importance of mutual consistency of the policies, and explained the significance of developing SMEs policy in line with national strategies.

Under the new Team of the Policy Formulation on policy study of line ministries, individual staff were assigned to a ministry to study deeply and make presentations during the regular meeting, aiming to develop capacity of individuals' information collection and analysis, as well as team building for information sharing. Information gathered and brief notes developed by the Team members were shared in a cloud file storage system by setting up a "Cambodia SME Library", in which Senior Minister H.E. Prasadh and Under-Secretary H.E. Sokkung are also members so that the communication with decision makers is supported in this system as well.

Among the new Team members, the consciousness of the direction of SME policy has developed through activities above, especially, relation of SME policy to the national strategy of other sectors/areas.

In addition, MIH was asked to comment on Draft Industry Development Policy 2014-2024 by SNEC in mid-February 2014, the Japanese Expert Team has supported MIH's study and discussion thereof.

Table 2-1 Policies of line ministries in Cambodia (examples of discussed sectors)

Policy/Strategy	Ministry
Policy Paper On The Promotion of Paddy Production and Rice Export	Council of Ministers
Agricultural Sector Strategic Development Plan 2006-2010	Ministry of Agriculture, Forestry and Fisheries
Financial Sector Development Strategy 2011–2020	Council of Ministers / Ministry of Economy and Finance
Cambodia Trade Integration Strategy 2014-2018	Ministry of Commerce
Cambodia’s National Energy Efficiency Policy, Strategy and Action Plan	Ministry of Energy and Mines

(Source: websites of the line ministries, etc.)

1-2) Points of Reviews on Policies and Measures

Followings are some of the major points captured from the reviews on policies and policy measures. It was reconfirmed that there were not comprehensive promotion policies specifically designed for SME, while the most of the economy related policies stipulated the significance of SME in the economy and/or industrial development.

Some of the policies may provide details of policy measure but in certain limited areas. For example, the introduction of a leasing law was suggested in the “SME Development Framework, 2005” in the area of “access to finance”. The focus was put in the “National Strategic Development Plan, 2013-2018” for promotion of SME’s competitiveness through strengthening ILCC, NPCC, and other public institutions. The “Industrial Development Policy” sets a target by stating “By 2025, 80% and 95% of small and medium enterprises respectively will register officially and 50% and 70% of small and medium enterprises respectively will have accurate accounting records and balance sheet.”

The major aspects identified through reviews including above were elaborated in the policy framework to be incorporated with the policy formulation in the future.

Table 2-2 SMEs in National Strategies in Cambodia (Overview)

Rectangular Strategy (R/S)- Growth, Employment, Equity and Efficiency Phase I	Published in 2004 under the 3rd legislature of Prime Minister Hun Sen. “Promoting SMEs” is positioned within Private Sector Development and Employment Generation which is one of the “Rectangle”.
R/S - Phase II (2009-2013)	<ul style="list-style-type: none"> - Published in 2008 under the 4th legislature. - “Promoting SMEs” is positioned as it was in Phase I - Promotion of SMEs focuses; legal framework and adjustment; financing; and supportive actions for SMEs.

R/S - Phase III (2013-2018)	<ul style="list-style-type: none"> - Published in 2013 under the 5th legislature - Stressing upgrading SMEs through; modernization of SMEs/ improving connectivity; preparing science and technology policy; updating SME Development Framework; encouraging investment in industrial clusters, etc.
SME Development Framework	<ul style="list-style-type: none"> - Published in 2005 with assistance from ADB as the first comprehensive framework for SME development. - Roadmap of SME promotion toward 2010 was given. Setting up of sub-committee among ministries, etc., was suggested.
Concept Paper for Strategy 2015: The Strategic Framework of the General Department of Industry 2010-2015	<ul style="list-style-type: none"> - GDI published in 2010 based on the learnings of 2005 SME Framework. - Emphasizing importance of promoting industry diversification, etc. - Identifying core areas of governmental intervention such as; business-enabling environment; skill development and technology adoption, etc.
Industrial Development Policy 2014-2024	<ul style="list-style-type: none"> - SNEC published the draft in 2014 for consultation with related ministries including MIH, business community and international partners, and formally adopted in March 2015. - SME Upgrading and Modernization is one of the 5 pillars of the Framework and Measures of Industrial Development Policy

Source: Official documents of Cambodian Government

(2) Statistical Data for Understanding of Policy Environment

2-1) Activity Approach

In cooperation and coordination with Japanese Expert in National Institute of Statistics, this Project has been active in studying SME statistics, e.g. using original data of the Economic Census 2011, since September 2013. Through these activities, an unofficial contact and network were established with NIS and the policy formulation team under the previous administration.

Statistical data were also shared within the internet “Library” established by the Project and the Japanese Expert provided basic analysis to the new Team. While a meeting was conducted with the NIS and the team under previous administration, the new Team faced difficulty in setting up institutional focal point for statistics, (e.g. the number of staffs in Department of Planning and SME Promotion is limited). The Japanese Expert Team encouraged developing statistics accumulation by the MIH. After assignment of DG H.E. Vorleaks, the statistics data to explain the actual situation of the SME was provided and explained, including to the team members (Appendix (7)-1-6).

2-2) Points of Reviews on Statistic Data

The Cambodia’s economy and industrial structure was overviewed through statistic data analysis. Steady economic growth with 2-digit growth rate in early 2000s was reconfirmed, and 8.3% to 10.7% of high economic growth was recognized since 2010. With regard to the characteristics of the industrial structure, the weak manufacturing and lopsided garment sector oriented structure was reviewed with the shares in GDP of 16% for manufacturing and 63% share of industry sector for the garment sector. The trade imbalance of approx. USD 2 billion was identified and continuous heavy reliance on import was observed.

These findings and reviews on economic, industrial and industrial characteristics were all incorporated with the context of the policy framework namely in the section “Issues and Challenges”.

Table 2-3 Overview of the Employment, Establishment and Sales volume by number of employees

Overview of the Employment, Establishment, and Sales volume by number of employees

Size of Enterprises	Number of Employees	Employment	Number of Establishment	Number of Establishment Registered			Sales (US\$)	
				Total	Commerce	Industry		
Micro	1-10	976,019	493,510	37,227	12,998	3,224	5,785,847,176	7,388,817,838
Small	11-50	192,347	10,041	9,507	3,332	665	1,241,799,912	
Medium	51-100	53,935	801	1,131	425	86	361,170,750	
Large	101-	453,944	782	1,427	614	184	5,289,567,787	5,289,567,787
	Total	1,676,245	505,134	49,292	17,369	4,159	12,678,385,625	

Source: "Economic Census of Cambodia 2011", National Institute of Statistics, MOP, Cambodia

Overview of the Employment, Establishment, and Sales volume by number of employees (%)

Size of Enterprises	Number of Employees	Employment	Number of Establishment	Number of Establishment Registered			Sales (US\$)	
				Total	Commerce	Industry		
Micro	1-10	58.2%	97.7%	75.5%	74.8%	77.5%	45.6%	58.3%
Small	11-50	11.5%	2.0%	19.3%	19.2%	16.0%	9.8%	
Medium	51-100	3.2%	0.2%	2.3%	2.4%	2.1%	2.8%	
Large	101-	27.1%	0.2%	2.9%	3.5%	4.4%	41.7%	41.7%
	Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	

Source: "Economic Census of Cambodia 2011", National Institute of Statistics, MOP, Cambodia

(3) Review of SME related Policies and Policy Measures in Neighboring and Major Countries

3-1) Activity Approach

The Project proposed significance of studying policies in other countries. Under previous administration, the SME Taskforce under the former MIME/GDI has identified "10 items to be addressed in the SME policy". For each item, the SME policies and measures, and the background thereof, were studied for thirteen (13) countries.

The Policy Formulation Team under previous administration studied and discussed definitions and their legislative background. The Policy Formulation Team under MIH has also studied Cambodia's existing policies since May 2014, and for the foreign countries' review, the members were assigned particular countries for their information gathering. Some effective inputs from the Team members have been shared during regular meetings, and led by the Japanese Experts, information from other countries were organized as reference of Cambodia's policy coordination.

3-2) Points of Review of SME related Policies and Measures in Neighboring and Major Countries

Due to the limitation of time frame with the policy team under the new administration, a thorough comparative analysis through a range of countries was limited to the analysis on "Definition". The remaining analysis based on "10 items" was substantiated and shared with the team by the inputs from Japanese Experts.

With regard to the definition issue, the major criteria were found to be "capital", "asset", "annual turnover", and "number of employees".

Table 2-4 Comparison among SME Definition among major countries

	Capital	Asset	Sales Turnover	Employee	Category of industries
Cambodia					
ADB2005		○		○	
GDT			○		
Japan	○			○	4
China			○	○	16
EU		○	○	○	
Indonesia		○		○	
Korea	○		○	○	7
Malaysia			○	○	2
Thailand	○			○	4
Myanmar	○		△	○	
Taiwan	○			○	2
USA			○	○	
Vietnam	○			○	3

Important aspects of other issues discussed and shared with the team were all integrated into the policy framework including followings;

- The aspect of development of PC manufacturing industry in Taiwan: The cooperation and collaboration among SME in the same sector was the main driving force. The policy measures helped that development in terms of assistance for technology through establishing the Hsinchu Science Park in 1980.
- The contribution of SPRING in Singapore, SMRJ in Japan, for assisting SME in standard, technology, human resource development, training, productivities, etc.
- The preferential provision for SME in the Investment Promotion Law of Malaysia contributed to SME promotion as well as investment promotion.

In addition to inclusion of those aspects such as above into relevant sections of the policy framework, some of the good examples of policy measures in the major countries were also highlighted in the section of “Referential Schemes and Cases” in the policy framework.

(4) Identification of Challenges and Difficulties through Interviews and Survey

4-1) Activity Approach

In this Activity 1-1, the issues described above were discussed and shared in revolving regular meetings of the policy team for twice in every week. Simultaneously, a various interviews was conducted with individual SMEs, major stakeholders (such as SME associations, ministries), and international development partners as well as the pilot 12 SMEs under the Project. The outcomes from the survey as indicated in the next section, Activity 1-2, were also included in the discussion for identification of challenges and difficulties of SMEs.

Although the interviews were conducted through the initiatives of Japanese Experts, the former policy team under the former MIME had interview opportunities to be shared. The new policy team under MIH;

however, could not spare enough schedule for those due to the limited timeframe. The new team shared all the information through regular meetings with Japanese Experts.

4-2) Points Identified through Interviews

The following points are major points identified through the individual interviews. (Some were also found in the result of the survey as described in the next section as for Activity 1-2.)

Table 2-5 Highlights of Issues and Challenges of SME

<p><Highlights of Issues and Challenges of SME identified through interviews></p> <ul style="list-style-type: none">i) Since there is no comprehensive SME policy, coordination among different policies and measures is not effectively implementedii) No access to the SME information for foreign companies to call for cooperationiii) SME themselves have a tendency to be closed and staying in old customs such with no transparency in financial statuses, business plan, etc.iv) For the access to finance, not only a collateral system but also multiple issues exist (including iii above).v) Difficulty in human resources on both worker level and middle management levelvi) Difficulty in quality management and standardization in manufacturing and production

Each essence of points above was dealt as the basis of the policy aspects in the policy framework. The policy framework consist of 4 sections for each policy item - which are “Issues”, “Principles/Objectives”, “Direction for Measures and Actions”, and “Referential Scheme and Cases”. Above aspects were mainly reflected in the section of “Issues” but some provided directly the basis of policy motivation, such as significance of “clustering” suggested by the aspect of iii) above, etc.

Above i) and ii) are dealt in the sections in the Policy Framework related to “reduction of Red-tapes”, “access to information”, and “internationalization of SME”. With regard to iii) , iv), v), and vi), they are dealt in the sections related to “clustering”, “modernization of SME in the context of access to finance”, “employment condition and HRD”, and “access to technology” respectively.

2.1.2 (Activity 1-2) Identification and substantiation of the initial policy outline

Activity 1-2: GD-SMEH identifies the relevant SME policy based on the outcomes from the activity 1-1, and substantiates the initial policy outline developed by the Taskforce of the Ministry.

(1) SME Promotion Survey

Within the Project, an outsourced Survey on actual situation and needs of SME (“SME Promotion Survey”) was held. The overview of the result of the Survey is as follows. (Appendix (7)-1-7 for the TOR).

Terms : November 2013 – July 2014
Interviewees: 500 SME (200 in Phnom Penh, 300 in provinces Siem Reap, Battambang, Sihanoukville, Kampong Cham, Kampong Speu, Svay Rieng). Manufactures as well as services
Methodology: Interviews conducted by CDRI and enumerators
Purpose : To identify latest situation of business of SME, problems and needs for assistance

As seen in the Final Report (Appendix (7)-1-9), the issues identified by the survey were categorized as i) governance, ii) customer/market, iii) human resource and iv) products/services. In Phnom Penh, the governance issue was the most serious concern, followed by customer/market and human resources, while in provinces, human resource has pointed out as most frequent bottleneck.

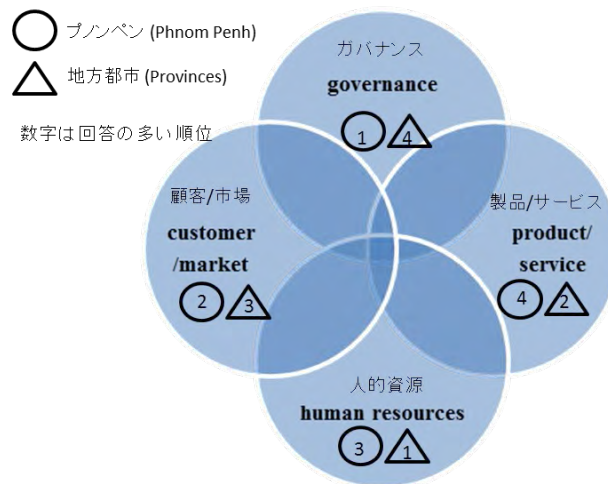


Figure 2-2 Areas of Difficulties SMEs are facing

Table 2-6 Details of Issues and Difficulties of SME

Areas	Issues and Difficulties
①Governance	<ul style="list-style-type: none"> - High cost of electricity/supply shortages/frequent outages, - Unofficial payments, - Poor public infrastructure and services, - Lack of enough policy to support SMEs, - High tax rates/complicated tax procedures, etc.
②Customer/Market	<ul style="list-style-type: none"> - Difficulty in collecting sales from customers, - Rising competition,

	- Unfair Competition, etc.
③ Human Resources	- Shortage of low-skilled/unskilled labor, - Poor discipline and commitment, - High staff turnover, - Increasing wage, - Shortage of semi-skilled/highly skilled labor/Skill mismatch, - Low productivity, etc.
④ Products/Services	- Rising cost of raw materials, - Poor quality of raw materials, - Decreasing price of finished product, etc.

Access to Formal Finance	<p style="text-align: center;">< Issues and Difficulties ></p> <ul style="list-style-type: none"> - Collateral on immovable (operational requirement on immovable at financial sector side), - High interest rate, - Challenges and complexity in loan assessment process, etc.
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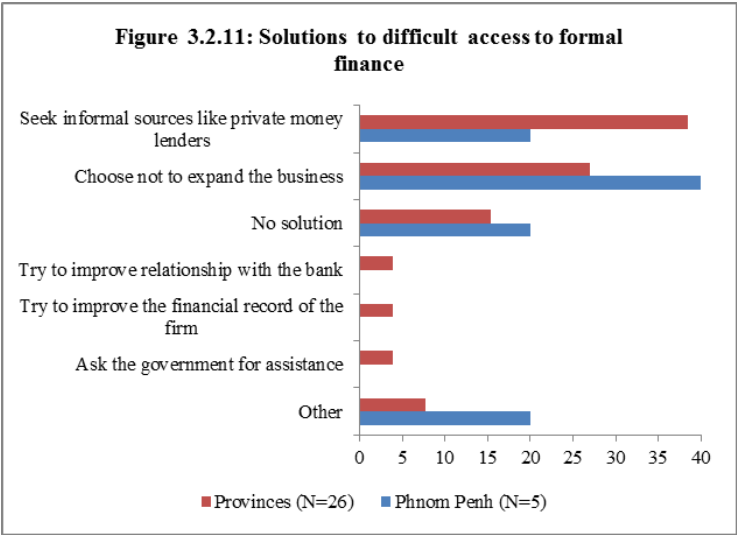


Figure 2-3 Alternative Actions in case of No Access to Formal Finance

In Phnom Penh area, requirement of unofficial payment by government and official agencies found serious problems by both manufacturing and services. For manufactures, collecting sales from customers and high cost of imported raw materials, for services, shortage of skilled labors were found as difficult, respectively (Table 2-7 The color in the column indicates orange for top and yellow for second place.).

Table 2-7 Difficulties by Type of SMEs (column %)

	MiM	SM	MM	MiS	SS	MS
High cost of electricity/frequent outages	3 14%	13 16%	1 6%	2 17%	4 13%	2 14%
Unofficial payments		3 4%	3 17%		5 16%	1 7%
Unfair competition	1 5%	5 6%	1 6%	1 8%	2 6%	1 7%
Increasing import/domestic competition	2 10%	6 7%	1 6%	1 8%	3 9%	
Difficulty to collect sales from customers	7 33%	10 12%	3 17%	1 8%	4 13%	1 7%
Low discipline/commitment among workers	5 24%	4 5%	1 6%	1 8%	4 13%	
Low staff productivity		3 4%				
Unskilled/low-skilled labor shortage	2 10%	12 15%	2 11%	1 8%	1 3%	
Skilled labor shortage		3 4	2 11%		2 6	4 29%
Skills mismatch		2 2%				1 7%
High staff turnover	1 5%	3 4%				
High cost of imported raw materials		14 17%	3 17%		3 9	2 14%

Note: MiM=Micro manufacturing; SM=Small manufacturing; MM=Medium manufacturing; MiS=Micro service; SS=Small service; MS=Medium service;

(Source: Final Report on SME Promotion Survey)

(2) Identification of needs of SME for assisting measures

Based on SME's assistance, the needs for policy formulation were identified and analyzed based on the outcome of the Survey. In addition, further interviews, meetings and seminars facilitated verification and elaboration.

As shown below, needs were identified such as a need to reduce electricity tariffs and offer SME support in general. "Ensure fair competition" and "Eliminate unofficial payments" followed. For the assistance needs, not grants but rather, information and technologies were highly expected.

Table 2-8 Further Requests from SMEs (column %)

	All	MiM	SM	MM	MiS	SS	MS
Design more SME support policies	16.0	20.5	14.1	22.6	13.0	14.1	29.6
Reduce electricity tariffs	13.7	19.3	13.3	17.7	17.4	12.0	9.1
Ensure fair competition among SMEs	10.0	10.8	10.6	8.1	8.7	10.4	2.3
Provide technical expertise (i.e. technology, marketing, finance, job markets, etc.)	9.1	6.0	10.6	12.9	4.4	6.6	9.1
Eliminate unofficial payments	7.3	6.0	0.8	0.0	4.4	10.0	4.6
Provide more information (i.e. new market, technology, laws, etc.) to SMEs	7.3	4.8	8.9	6.5	4.4	4.2	13.6
Provide grants to SMEs	5.1	8.4	6.0	3.2	4.4	3.3	2.3
Reduce electricity connection fees	3.3	4.8	3.1	4.8	0.0	2.9	4.6
Reduce import and export taxes	3.1	1.2	3.1	3.2	4.4	3.3	4.6
Reduce migration rate	3.1	0.0	3.9	1.6	0.0	3.3	2.3
Reduce electricity penalty fee	1.6	6.0	0.8	0.0	4.4	1.2	4.6
No suggestion	3.0	2.4	3.1	0.0	8.7	3.7	0.0
Number of observations	934	83	481	62	23	241	44

Note: MiM=Micro manufacturing; SM=Small manufacturing; MM=Medium manufacturing; MS=Micro service; SS=Small service; MS=Medium service

(Source: Final Report on SME Promotion Survey)

As reviewed above, the points of issues to be included in the SME policy were identified as follows;

i) Governance

- Measures for sound and steady distribution of electricity, system for decreasing tariff,
- Promotion of public infrastructure,
- Preservation of transparency and efficiency in administrative procedures (red-tapes) including elimination of unofficial payment,
- Access to information on technology, market, finance as well as governmental assisting measures,

ii) Customer/Market

- Proper business transaction promotion (including issues of sales collection, contracting, etc.),
- Improvement on unfair competition (including smuggling at border for cutting down for the raw material costs, etc.),

iii) Human Resources

- HR Development for industry (including technology experts, middle managers, etc.),
- Improvement of employment/labor conditions including reviews on minimum wages

iv) Products/Services

- Promotion on efficient productivity,
- Assistances on production technology,

v) Access to Formal Finance

- SME financial scheme including preferential interest rate and loan assessment criteria,
- Assistance for the modernization of business management of SME including introduction of financial statement and business planning.

2.1.3 (Activity 1-3) Discussion setting on policy dialogues inviting views from a range of stakeholders

Activity 1-3: GD-SMEH develops the setting to invite views from and consult with stakeholders such as the ones from academia, private sectors as well as public entities.

(1) Setting-up of Advisory Board

It is essential to get inputs and advice from experts of various backgrounds to improve policy discussion and formulation. For this sake, the advisory board was set up in Japan and four plenary meetings and one working group meeting were held as follows:

Table 2-9 Meetings by Japan's Advisory Board

Date	Overview
July 22, 2013	Discussions by Advisory Board members, followed by reporting by the Experts on current situation of Cambodia and direction of Policy development
May 27, 2014	Discussions by Advisory Board members, followed by reporting by the Experts on the latest situation including reorganization of the ministry and Draft Concept Note
August 7, 2014	Working Group: Free discussions with reporting by the Experts
November 8, 2014	Discussion with members of Japan Study Visit from MIH
May 19, 2015	Discussion by Advisory board members, followed by reporting by the Experts

The Advisory Board from the Cambodian side was established as follows. It was delayed due to the restructuring of Ministry. The first meeting was held on Oct. 22, 2014. The individual small meetings and dialogues were occasionally held, as they were relevant.

Dr. Davin Uy

Manager of Food Technology Services and Supplies Co., Ltd

Consultant for Minister of Agriculture, Forestry and Fisheries for UNIDO project

Consultant for Ministry of Tourism for ADB project

Consultant for MIH/TDF projects

Mr. Stephen Paterson

Advisor to National University of Management

H.E. Okhna. Sok Piseth

President/ BoD of Young Entrepreneurs Association of Cambodia (YEAC)

Dr. Sok Seang

Professor of the National University of Management

Mr. Lem Chansmrach

President, Cambodia Investment Club

(2) Discussion of policy/measures at the Advisory Board

The second meeting of the Advisory Board Japan dealt with the Concept Note, introducing the latest situations of Cambodia and results of surveys. A board member made a suggestion to undertake much deeper discussion assessing changes in the policy environment, the findings from SME survey and potential needs for institutional reforms. Accordingly, a special meeting was planned on 7 August. On November 18, 2014, taking the opportunity of the Study Visit, the mission members led by H.E. Vorleaks had a meeting, which was an opportunity of face-to-face discussion with the Advisory Board. In March 2015, the Advisory Board members made comments on the draft Policy Framework, and finally had a meeting on 19 May.

For the Cambodian side, during the Advisory Board Meeting on October 22, 2014, discussion was developed based on the Concept Note, and the members participated in the Seminars.

(3) Improvement of policy formulation Process

In relation to the Activity 1-6 “improvement of the SME policy formulation process”, considering the submission of the draft policy to the Council of Ministers, it was discussed how the improvement should be brought to the policy formulation process in the inter-ministerial review mechanism. The outcomes of this discussion was included in the Policy Framework and discussed in the advisory board in Japan side on May 19, 2015.

2.1.4 (Activity 1-4) Discussion on applicability of policy measures through NPCC activities

Activity 1-4: GD-SMEH puts the policy into actions through NPCC; and NPCC feedbacks the results from Activity 2-1 to 2-6.

(1) Pilot measures for SME Promotion (collaboration with NPCC)

It was designed that the pilot policy measures to assist SME should be tested and monitored at the company diagnosis activities, and that the feedback comments were to be submitted from the pilot SMEs for analysis on how effective and relevant the design of measures applicable to the needs of SMEs in the original (initial plan). However, this original plan was not realized due to the restructuring of Ministry.

Instead of originally planned tasks, the substitutive tasks were conducted as follows to gain the comparative effects;

- i) among the 12 pilot SMEs under the company diagnostic analyses, 2 SMEs were given special attention to transfer technologies by applying the Private Cooperation Scheme (to invite engineers belonging to Japanese companies with a view to cooperate in the future;
- ii) (Response to BDS needs) the cooperation with the Cambodia–Japan Cooperation Center (CJCC) was coordinated in addition to the utilization of NPCC;
- iii) the possibility of the preferential taxes, discussion was held with the tax authority (JICA Expert sent to GDT) to the future support direction;
- iv) the One Stop Services (OSS) under the guidance of the Prime Minister H. E. Hun Sen, technical support was provided for the ministerial coordination, efficient registration and information administration, and assistance was made for the preparation of the policy implementation; and
- v) the coordination possibilities were considered with other agencies like JETRO, KOTRA, and others.

While these initiatives were mainly led by the Japanese Expert team and intended to explore actual activities in accordance with the discussion and considerations on the side of the counterpart, they have not been materialized owing to the capacity and time constraints of the counterpart. Especially, the momentum for the above i) (test and verification of experimental policies) was lost before actualizing the cooperation with Japanese companies, and resulted in the shift of the Japanese companies’ interests to others. However, the OJT with NPCC under the company diagnosis activities got good results, as some of the major improvements were incorporated into the pilot SME to prepare for the foundation for potential links with FDI related companies such as the considerations of TQC, securing the transparency in corporate information on the financial statements.

2.1.5 (Activity 1-5) Organization of seminars to promote SME policy

Activity 1-5: GD-SMEH organizes the seminars to disseminate the outcomes of the SME policy formulation process.

(1) The first policy seminar (July 15, 2014)

The first seminar on policy was held for the announcement and public hearing of “Concept Note of SME Policy”. The overview is as follows and the activities related to “Concept Note” is referred in the section of Activity 1-6.

1) Outlines

Date: July 15th, 2014 9:00am ~12:00pm

Place: InterContinental Phnom Penh Hotel

Participants: Total of 123 (Government Ministries and agencies 17, Private economic organizations 9, Advisory Board members 4, International cooperation agencies 9, associations 19, Media 6, other governmental organizations 41, and JICA related)

	Seminar Agenda	speaker/lecturer
09:00--09:05	Cambodian National Anthem	
09:05--09:15	Reporting to Senior Minister regarding convening of the Seminar	H.E. Mme. Peou Vorleaks Director General, General Department of SME and Handicraft, Ministry of Industry and Handicraft
09:15--09:30	Opening Remarks – JICA	Mr. Hiroshi Izaki Chief Representative, Japan International Cooperation Agency Cambodia Office
09:30--09:50	Opening Remarks	H.E. Dr. Cham Prasidh Senior Minister, Ministry of Industry and Handicraft
09:50--10:10	<i>Group Photo & Coffee Break</i>	
10:10--10:50	Presentation – Significance of SME Promotion Policy	H.E. Mme. Peou Vorleaks , MIH
10:50--11:20	Remarks for SME Policy Formulation	Moderator: H.E. Dr. Cham Prasidh Senior Minister, Ministry of Industry and Handicraft Co-Moderator: Mr. Hiroshi Izaki , Chief Representative, JICA Commentators: H.E. Oknha Te Taingpor President, FASMEC H.E. Oknha Sok Piseth President, Young Entrepreneur Association of Cambodia Ms. Seng Takakneary President, Cambodia Women Entrepreneurs Association H.E. Heng Sokkung Secretary of State, Ministry of Industry and Handicraft H.E. Mme. Peou Vorleaks , MIH Mr. Masayuki Ishida Project Leader/ Expert on SME Promotion Policy
11:15--11:40	Q&A session	
11:40--12:00	Closing Remarks	H.E. Dr. Cham Prasidh Senior Minister, Ministry of Industry and Handicraft
12:00--	<i>Lunch (Imperial I, 3rd floor)</i>	

2) Presentations & Comments

- Prior to the seminar, SM HE Cham Prasidh announced a purpose of the seminar, which is to officially announce the start of SME policymaking by MIH and to ask for support and understanding from the related parties.
- DG Vorleaks shared the statistics on Cambodian small & mid-size enterprises, challenges they face which were discovered by this project, and the summary of "draft concept note." He also asked for the understandings and support from the related parties.
- (Comment by FASMEC) SME's challenges are a tax benefit, tighter linkage with partner companies, access to the financial assistance. The complicated procedure to get tax benefit from CDC is also an issue.
- (Comment by YEAC) Promoting new businesses is particularly important. Another critical point is the organizational structure and the policy implementation for small and medium-size enterprises. We expect the following - the establishment of a transparent regulation framework, a clarification of process for granting SME business licenses to avoid redundancy, a review of manual to grant licenses, mitigation of the problems related to the certifying process.
- (Comment by CWEA) We ask for a vocational education to women in order to improve their knowledge and give them access to necessary information. It is imperative that we look up to successful companies which have grown and increased their exports and enhance our capability.
- (Comment by Ministry of Agriculture, Forestry and Fisheries) We should divide our policymaking process into three phases and plan our assistance accordingly. As for agricultural exports, we should divide them into groups - products with immediate export opportunities and products with hidden potentials.
- (Comment by tax authorities) We are looking at examples in other countries and working on a policy to give some tax benefit to companies which hire handicapped and senior employees. We are also preparing for strategies of tax administrations.
- (Comment by CDC) We have repeatedly been discussing about an access to financial credit over the long course of time. On the other hand, a simplification of the administrative procedure could be implemented immediately.

In the survey collected after the seminar, the Ministry of Tourism requested a separate meeting on specific measures for SME in the tourism sector. The policy team discussed about the importance of cooperation with related ministries.

3) Survey results

In the survey collected after the seminar, 92% of the participants were satisfied with the seminar. As for "draft concept note," 55% responded "well done." If included "adequate" responses, 97% of the participants gave above average assessment on the seminar. Responding to the question which asked if they have enough interest to give some comments, 89% of participants responded that they will give some comments.

(2) The second policy seminar (April 28, 2015)

The second seminar on policy was held for the public announcement and hearing of “SME Policy Framework”. The overview is as follows and the activities related to the “SME Policy Framework” is referred in the section of Activity 1-6.

1) Outline

Date: April 28th, 2015, 9:00am ~12:00pm

Place: Hotel Sofitel Phnom Penh

Participants: Total of 195 (JCC members 12, Government ministries and agencies 26, Private organizations including economic organizations & Advisory board member 51, Pilot companies for company diagnosis 14 companies, MIH & MIH related organizations 51, JICA related 9. Media 22)

08:30--09:00	Registration	
09:00--09:05	Cambodian National Anthem	
09:05--09:15	Reporting to Senior Minister regarding convening of the Seminar	H.E. Mme. Peou Vorleaks Director General, General Department of SME and Handicraft, Ministry of Industry and Handicraft
09:15--09:30	Opening Remarks – JICA	Mr. Itsu Adachi Chief Representative, Japan International Cooperation Agency Cambodia Office
09:30--09:50	Opening Remarks	H.E. Dr. Cham Prasidh Senior Minister, Minister of Ministry of Industry and Handicraft
09:50--10:10	<i>Group Photo & Coffee Break</i>	
10:10--10:40	Presentation – The SME Promotion Policy Framework (DRAFT)	H.E. Mme. Peou Vorleaks , Director General, General Department of SME and Handicraft, Ministry of Industry and Handicraft
10:40--11:40	Discussion and Question and answers for SME Policy Formulation and the SME Promotion Policy Framework (DRAFT)	Moderator: H.E. Dr. Cham Prasidh , Senior Minister, Minister of Ministry of Industry and Handicraft Co-Moderator: Mr. Itsu Adachi , Chief Representative, Japan International Cooperation Agency Cambodia Office
11:40--12:00	Closing Remarks	H.E. Dr. Cham Prasidh (TBD) Senior Minister, Minister of Ministry of Industry and Handicraft
12:00--	<i>Lunch</i>	

2) Presentations & Comments

At the opening, DG Vorleaks reported the following items: launch of JICA’s project on SME promotion in June 2013, "draft concept note," the survey on SME's current situation, company diagnosis, outcome of the project and JCC. In addition, he shared the outcome of individual meetings with JCC members and economic organizations. This included a result of the seminar hosted in July 2014, which lead to the creation of document, the policy framework. The purpose of the seminar was to share the document on SME promotion policy framework and to get some understanding and support from the related parties.

- Mr. Adachi applauded the completion of the SME promotion policy framework and explained the background of the project. The project was originally aimed to support the policymaking. However, because of the restructuring of the related government ministries and agencies, the time constraint made it difficult to complete the policymaking. Therefore, they have shifted their goal to creating a

document on the policy framework which is a step before the policymaking. He hoped the document to be a starting point of making a SME promotion policy and provides a common foundation to the people involved.

- As an opening remark, SM HE Cham Prasidh welcomed the document on SME promotion policy framework and requested all the related ministries and organizations to work towards policymaking using the document as a foundation. He also announced that JCC members will continue their work with the policy framework document after JICA project finishes. The SME sub-committee will take over and prepare an official discussion process.
- DG Vorleaks reported the outline of small and medium-size enterprises promotion policy framework using their handouts, and asked understanding, support and further input from the interested parties. Following this, there were very active responses from the audience. The summary of the responses is as follows:
 - > To include micro level
 - > Clarification of the definition and speedy implementation of the policy
 - > Necessity of improvement on operational side in addition to the system for financial access
 - > Ensuring fair trade (adjustment of competitive environment)
 - > Promotion of craftsmanship, securing the access to the policy related information
 - > Promotion of human resource development
 - > Request to speed up a policy formulation process

3) Survey results

In the survey collected after the seminar, 84% of the participants were satisfied with the seminar. This is a slight decline from 92% satisfaction at the previous seminar which was organized to announce "draft concept note." The decline in the satisfaction rate attributes to the fact that they only announced the document on policy framework rather than policy itself as initially expected. After the seminar, many participants voiced their disappointment that the project only reached the creation of policy framework rather than the policy draft. However, they welcomed the policy framework. Many think that benefit of the policy framework is a network and the system formed among related ministries through the effort of making a framework. Our success of the project is reflected in their high expectations to the SME subcommittee to finish the policy formulation. Although around 20% of the participants said that the document need more discussion, about 80% were satisfied with the program.

2.1.6 (Activity 1-6) Drafting a SME policy framework, and a proposal for improvement of its formulation process

Activity 1-6: GD-SMEH drafts SME policy and prepare a proposal for the improvement of the SME policy formulation process through the Activities 1-1 to 1-5.

This activity is designed to strengthen the policy formulation function itself based on the issues/challenges of SMEs and necessity of improvement/strengthening on policy identified in the review activity, (Activity 2.1.1). The Japanese Expert team has encouraged the new policy formulation team for the active discussion through shaping up strategic direction of the policy “concept note”. The substantive discussion, however, had to wait for a while to get started due to the restructuring of Ministry.

From the aspect of capacity development, the technical assistance initially focused on the relation between policy and policy measures. As a starting point, it was essential for the new team to understand the significance of this relation. The capacity and experiences of the new team was limited as the initial stage in terms of policy formulation process although their missions as GD-SMEH, more specifically Dept. of Planning, is the responsible authority for policy making. The Japanese Expert technical assistance was extended to support those basic foundation issues including assistance for formulation of action plan of each Department as a part of the capacity development principles of the Project.

(1) Direction of SME policy and formulation of policy concept note

The policy team under the previous administration has conducted analysis and discussion on 10 items of policy focus, which was reflected to development of the Concept Note (Appendix (7)-1-2). The Concept Note consists of Background, Vision, Strategy and Policy. For developing the discussion, the Conceptual Worksheet provided by the Japanese Expert was used. The structure of the Concept Note is consistent with the guidelines issued by the Ministers’ council (Appendix (7)-1-14).

Table 2-10 Thirteen Items to be addressed in the SME policy identified by the MIME/Taskforce, etc.

13 issues to be addressed in the SME promotion policy identified by the taskforce, etc.	
1.	Definition of SME and eligibility criteria for accessing the incentives or support schemes under the policy
2.	Codes of Good Practice in regulating SMEs and Reduction of Red-Tape
3.	Incentive Schemes to be provided for initial Start-Up
4.	Incentive Schemes to be provided for promoting R&D, Technology Adoption & Innovation, and Work Skill Qualification Development
5.	Incentive Schemes to be provided, and simplified pro-SME tax regime
6.	Schemes for Applying Law on Investment in SMEs investment promotion
7.	Schemes for supporting SME Access to Finance

8.	Schemes for building SME Clustering and linkages with FDI large Industries
9.	Schemes for promoting SME internationalization
10.	Schemes for promoting SME BDS markets and linkages
11.	Schemes for facilitating gender issues in SME promotion
12.	Arrangement for SME employment and labor conditions
13.	Scheme for SME access to information

The following “Conceptual worksheet” developed by the Japanese Expert was utilized for the formulation process of the concept note.

Conceptual worksheet						
	Motives / Needs		Verification		Implication (Lessons learnt)	
	SME side	Government side	Existing policies & measures	Research incl. Study Reports	Other countries' experiences	Theories/Studies
Background - Current condition - Foundation for issues to be addressed						
Vision - Improved/enhanced picture - Targeted goal						
Strategy - Issues to be addressed - Prioritization/focus of tactics/areas - Defining direction/approach						
Policy - Structuring strategy realization						

The “Concept Note” was concentrately discussed in November 2013 and completed the first draft in December 2013. The basic structure consists of “Business Enabling Environment”, “Capacity Development”, and “Business Development Services (BDS)” as elaborated briefly as follows:

Table 2-11 Structure and Point of SME Concept Note (initial draft)

Background	<p>Cambodian economy and importance of SMEs</p> <ul style="list-style-type: none"> - Steady economic growth in the 2000s (growth rate of 6-7%), Booming FDI - SMEs’ Significance in economic development; 73% national employment, 58% production - Key policies/strategies stress SMEs’ importance <p>Vulnerability of economic development</p> <ul style="list-style-type: none"> - dependency on import of goods and services as well as their inputs - lopsided structure of industry with weak foundation of domestic manufacturing sector
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	<ul style="list-style-type: none"> - losing opportunities for efficient exports with less value-added in domestic production - weakness in economic comparative advantages (competitiveness) in the region - widening of regional gaps affecting employment and human resource development <p>Current difficulties of SMEs</p> <ul style="list-style-type: none"> - Accesses to finance, technology, information and BDS assistance - Weakness in productivity, scale of economy and competitiveness <p>SMEs should play key role for sustainable economic and social growth of Cambodia, to prepare for dynamic change including AEC 2015</p>
Vision	<p>By the year of 2030, Cambodian SME shall be the integral part of Cambodia's economy;</p> <ul style="list-style-type: none"> - contributing Cambodia's sustainable economic and social development as one of major driving forces with noticeable "national champions" in key sectors; - enjoying its unique comparative advantages as a core of its competitiveness (ex. "Cambodian Quality"); - performing innovative business development; - creating greater employment opportunities and assisting the living standard upgrading nation-wide.
Strategy	<p>To achieve the goals in Vision,</p> <ol style="list-style-type: none"> 1) Set out the concrete foundation of business enabling environment for SME <ul style="list-style-type: none"> - formulating a clear policy outline (Prakas, Charter, and/or Law) with relevant (law-)enforcement mechanism covering the "10 issues " - opening systems for widening networks (ex. system for dialogs with global/public sector counterparts, etc.) 2) Facilitate SME to develop its capacity in: <ul style="list-style-type: none"> - technical guidance for efficient and/or effective; - linking to global; - accessing to technology; - accessing to information; - promoting cluster/sectoral association; 3) Promote private/public BDS and frame financial assistance for SME <ul style="list-style-type: none"> - private BDS promotion; - public BDS facilitation promotion; - SME financing scheme building
Policy	<ol style="list-style-type: none"> 1) Basic SME Promotion Policy <ol style="list-style-type: none"> i) overall policy as a basis of prospective SME promotion measures including the "10 items" ii) supporting system scheme - business dialogs among SME and other stakeholders 2) Facilitate SME Capacity Development <ol style="list-style-type: none"> i) set of schemes for information dissemination and/or training on business planning, financial/labor/production management, and standardized benchmarks for SME for compliance and/or self-assessment such as standards and KPIs/Guidelines.

	ii) facilitation of linkage to global market iii) providing facilitation in accessing to technology iv) coordination of all the relevant information related to SME v) economy of scale through “cooperation”, “collaboration” in clustering 3) Promoting private/public BDS and financial assistance for SME - BDS business enabling environment - BDS bridging - Public financial schemes designed for SME
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The Concept Note was agreed to be the basis for further activities of policy formulation by the new Team, and circulated at the JCC meeting on 29 April 2014, as well as Advisory Board meeting in Japan on 27 May 2014. Further discussion was made and comments were reflected.

Policy Seminar on 15 of July introduced the Concept Note to promote stakeholders’ understanding and comments. As for the follow up, consultation sessions were set up between MIH Policy Team and major line ministries and business organizations, most of which were JCC members, accompanied by Japanese Experts. In addition to receiving comments on the Concept Paper and views to follow up the Seminar, the Team has asked for their continuous participation and cooperation in the activity of SME policy development.

Table 2-12 Consultation sessions with line ministries and business organizations

date	Counterpart and major topics
Sept. 11, 2014	MAFF/ view by MAFF and MAFF’s related measures
Sept. 11, 2014	GDT/ views on the Concept Note and GDT’s related measures
Sept. 12, 2014	MLVT/ view by MIVT and labor related measures
Sept. 15, 2014	MOC/ vies on the Concept Note and related measures including company registration
Sept. 16, 2014	FASMEC and CWEA/ requests on SME policy by business organizations
Sept. 30, 2014	MOT

In addition to the consultation sessions above, the new team worked on aggregating and analyzing the necessary sources, including SME challenges and needs identified through the Survey, SME-related policies in existing strategies, past measures and activities and good practices by other countries, in order to develop the policy framework. Further, the Japanese Experts encouraged making full use of the information gained through the Study Visit to Japan. Thus, all the activities contributed to developing the Policy Framework.

(2) Formulation of SME promotion policy framework

With regard to the preparation of the draft SME policies, due to the organizational changes of the restructuring of Ministry which have taken place over the whole Government level and because of time constraints on discussing intensively before drafting, it was agreed among the parties concerned that the Japanese Expert Team’s output would be a draft framework of SME policies instead of a draft policy itself. Thus, the Team recommended and supported the counterpart to draft policy by themselves as it would facilitate their capacity development. However, there was a limit for them in delivering results within the limited timeframe. While “SME Policy Framework” in this report reflects, to the extent possible, the outcomes from a series of discussions which were carried on at the regular policy meetings held twice in every week.

The Team provided the counterpart with support for their coordinating activities among the ministries concerned (by bringing them to those ministries for comments and feedback) so as to deepen the

counterpart’s understandings of the meaning and contents of the policy framework, and through which to strengthen the ownership of the framework. Such coordinating activities resulted in helping strengthen the capacity development of the counterpart members.

Table 2-13 Individual Discussion with Ministries on Policy Framework

Day	Ministry Discussed
27 March 2015	GDT
30 March 2015	Ministry of Health
30 March 2015	General Department of Treasury
31 March 2015	MOT
31 March 2015	MOC
1 April 2015	CDC
1 April 2015	MEF
2 April 2015	MLVT
3 April 2015	MAFF

The draft Policy Framework was prepared based on policy/actuality investigation analysis, hearings, as well as weekly regular meetings held twice a week. Thus, the framework was shaped by giving substance to concept notes. It comprises the follows

Composition of Policy Framework

<ul style="list-style-type: none"> - Introduction 1. Issues and Challenges 2. Vision and Strategic Direction 3. SME Promotion Policy Framework <ul style="list-style-type: none"> 3-1 Business Enabling Environment (13+1 issues) 3-2 Facilitation of SME: Capacity Development (5 issues) 3-3 Promotion of Private/Public BDS for SME 4. Institution - Way Forward

1) “Introduction” of Policy Framework

The Policy Framework recognizes three main issues and proposes SME promotion directions, namely: (i) low ratio of manufacturing sector in the total GDP (15.5%); (ii) unbalanced industrial structure heavily (about 70%) dependent on garment industry; and (iii) extremely dependent on imports including raw materials and components. Under such characteristics of the Cambodian industrial structure, SMEs which comprise 99.8% of the total number of enterprises, provide work for 70% of employees and 58% of total sales, hold a particularly important position. This indicates that the promotion of SMEs leads to comprehensive industrial and economic development of the country. It also points to the fact that it is

important to promote such existing industries as food processing, garments, plastics, tiles and others as short-term potential sectors.

2) “Issues and Challenges” of Policy Framework

The draft Policy Framework also raises the following issues pertaining to SMEs in Cambodia: market access; competitive product development; human development; and access to public finance. These issues were identified through the reviews of the actual conditions and the interviews with different enterprises and industry associations made under this survey as well as from feedback at the seminar discussion. Until now, at the policy discussions, such general challenges were indicated as the advanced legislation system, easy accesses to financing and technology, and human development. This survey, however, provided deeper insight by pointing out: (i) “unofficial payments” in the issues of inefficient administrative procedures; (ii) difficulties in securing labor in rural areas, and on the other hand, high demand for skilled labor/human resources needed in industries (in terms of both qualifications and market) in the urban areas; (iii) despite the advancement of legislation to some extent (like progress in judicial system and the expansion of MFI), (iv) increased need for accesses to sufficient financing for production investment and business expansion; and (v) need to invest in machinery. Thus, more concrete issues are being raised in close view to the current business environment where Cambodian SMEs are placed.

3) “Vision and Strategic Direction” of Policy Framework

As policy framework constitutes the basis for policy-making process, this Study will not propose vision with numerical targets. However, considering the target of the 7% annual economic growth set under the Rectangular Strategy Phase III, this general target is also specified in the Study. As the Vision, the survey has indicated that “a national champion” will emerge, in line with economic growth, and increase in competitiveness reflecting Cambodia’s original qualities, and Cambodian SMEs play an important role in its industries.

The Industrial Development Policy, already approved by the Council of Ministers, states as follows:

Excerpt from the IDP

“In principle, by 2025, 80% and 95% of Small and Medium Enterprises respectively will register officially and 50% and 70% of Small and Medium Enterprises, respectively will have accurate accounting records and balance sheet.”

4) “Policy Framework”

The Policy Framework further touches upon: (i) business enabling environment; (ii) Capacity Development targeted toward SMEs; and (iii) BDS promotion.

(i) Business Enabling Environment

Under this issue, focusing more on institutions (judicial system and policies), the Study proposes to identify and indicate the short and medium/long term direction for the challenges of the current issues (originally specified as 10 issues by the taskforce of the former MIME) totaling to 13 (3 issues were added from the discussion of policy team.)

Business Enabling Environment for SME

- (i) Definition;
 - (ii) Reduce Red-Tape;
 - (iii) Intensive Scheme for Start-up;
 - (vi) I/S for Technology;
 - (v) I/S for pro-SME tax regime;
 - (vi) Investment Law for SME;
 - (vii) Access to Finance;
 - (viii) Cluster & Linkage;
 - (ix) Internationalization;
 - (x) BDS Market;
 - (xi) Gender issues;
 - (xii) Employment & Labor Condition;
 - (xiii) Access to Information; and
- < - Widening network >

(ii) SME Capacity Development

The importance of the capacity development of SMEs has been pointed out. Under the draft Policy Framework, the main issues raised in business enabling environment have been brought into focus of the recommendations, rather than simply referring to SME capacity development with general aspect. In-other-words, the Framework is based on the awareness of real issues that even if the judicial system and policies had been in place, the SME capacities are not sufficient enough to utilize them. For example, even after leasing is introduced as one of the measures to ensure access to finance, there will be no way for SMEs to benefit from such well institutionalized business environment unless SMEs have no information on necessary documents and procedures. Also, even if SMEs are able to have access to such information, they cannot effectively use the merit of the advanced system unless they have technical capacities to manage and prepare their own business plans.

The Framework proposes the following five (5) areas aiming at SMEs' receiving merits from better business enabling environment when they are introduced or will be in place;

SMEs Capacity Development

- (i) from “efficiency” to “Quality” (“Cambodian Quality);
- (ii) Link to global supply chain (through clustering and/or co-operative union);
- (iii) Access to Technology
- (iv) Access to Finance (Modernization of SMEs); and
- (v) Human Resources Development

(iii) BDS Promotion

In BDS area, the Framework recommends business environment improvements and capacity development, and proposes a direction toward effective and efficient BDS promotion to maximize synergy of cooperation between private and public sectors.

Especially, enhancing the services of the government BDS Provider (BDSP), like NPCC, indicates it to be important for bringing up private BDS and linking to it. It is emphasized to demarcate clearly between government measures for BDS support (such as preparation of guidelines, introduction of a model agreement, and intensive collection of private sector’s information and cooperation/bridging) and private sector’s BDS, and thereby, to promote clear division of services provided by each BDA and efficient cooperation between them (government BDS and private BDS). The Framework also indicates the importance of making clear function to be played in the future by the government BDS (whether it should remain within the government as one of the government agencies or to transfer to an independent (but governmental) institution having both public natures and business orientation).

5) “Institution” of Policy Framework

One of the important roles of the Framework is to provide a milestone for preparing actual policies. The implementation of policies should be made concrete, in principle, during decision-making process. Therefore, in the Framework, no specific reference has been made to the implementing agencies. It suggests the steps how the framework should be succeeded to the formal process of policy formulation.

The 2005 SME Development Framework proposed to establish, within MIH, an SME Small Committee and an SME Secretariat to coordinate ministries/agencies concerned and administer the small SME committee. However, a counter proposal was submitted from the other ministries’ side to request nominating staff responsible for each ministry and to set up a taskforce in each ministry to be involved in the SME Secretariat administration. As the result of the proposed arrangement, the work burdens of each ministry have been substantially increased, and both nominated staff within the Secretariat and the taskforce could not fully function. Learning lessons from the SME Development Framework, in which while some particular policies and/or activities are individually taken up, the Framework as a whole has not been materialized, the proposed draft Framework does not propose the establishment of a new institution, but to refer the Framework to existing formal policy-making process (SME Small Committee).

In view of the cooperation with each ministry’s taskforce activities for implementing the Industrial Development Policies, it is proposed to set up working groups under the SME Small Committee based on the 13 + 1 items identified in the section for the business enabling environment of the Framework (the “working group” was renamed to “taskforce” to secure the mobility by the Minister of Industry and Handicrafts, H.E. Prasadh. Furthermore, the SME Secretariat, which has ceased its operation and function

after the 2013 restructuring of the government institution, is recommended to be restructured to enhance its playing function so as to advance series of processes.

Through the abovementioned recommendations, the proposed Framework has taken the initiative in sophisticating decision-making processes and in proceeding the capacity development in respect of decision-making processes within MIME by the counterpart's self-efforts.

(3) Recommendation for strengthening policy formulation process and support for its institutionalization

The Japanese Expert Team has supported several aspects of the activities of GD, including support for the annual action plan formulation and One Stop Service registration setting up. It was also requested for advice from different levels of the counterpart.

As for the recommendation, the prospective and expected functions of GD-SMEH and action directions have been included in the "Policy Framework". Especially, steps and direction to be taken for further policy formulation is elaborated in the policy framework from the setting up of the SME Sub-Committee to the adoption of the framework in there. It is expected that all the elements and suggestions in the policy framework could serve as good guidance for the actual actions of GD-SMEH's policy formulation function.

Recommendation was made in the context of institutionalizing the improved policy formulation process. As described in the policy framework, the functions necessary for responsible authority to develop SME policy consist of research function, coordinating function, monitoring function as well as actual policy formulation function.

As for research function, the Team under the former MIME participate designing the SME Survey by setting objectives, selecting outsource company and questionnaire development, while participation by the team under MIH was rather limited, and because of the restructuring during the Project term, institutional memory was not embedded. However, the new Team had utilized reporting of the Survey to develop the policy. Further, it was expected that periodical implementation of similar surveys, as well as appropriate collection and analysis of data and statistics, including publishing of White Papers, were expected, and capacity development of staff is also required.

Coordination function was enhanced by consultations and dialogue with line ministries, organizations and advisory board meetings, especially after the Seminar in July 2014 and before the Seminar in April 2015. Importance of coordination has been thus understood by staff members.

Monitoring function was not dealt with during this Project, since the function was necessary after implementation of policies. It is necessary to assign staffs to take initiative of monitoring in order to develop and maintain relations with international partners as well as manage budgetary consultation with MEF relating to the

Policy formulation function is based on three functions above. Capacity of staff and the number thereof, as well as leadership and initiative are essential.

Based on the discussion above, clarification of the mandates and functions of organizations and standardization of the process will be proposed. Further, human resource development is to be discussed. The project activities transferred the methodology to check and review mechanism, such as PDCA, which is supposed to be a self-sustainable system to continue further activities as experienced in the Project.

2.1.7 (Activity 1-7) Institutionalizing the policy formulation process

Activity 1-7: GD-SMEH institutionalizes the improved policy formulation process.

○ Recommendation for further improvement and strengthening institutional policy formulation process

Under the previous administration, with the previous policy team, the activities were cut off by the first draft of the concept note of the SME promotion policy. The succession team had to review all the activities initially dealt with the previous team. Practically, the activities were to be re-conducted from the beginning with the new team. The institutional memories were not observed in the process of the ministry's restructuring.

Learning from the experiences of the restructuring, the Japanese Experts decided that the capacity development effort was to be put more on building a concrete mechanism to preserve institutional memories. The outputs of the project activities succeeded from the previous team were limited, just i) the first draft of concept note, and ii) SME digital library. The focus of capacity development activities was put on the effort to develop the continuous significance of the project taking full advantage of these two outcomes to re-start with.

Under the new administration after the restructuring, much attention was taken to build up the mechanism of institutionalization of experiences (outcomes from OJT process). It is namely to bring out the tacit information/knowledge to the discussion at the meetings and try to incorporate them with policy framework and/or related outputs so that even later one could refer to those tacit information without having individual interviews with knowledgeable staff members. Thus, the overall goal to be achieved was not fully captured, "GD-SMEH institutionalizes the improved policy formulation process"; however, this process provided the team members with potentials to develop better mechanism for institutionalization of administrative experiences. In order to further support these potentials, the recommendation was added to the policy framework for establishment (re-activation) of SME Secretary as a part of the mechanism.

2.1.8 Technical assistance through OJT

(1) Achievement of the team under the previous administration

The team under the previous administration was cooperated to self-evaluation at the end of the Term activities in December 2013. The result showed that, though the term was only four (4) months, they have certain consciousness of capacity enhancement.

The self-evaluation was to measure ability and experience with regard to four (4) functions. At the beginning of the Project, the Japanese Expert Team explained the purpose of the capacity development of the Project, namely, to enhance the capacity of each function. Therefore, each official became conscious of developing the ability. Four functions are;

- policy formulation function (to draft policy using necessary information),
- coordination function (to coordinate stakeholders including line ministries and SMEs),
- monitoring function (to grasp implementation of policy) and
- research function (to identify needs and challenges of SMEs).

In December 2013, after the team members under the former MIME new assignment were decided, self-evaluation almost identical was conducted. The Comparative result of the evaluations was as follows.

Table 2-14 Self-evaluation of DSIH Team (initial stage and four months later)

*Evaluated on 5-point-scale:

5=Yes, very much; 4=Yes; 3=Can't say Yes or No; 2=Not really; 1=No. Not at all

	1st survey August 2013	2nd survey December 2013
	average	average
Policy objectives (Overall)		
1-1. (Overall vision) Do you have a clear vision or an idea how to promote SME in Cambodia?	3.8	4.4
1-2. (The way to realize the vision) Do you have a clear vision or an idea of the concrete steps to realize the promotion of SME in Cambodia?	3.4	3.5
Policy formulating function (Policy process)		
2-1. (Understanding of the policy process) Do you have a clear idea how to formulate a policy and/or measures to promote SME?	3.4	4.0
2-2. (Working environment) Do you have sufficient access to necessary information and data to back up the policy process (e.g. drafting policy and/or measures)?	2.8	3.8
2-3. (Inputs from daily works) Do you make use of issues you learned from your day to day tasks (e.g. call center, communication with SME, etc.) in terms of improving the substance of policy/measures?	3.8	4.0
Coordination function		
3-1. (Understanding of coordination) Do you have a clear idea how the effective coordination could be made for the policy and/or measure formulation (“who, for what, when, where, why, how and to whom” for the specific level of policy development)?	3.4	3.4
3-2. (Network of contacts for coordination) Do you have an efficient network of contacts for the coordination of policy...		
— within GDI?	3.6	3.6
— with other relevant ministries?	3.0	3.4
— with relevant international developing partners?	2.8	3.5
— with private business?	3.0	3.6
— with academia and experts?	3.4	3.6
3-3. (Functional ability of communication) Do you have an efficient platform of communication with the contacts indicated above in terms of official policy coordination?	2.8	3.0
Policy review function (Monitoring Function)		
4-1. (Review opportunities) Do you have sufficient opportunities to review the existing policies implemented related to SME promotion?	3.0	3.0
4-2. (Review mechanism) Do you have a sufficient system(s) and/or instrument(s) to review the existing policies implemented related to SME promotion?	2.8	2.8
4-3. (Understanding of the process) Do you have a clear idea on the reviewing steps to monitor and modify policy?	3.0	3.4
Research function		

5-1. (Working environment) Do you have sufficient access to necessary information and data to back up the policy process (ex. drafting policy and/or measures)?	2.6	2.4
5-2. (Network of contacts for research assistance) Do you maintain a sufficient network of contacts for research assistance for policy issues including individual experts to consult with?	2.4	2.6
5-3. (Individual research skills) Do you think you have sufficient skills and knowledge of gathering and analyzing information and data for policy formulation?	3.4	3.5

As shown in the table above, despite the short term between the surveys, answers for many questions indicate that members felt enhancement of their ability, especially in policy formulation function and coordination function. The comments from members also showed their confidence and improvement. At the same time, areas of difficulty were also identified, e.g. time constrains to gather and analyze information, keep up motivation, etc. There was also a comment pointing out importance of team work to maintain motivation among members.

(2) Achievement of the team under MIH (after the restructuring)

The new Team in the policy support was requested to fill out the “Self Evaluation Sheet” at the time when this Study was commenced in May 2014. Later, in April 2015, a similar investigation was carried out. This investigation found that there were differences in each member’s commitments to the assignment as well as in self-awareness on the capacity strengthening. Having said so, it was also recognized that they actually felt improvement in their capacities.

As mentioned above, for the new members, understanding and discussion on the Concept Note (first draft) were encouraged, and the Team reverted to studying the related policies in Cambodia and individual ministries, as well as in other major countries. In addition, a part of the materials prepared based on the activities carried out during the previous administration was redistributed, and capacity strengthening in terms of policy formation, coordination, study and supervision was aimed at understanding the results of the survey in terms of the actual conditions and needs as well as the preparation of JCC and seminars, and the discussion with Japanese companies operating in Cambodia. Since they had different background in respect of experience and academic career and most of them have had no experience in policy formulation, they were repeatedly given explanation on what policies are and their recognition of roles as administrators was enhanced. In order to uphold the motivation of the new members, the priority was accorded on the basis or rudiments of the “reserve function”, “policy formulation function” and “coordination function”. At the later stage of the Team’s activities, similar self-assessments were carried out. However, their results cannot be compared to those carried out for the previous Team’s members, since capacity strengthening was focused on specific and limited members.

As revealed from the self-assessments carried out by the previous Team’s members, recognizing it as a main issue to maintain the motivations under the current personnel system, to facilitate understanding on policy formulation, which is an essential task of SMEH staff, it is very important to continue to share information and indicate issues and challenges.

Table 2-15 Self-evaluation of GD-SMEH Team (initial stage and eleven months later)

*Evaluated on 5-point-scale:

5=Yes, very much; 4=Yes; 3=Can't say Yes or No; 2=Not really; 1=No. Not at all

	1 st survey May, 2014	2 nd survey April 2015
	An avg. of 5 people	An avg. of 7 people
Policy objectives (Overall)	3.5	3.9
1-1. (Overall vision) Do you have a clear vision or an idea on how to promote SME in Cambodia?	3.6	4.0
1-2. (The way to realize the vision) Do you have a clear vision or an idea of the concrete steps to realize the promotion of SME in Cambodia?	3.4	3.7
Policy formulating function (Policy process)	3.6	3.8
2-1. (Understanding of the policy process) Do you have a clear idea on how to formulate a policy and/or measures to promote SME?	3.6	3.8
2-2. (Working environment) Do you have sufficient access to the necessary information and data to back up the policy process (ex. drafting policy and/or measures)?	3.4	3.8
2-3. (Inputs from daily works) Do you make use of issues you learned from your day-to-day tasks (e.g. call center, communication with SME, etc.) in terms of improving the substance of policy/measures?	3.8	3.7
Coordination function	3.2	3.8
3-1. (Understanding of coordination) Do you have a clear idea how effective coordination could be made for the policy and/or measure formulation (“who, for what, when, where, why, how and to whom” for the specific level of policy development)?	3.4	3.7
3-2. (Network of contacts for coordination) Do you have an efficient network of contacts for the coordination of policy...	3.2	3.8
— within GDI?	3.6	4.1
— with other relevant ministries?	2.8	3.9
— with relevant international developing partners?	2.6	3.6
— with private business?	3.5	3.7
— with academia and experts?	3.5	3.5
3-3. (Functional ability of communication) Do you have an efficient platform of communication with the contacts indicated above in terms of official policy coordination?	3.1	4.0
Policy review function (Monitoring Function)	3.6	3.9
4-1. (Review opportunities) Do you have sufficient opportunities to review the existing policies implemented related to SME promotion?	3.7	4.0
4-2. (Review mechanism) Do you have a sufficient system(s) and/or instrument(s) to review the existing policies implemented related to SME promotion?	3.5	3.7
4-3. (Understanding of the process) Do you have a clear idea on the reviewing steps to monitor and modify policy?	3.7	3.9
Research function	3.3	3.8
5-1. (Working environment) Do you have sufficient access to	3.5	3.8

necessary information and data to back up the policy process (e.g. drafting policy and/or measures)?		
5-2. (Network of contacts for research assistance) Do you maintain a sufficient network of contacts for research assistance for policy issues including individual experts to consult with?	3.1	3.6
5-3. (Individual research skills) Do you think you have sufficient skills and knowledge of gathering and analyzing information and data for policy formulation?	3.3	3.9
6. Were all the activities of the Project contributing to your capacity development on the policy formulation process?	-	4.2

2.2 (Output 2) Support for Company Diagnosis and Consulting Skills Enhancement

【Output 2】 NPCC strengthens its capacity through company diagnosis consultancy; and develops related SME supporting benchmarks for business performance.

(1) Activities for Output 2

Activity 2-1: NPCC refines the selection criteria of the pilot companies; and selects the pilot companies for company diagnosis consulting.

Activity 2-2: NPCC prepares for the pilot company diagnosis consulting as On the Job Training; and develops the pilot SME supporting benchmarks for the business performance.

Activity 2-3: NPCC conducts the pilot company diagnosis consulting together with interested parties and tests the pilot SME supporting benchmarks.

Activity 2-4: NPCC provides feedbacks to GD-SMEH responding to Activity 1-4.

Activity 2-5: NPCC reviews the pilot company diagnosis consulting conducted in Activity 2-3 and share its outcomes with stakeholders.

Activity 2-6: NPCC improves the pilot SME supporting benchmarks developed in the activity 2-2 through the activity 2-3; and prepares strategic options for their common application.

NPCC has been providing SME with technical assistance on 5S/KAIZEN and food safety through JICA and APO in SME supporting projects. However, marketing, production management, HRM (Human Resource Management), financial management, etc. should be reinforced simultaneously according the company diagnosis undertaken during the Project. These knowledge and experience should be widely disseminated not only to food processing sector, but also to other sectors including garment, metal processing, tourism, services.

(2) Overview of the Activities

For the activities of “Output 2”, the 12 pilot SMEs³ were selected to demonstrate good practices of management improvement. The company diagnosis and related consulting as follow-ups of the diagnosis was provided to the pilot SMEs. On the process of company diagnosis activities, the capacity development was also carried out to NPCC’s consulting capacity through OJT. The follow-up consulting activities were conducted for once in every 2 to 3 months after the company diagnosis at the initial stage. The follow-up consulting was based on the action plans formulated as the result of company diagnosis.

Throughout the activities, the benchmarks for business performance was developed and applied to pilot SMEs for the practical refinement. The outcomes of the activities were disseminated and shared among stakeholders at the final seminar and workshop, and made available for NPCC to utilize for its future consulting activities.

(3) Activities Achievement Summary

As the result of the activities, the improvement of business performance was confirmed at all the 12 pilot SMEs. The outcomes were reported at the final seminar (with over 200 participation) and shared among stakeholders through the presentation at the seminar and the workshop organized for the latter half of the seminar. The methodology for the company diagnosis over comprehensive aspects of business management

³ At the initial plan, the number of pilot SMEs were 10. It was modified by the requests from C/P and stakeholders.

contributed to upgrading NPCC’s consulting capacity in terms of a range of scope of which methodology was basically concentrated in the area of production management, such as 5S/KAIZEN, GMP/GHP, and HACCP. The activities extended their consulting scope to other areas such as marketing, management strategy, human resource management as well as production. With regard to the consulting ability itself, it was not yet fully blossomed as comprehensive consulting ability requires a variety of experiences and profound knowledge and limited duration of the project could not deliver everything. The project was completed with providing them with guidance documents for further development of their consulting ability. It was the project design that these documents should be assisting NPCC to continuous upgrade of capacity through their own effort.

With regard to the benchmarks for the business performance, it was completed as planned and utilized through the company diagnosis activities. The benchmarks will also be further developed through NPCC’s continuous own effort to be applicable to many consulting cases.

Regarding to the activity 2-4, it was modified and substituted as an alternative activity option to the sharing information between actual business sites of NPCC’s activities and policy formulation part of GD-SMEH’s activities. It was due to the change of situation caused by the restructuring of Ministry that pilot policy measures to be tested at NPCC side were hardly formulated at GD-SMEH side.

2.2.1 (Activity 2-1) Refining the selection criteria for the pilot consulting and selection of pilot SMEs

Activity 2-1: NPCC refines the selection criteria of the pilot companies; and selects the pilot companies for company diagnosis consulting.

(1) Setting of the selection criteria (review and refining)

The selection criteria of the pilot company were reviewed and refined from the company selection criteria which were adopted for the previous JICA Project on SME promotion in productivity improvement, “The Project for Pilot Business Performance Support to Small and Medium Enterprises with Focus on Productivity Improvement, 2010”. In order to improve the previous criteria, “⑥Growth Potential” and “⑦Market Expansion” were newly added as assessment items in order to incorporate the potential of the pilot company and the possibility of being a part of value chain. After the relationship between ”Selection Criteria of the Pilot Company” and “Assessment Criteria” was clearly defined, the seven items in “Assessment Criteria” were evaluated at five levels. The detail of how to score each item is referred to as (Appendix (7)-2-1) “Assessment criteria” The following is the table of the items that were reviewed this time.

Table 2-16 Selection Criteria of the Pilot Company

Item	Content	Note	Assessment Criteria
①Motivation for Company Diagnosis and Agreement	The management should agree entirely on company diagnosis .	Management’s attitude	Motivation of manager and supervisor.

②Scale Adequacy	Company is expected to have more than 50 employees.	If the company has financial statements, the sales amount be also considered.	Adequacy of scale
③Accessibility of Company Information	Information including financial statements, sales record, purchase record and employees' salary should be provided for diagnosis team.	Non-disclosure contract will be signed at the start of company diagnosis.	Required item
④Agreement on disclosure of the company diagnosis consulting result	The information including the contents and the result in diagnosis can be disclosed at the request of NPCC.	Cooperation for dissemination at workshops and other events is necessary.	Cooperation toward the support scheme
⑤Conditions of location	Company must be located in Phnom Penh City or in the suburb of the City.	None	Required item
⑥Growth Potential (New)	Company is expected to agree on company growth through company diagnosis.	Management motivation, attitude for problem-solving and positive attitude	Growth potential
⑦Market Expansion (New)	Possibility of export / trading with foreign company	Whether the company contributes to Cambodian economic growth.	Potential for market expansion
⑧Fairness in the usage of support measures	Company which has not received support from other donors will be given preference.	None	Public support history

※ Bold parts were refined this time

(2) Preparatory diagnosis

Preparatory diagnosis was conducted to select pilot companies from those companies which applied for the pilot diagnosis program at the Awareness-Raising Seminar held on August 29, 2013. There were 33 applicants for 10 enrollment limit. Preparatory diagnosis was conducted in September (from 4 to 20)

i) Organization for Preparatory diagnosis

At the initial stage, NPCC consisted of five offices supervised by the Director, Mr. Yea Buna. After organizational restructuring in Dec. 2013, Mr. Heng Eang succeeded the Director's position. Twelve members, who were selected from the Administration Office, Consultancy/Training Office, Productivity Promotion Office, as well as Data/Productivity Information Office, joined this project. These twelve members were divided into two groups as indicated in the table below. From these two groups, two to three officers were attached to each company at the time of company visit for the preparatory diagnosis. The Japanese experts went to the company with them for assistance.

		Name
NPCC	Team I	1) Him Phanith, 2) Peng Davuthkalyan, 3) Soeu Sophea, 4)Ban Seanglin, 5) Yea Bunnaroth, 6) Tim Rithy
	Team II ,	1) Um serivuth, 2) Seng Pisey, 3) Sok Bunsry, 4) Vantahn Sokuntheory, 5) Say Pros, 6) Best Chantrea,
Japanese Experts		Mr. Hayashi, Mr. Ishibashi, Mr. Ohyama

Though 8 staff of 12 in NPCC joined previous project had knowledge and experience of 5S/KAIZEN, food safety and partial company diagnosis method, the remaining other 4 were newcomers and in need of acquiring basic knowledge. Close cooperation between two teams was established in kick-off meetings at the beginning of both preparatory and main diagnosis activities and experience sharing presentation of company diagnosis, chief meeting was conducted as required.

The organization of preparatory diagnosis was set the same as that of main company diagnosis, in order to secure conditions that the preparatory diagnosis team could diagnose the same company in main company diagnosis efficiently.

ii) Methodology of survey in the preparatory diagnosis

a) Screening

The application form from 33 companies was examined carefully and classified into four groups; “Not relevant to survey”, “Low priority”, “More relevant to Advanced 5S program⁴”, “Relevant to survey”. The companies classified into “Relevant to survey” have proceeded to take the survey in the preparatory diagnosis process. Although rice millers in Battambang and Pursat were expected to be diagnosed, recruitment of applicants for the rice millers was not actively conducted at the Seminar. The companies located out of Phnom Penh were taken into account for Advanced 5S.

Table 2-17 Result of Screening

Calcification	The name of company
Relevant to survey	Ang Khmer Group, Sobbana Commen's Foundation, Voraksatya, Khmer Mekong Food, Sentosa Silk, ABC Bakery, Serving Web Solution, Ly Ly Food, Khmer Rice, Champei, , Skyline apartment, P.R.L Co., Ltd, Thbong Pich (Plastic), KC Foods, Santepheep (Nail), Songhout Fa Fa Food, Ba yon Bakery, Villegeworks Songhem, Three sisters, Mineral water "Joy", Ky Sir Chheng Protein Food, Apsara Foodstuff (22 Companies)
Relevant to Advanced 5S	HS R.I.C.E Co., Ltd., I Chhe Ngov Heng Food Production (Kampot), Kam Pongchhnang Pottery (3 Companies)
Low priority	PhnomPenh Computer, V Silk (2 Companies)
Not relevant to survey	Aplus Consulting Co. Ltd., Biztools Enterprise Solution Technology, Lyn Sanjoe School, Marketing Discovery Group, MEGA Green Imex Cambodian Co., Ltd. Sonem Embroider Shop" (6 Companies)

The details of company name, type of business, products and services, number of employees, foundation, address etc. are refereed in Appendix (4)-2-2 “Company list of screening result”.

b) Preparation and Meeting with NPCC staff

The assessment criteria, survey form and evaluation sheet were drawn up in advance, and all NPCC staff gathered to discuss these documents. The Diagnosis Survey Sheet was designed so that the necessary information could be shown in one sheet. The Evaluation Form which fills out survey results relying on selection criteria was also designed. (Appendix (7)-2-2)

⁴ The activity that NPCC originally developed being based on previous achievement was supposed to be called 'Advanced 5s'. “Advanced 5S” corresponds to output 3 in this project.

c) Survey by visiting companies

Interviews with directors and/or managers of Companies and site tours of production facilities were conducted. The necessary information for evaluation and company diagnosis preparation was collected. The results of company site visit survey were summarized in the Preparatory Diagnosis Survey Sheet and the Evaluation Form.

(3) Selection of pilot SMEs

The eight evaluation items in evaluation sheet were compiled with the collaboration of the Japanese Experts and NPCC staff. The evaluation results were examined in the meeting with H.E. Meng Saktheara, the former Director General of MIME, Mr. Suy Dimanche, the former Director of DSIH of MIME, and Mr. Yea Bunna, the former Director of NPCC. The twelve companies were selected as pilot companies.

Although the number of companies selected was originally ten, twelve companies were selected after various considerations. The reason why twelve companies were selected is below. The company directors who wish to be diagnosed were highly motivated and the needs for management improvement were clear. Total score of the company before and after the tenth position in the list were almost the same. The strong request for increase of the number for company diagnosis at the awareness raising seminar, including the former DG Saktheara were taken into consideration for this modification.

Table 2-18 Strong points in selection and focused areas for company diagnosis of 12 pilot companies

No	Company name	Strong points in selection	Focus of diagnosis
1	<u>Bayon Bakery</u> Bread and Cake	Executives are strongly willing to change their management style from family-owned to system management. They also have a strong commitment among main executive members; managing director, her brother and her son.	5S and GMP, Marketing, General Management
2	<u>Sentosa Silk</u> Handcraft silk and uniform	This company has the potential for strengthening Cambodian hand-made silk and expanding high quality silk to international market. But this company has failed to expand brand business two times	5S, HRM, Accounting
3	<u>ABC Bakery</u> Bread and Cake	Managing director and executives have strong commitment. Although this company has been mislabeled as a Vietnamese company, it is a purely Cambodian company.	Management, Marketing, 5S
4	<u>KC Foods</u> Dry meat	Executives who are elder sister and younger brother have strong commitment. They are also young. They have just installed a high-hygiene factory to extend their business.	Accounting, HRM
5	<u>Sky Line</u> <u>Apartment</u> Service apartment and hotel	Commitment among managers is strong. Though the organization is unarranged at present, the Managing director is willing to enhance recruitment after support. This company would be a good case for 5S implementation in the service industry.	Management, Marketing, accounting, 5S
6	<u>LY LY Food</u> Snack	The managing director has strong commitment. This company faces difficulties on HRM which prevents business growth. This company contributes to the Cambodian economy, developing a new product and exporting it to foreign countries.	HRM, Marketing

7	<u>Champe</u> SPA and restaurant	The managing director has strong commitment. This company has a management plan. Financial analysis is available in this company.	Management strategy, Financial management, 5S
8	<u>Three Sisters</u> Uniform	This company is planning to enhance its factory capability. This company also has a possibility to start uniform business with Korea and Japan. The managing director is good at differentiation strategy.	Management strategy, 5S, Accounting
9	<u>Ky Siv Chheng</u> <u>Protein Food</u> Dry food	This company is implementing a factory acceptable for HACCEP to export products to foreign countries. This company also has exported to a Japanese company (GIT). The managing director is good at technology and production, but marketing and management are poor.	Marketing, Management, Support on International standard acquisition, HRM
10	<u>Thbong Pich</u> <u>(Diamond Logo)</u> Plastic product	The managing director is proceeding to launch a joint factory with younger brother's factory which manufactures containers for liquid foods. Factory diagnosis is available in this company. This company's business is plastic injection molding.	5S, Productivity improvement
11	Mineral Water "Joy"	Cambodian investors bought this company this year. The managing director is willing to expand the business. Company diagnosis could include production improvement in this company.	Production improvement, 5S, GMP
12	Pease Nail Factory	This company is the candidate for FDI linkage. Factory diagnosis is available in the company.	5S, New field advancement

2.2.2 (Activity 2-2) SME supporting benchmarks for the business performance

Activity 2-2: NPCC prepares for the pilot company diagnosis consulting as On the Job Training; and develops the pilot SME supporting benchmarks for the business performance.

(1) Preparatory training programs for the actual conduct of company diagnosis consulting

The Japanese Experts provided practical knowledge for company diagnosis in lecture training to the NPCC staffs that were not familiar with company diagnosis knowledge and experience. The basic knowledge for company diagnosis was lectured carefully to be useful for actual conduct of preparatory diagnosis, main company diagnosis and follow-up activities. The training was organized as shown in the schedule below in 4th floor meeting room in MINE. (The session on Sep. 17th, 2013 was held in the 1st floor conference room from 8:30 to 11:30 and 14:00 to 17:00.)

Table 2-19 Preliminary training schedule

Date	Subject	Responsible expert
Sep.9 th Mon, 2013	Management strategy	Mr. Ohyama
Sep.10 th Tue	Marketing	Mr. Hayashi
Sep.11 th Wed	HRM	Mr. Ishibashi
Sep.12 th Thu	Production management	Mr. Ohyama
Sep.13 th Fri	Company diagnosis	Mr. Ishibiashi
Oct.30 th Mon	Financial management	Mr. Inoue

Lecture materials prepared in English were translated into Khmer and the handouts were distributed in both languages. The interpreter was assigned in Japanese and Khmer while financial management interpreter was provided in English and Khmer.

Participants were twelve NPCC staff, six DSIH staff and one private sector consultant, 19 participants in total. The participation for lecturer training was good, except an anti-government protesting day when around half of the members could not attend.

The lecture contents and result of each subject is as follows:

	Lecture contents	Result
Management Strategy	<ul style="list-style-type: none"> ①The meaning of Management Strategy ②The basis of economic calculation ③The theoretical structure of Management Strategy ④How to settle Management Strategy 	<p>Although there are many company management theories, to understand these theories systematically is necessary in order that NPCC staff utilizes these theories in OJT training. The theories which could be utilized in OJT training were mainly explained referring company activities and that's propose, the relationship between company management and management strategy theories.</p> <p>Though the purpose of company management is the pursuit of profit and sustainability, NPCC staff could not understand these, it also could not imagine what profit is concretely in the first place. Thus the workshop teaching them to understand that a management decision is essentially profit and loss decision was organized. They could experience comparing theory and economic calculations in this workshop. Curiosity of NPCC staff was stimulated by a lecture on company management theory and a workshop for treating a number.</p>

Marketing	<ul style="list-style-type: none"> ①What is Marketing ②Marketing Research ③Work shop of Marketing Research ④Marketing strategy ⑤Work shop of Positioning 	<p>The basis of Marketing was explained referring to visible cases and Japanese cases, and practical capability of NPCC staff was enhanced in workshops since many of participants were beginners in this field. To avoid one-way communication, the lecturer frequently gave questions to check the understanding of NPCC staff and institute practical knowledge and cases.</p> <p>Around ninety percent of participants evaluated that lecture contents were appropriate, around eighty percent of participant also evaluated the explanation of lecturer was understandable in the questionnaire. Thus the purpose of lecture was attained.</p> <p>The marketing research method including questionnaire design was examined in the workshop. These methods are expected to be used in OJT training as essential methods.</p> <p>Though the positioning map is a basic method when SMEs settle deference strategy, some participants could not think out necessary two kind of axis for comparing three beverage vendor's products in workshop.</p> <p>Some Cambodian companies started to enter plural business fields. A proper positioning map expected to be settled for evaluating current marketing strategy and utilizing the new strategy in OJT training.</p>
HRM (Human Resource Management)	<ul style="list-style-type: none"> ①HRM (Human Resource Management) Whole picture of HRM from recruitment to retire and each process explanation ②Personnel Evaluation Basics of personal evaluation and evaluation axis. ③Leadership Self-assessment of leadership, type of leadership, Participants checked their own leadership type by self-assessment. Based on their result, lecturer explained types of leadership. Lecturer also explained how to make an order with taking into account each subordinate situation. ④Case Study Exercise The company which was diagnosed previously was exercised as a model to make a diagnosis plan for HRM. 	<p>HRM is management from recruitment to retirement. It is presumed that NPCC staff understood how to analyze current situation from the HRM viewpoint. They also conducted a self-assessment of leadership and shared their result, which was interesting and which helped to understand that there are various types of leadership. Since participants believed that money is the only way to motivate employees, the lecturer explained the theory that there are other ways to motivate other than money, using case studies. At the last case study exercise, both groups showed that they understood HRM problems almost correctly and acquired the necessary knowledge for enterprise diagnosis. It is expected that the knowledge would be rooted through enterprise diagnosis using the knowledge.</p> <p>According to the questionnaire, all the participants answered that the lecture level was adequate and 80% answered that the lecture's explanation was adequate, which presumes that they acquired the knowledge.</p>

Enterprise Diagnosis	<p>①Enterprise Diagnosis Aim of enterprise, Growth step of enterprise, necessity of enterprise diagnosis</p> <p>②Explanation of Enterprise Diagnosis Skills for enterprise diagnosis, how to deal with corporate information and posture such as prohibition of bribe.</p> <p>③How to do enterprise diagnosis Process of enterprise diagnosis and how to write a diagnosis report, diagnosis plan</p> <p>④Exercise for Enterprise Diagnosis Plan Taking the company that diagnosed last time as a model, participants planed an enterprise diagnosis, drafted a report and made a presentation.</p>	<p>Due to the demonstration, participants came late and 10 participants attended. The class room was moved to the first floor, which took time to open and set the room. As there was no whiteboard, it was sometimes difficult to explain.</p> <p>According to the questionnaire, all the participants answered that the lecture level was adequate and 75% answered that lecturer's explanation was adequate. While participants who experienced enterprise diagnosis during the last project performed well at the case study exercise, it appeared to be difficult at times for unexperienced participants. Experienced participants helped them do the exercise.</p> <p>As to the presentation of both groups for the exercise, some parts were mentioned only generally, not using knowledge taught through lecture. The basic knowledge of the lecture was reviewed and the importance to use it for enterprise diagnosis was explained again. It is hoped that participants understand the lecture knowledge and importance of planning through the experience when they draft a diagnosis plan by themselves and utilize the knowledge and act in a planned manner at the enterprise diagnosis.</p>
Financial Management	<p>① Role of Accounting</p> <p>②Cambodian Accounting System</p> <p>③Accounting System for SMEs in Japan</p> <p>④ Cash Flow Statement</p> <p>⑤ Sales Management</p> <p>⑥ Stock and Cost Accounting</p> <p>⑦ Accrual Accounting</p> <p>⑧ Equipment Investment and Depreciation</p> <p>⑨ Fixed Cost / Variable Cost and Variable Costing Income Statement)</p> <p>⑩ CVP Analysis</p> <p>⑪ Balance Sheet</p> <p>⑫ Management Plan</p>	<p>The lecturer explained mainly cash-flow on the assumption that NPCC staff do not have accounting knowledge.</p> <p>At the begging of the lecture, the lecturer asked who took accounting class and half participants raised their hands. According to the questionnaire, five of six participants who attended to the end answered that they know more than half of the seminar content. However, it is not sure that it is same for the nine participants who attended in the morning.</p> <p>Additionally, according to the questionnaire, although the contents were adequate, many participants answered that some parts were difficult to understand. This may be because both morning and afternoon lectures started 20-30 minutes later than scheduled as participants came late and the lecturer needed to skip some explanation due to limited time. On the other hand, the lecturer tried to explain with linking to the activities that NPCC staff conduct, such as marketing and production management, as much as possible.</p>

The seminar was completed as scheduled despite some disruptions caused by the demonstration led by the opposition party, resulting in a small number of attendance on the lecture on September 16th. Although the schedule was tight as pre-diagnosis training was taking place in parallel, almost all NPCC staff attended well on the seminar for the first half and discussed keenly during exercises. Ms. Chhor Vivann Duong from Vivann Consulting attended this seminar as a private consultant. Ms. Vivann participates not only in lectures but also in OJT, which stimulated NPCC staff since she had more experience, better knowledge and more motivation to take the opportunity than NPCC staff.

Theoretical knowledge and practical ability are essential to deliver a high-quality company diagnosis. It is sometimes misunderstood that lectures are not effective; however, lecturing can be a useful training method to contribute to a high-quality company diagnosis, by explaining case studies to learn theories and exercises to acquire methodologies.

(2) Preparation of company diagnosis consulting

1) Setting up the diagnosis implementation system for the pilot activities

a) Investigation of policy and method for implementation of pilot company diagnosis

The Japanese Experts established the policy and method for implementation of company diagnosis, prepared OJT implementation procedure and shared them prior to company diagnosis implementation among concerned persons, leading to smooth company diagnosis implementation.

(Principle of Company Diagnosis Implementation)

- It is conducted for NPCC staff to learn the management improvement methods with management strategy, marketing, production management, financial management and develop their ability for giving advice/diagnosis to companies.
- It is conducted with OJT method under the guidance of Japanese Experts at a company's site.
- The survey is mainly carried out with interview, and overall analysis is made using information collected, factory survey results, etc. as well.
- The diagnosis implementation results lead to strengthening NPCC's BDS function and are utilized in DSIH's SME development policy making.

OJT for company diagnosis is carried out by reviewing the OJT implementation procedure, as required, which summarizes the contents and methods of company diagnosis based on the company diagnosis implementation policies and methods. For the detail of the OJT implementation procedure, refer to the attached OJT implementation procedure.

b) Organizing company diagnosis teams

Three company diagnosis teams were planned at first; however, two company diagnosis teams were finally organized in consideration of NPCC staff's capacity and motivation level. Collaboration with the private sector was strengthened by involvement of Ms. Vivann and two young personnel from FASMEC.

One Japanese Expert basically participated in each team's activities; Mr. Inoue (Expert in Accounting and Financial Affairs) was involved when required in the guidance in accounting-related issues.

	Member	Position
Team1	Ms. Soeu Sophea ,	Vice-Chief of Training and Consultancy Office
	Ms. Peng Davuth Kalyan,	Vice-Chief of Productivity Promotion Office
	Mr. Him Phanith ,	Chief of Data and Information Office
	Mr. Tem Rithy	Intern
	Mr. Yea Bunnaroth	Intern
	Mr. Cheng Kimchheang	FASMEC
	Ms. Duong Chhor Vivann	VIVANN consulting
Team2	Mr. Um Serivuth	Chief of Productivity Promotion Office
	Mr. Bun Sry	Officer of Training and Consultancy
	Mr. Say Pros	Officer of Data and Information Office
	Mr. Seng Pisey	Vice-Chief of Productivity Promotion
	Ms. Pes Chantrea	Officer of Productivity Promotion Office
	Ms. Ban Seang Lin	Officer of Training and Consultancy Office
	Ms. Mom	FASMEC

* Two FASMEC's personnel participated it from the company diagnosis III.

c) Methodology and contents of company diagnosis

Japanese Experts and NPCC staff shared the methodology and contents of company diagnosis by investigating the following and conducting the actual company diagnosis.

Subject	Items in detail
i. Determination of diagnosis procedure outlines by the company diagnosis team	Required information is collected with the preliminary diagnosis survey sheet and from the preliminary diagnosis surveyor to identify the present problems. The outline of the company diagnosis procedure by the team is then determined.
ii. Scope of review (investigation)	An outline should be made indicating whether the whole company is applied, or the factory or only a specific field is applied. Investigation is made for the scope of work and/or the theme considering the degree of importance and/or priority.
iii. Company diagnosis/consulting methodology to be applied	Based on the method learned in the classroom lecture, the method which can be used in a diagnosing company is judged for decision. Unfamiliar methods should be actively applied.
iv. Schedule	9-10 days are allocated to one company for the company diagnosis period.
v. Implementation and analysis of interview and investigation	Interviewers are selected and an interview is carried out with an interview list which is made beforehand. Factory survey is made during the operating hours to survey the factory operating situation. Sales data, external data, etc. are collected as well.
vi. Preparation of company diagnosis report	The report should be compiled in accordance with the example of "Table of contents" of diagnosis report; however, it can be changed according to the company situation. It should be made visually with photos and figures/tables in it.

vii. Rehearsal of diagnosis presentation	Presentation is rehearsed by a selected presenter and a person in charge the day before.
viii. Presentation meeting	Motivate the attending company management, managers, etc. for practice.
ix. Evaluation	Evaluation by the company and NPCC staff are made on the last day of company diagnosis. NPCC's capacity development is also evaluated. Then Japanese Expert provides feedback.

(3) Designing and formulation of the SME supporting benchmarks for business performance

A benchmark index for evaluating SME business performance has been developed and tested through company diagnosis and consulting activities for 12 pilot companies. The benchmark index was designed to enable easy self-evaluation of business performance of SME where often the indicator such as the financial statement is absent for evaluation.

1) Development and substantiation process of benchmark index for assessment of the business performance

a) Focused points on development

The major focuses of the benchmark index were taken on both qualitative and quantitative aspects. It was also an important aspect that the benchmark index should be designed to serve well as a consulting tool for NPCC and/or any BDSPs. Each aspect is carefully considered to be appropriate for the current situation of Cambodian SME and NPCC's needs and consulting capacity. At the initial stage of development process, the following 3 existing indices were discussed in the team and the management checklist of the Rising method was selected to be a base reference of the index. The "Management checklist" consists of 65 items in 6 management categories which are i) overall business management, ii) financial management, iii) products/services/technology development, iv) sales activities, v) organization and human resources development, and vi) production.

The base checklist was to be customized through applicability assessment by the top management of the 12 pilot companies. It was to be reviewed and improved several times for better and easier adoption for self-evaluation and, at the same time, for comparable evaluation among 12 companies. (Instead of the "benchmark index", the terminology, a "management checklist", was used in actual company diagnosis and consulting activities for the practical reason to be better recognized for one of the consulting tools for business management.) The details of management checklist are referred to in Appendix, (7)-2-4 Management checklist.

	Quantitative index	Qualitative index	Consulting tool
Name	Financial benchmarks for SMEs	Rising method for checking management capacity	BSC (Balance Score Card)
Details	The given formula taking figures appeared in profit and loss statements (P/L) and balance sheets (B/S), and the comparative analysis of the trends of them provides clear identification of issues (problems) to be addressed for the company concerned.	The method enables to provide an efficient self-evaluation procedure through 4-level scoring for each of 65 activities and operational procedures required for SME business management upgrading. (This procedure has been introduced in Indonesia, Myanmar, Serbia, and Mongolia as well as in Japan.)	The balanced score card (BSC) is a performance management system that was proposed by Kaplan & Norton in 1992 for establishing performance indicators and thereby controlling corporate activity.
Remarks	The comparative analysis is made available among indicators for the safety, profitability, productivity, and growth. The precondition of analysis relies on the financial data records complied in the financial statement. For further sectoral comparative analysis, standardized indicator(s) for the sectoral characteristics based on adequate statistical data are required.	The management aspect is divided into 6 categories, which are i) overall business management, ii) financial, iii) product/service/ technology development, iv) sales activities, v) organization and HRD, and vi) production. Scoring is done depending on personal views, which may lack objectivity in evaluation.	The BSC is considered more like a consulting tool rather than a benchmark index utilizing existing key business indicators. It is to control and manage the business activities to directly link to the sales/profits from the viewpoints of; - financial, - customers, - learning and growth, and - internal business process.

Following is the abstract sample of “Management Checklist”:

<p><u>Management ability checklist</u></p> <p>(1) Management</p> <p>1 Does the management have a policy or vision? <input type="checkbox"/><input type="checkbox"/><input type="checkbox"/><input type="checkbox"/></p> <p>2 Does the management gather the latest information and update promptly? <input type="checkbox"/><input type="checkbox"/><input type="checkbox"/><input type="checkbox"/></p> <p>3 Does the management have a strategy that oriented for a clear direction? <input type="checkbox"/><input type="checkbox"/><input type="checkbox"/><input type="checkbox"/></p> <p>:</p> <p>(2) Finance</p> <p>11 Has profitability of the business tended to increase satisfactorily during the last 3 years ? <input type="checkbox"/><input type="checkbox"/><input type="checkbox"/><input type="checkbox"/></p> <p>12 Has the plan for annual sales and profit been formulated? <input type="checkbox"/><input type="checkbox"/><input type="checkbox"/><input type="checkbox"/></p> <p>13 Is the business aware of the point at which sales cover expenses (break-even point)? <input type="checkbox"/><input type="checkbox"/><input type="checkbox"/><input type="checkbox"/></p> <p>:</p> <p>(3) Products, services and technology</p> <p>21 Is the importance of customer satisfaction widely acknowledged through the business? <input type="checkbox"/><input type="checkbox"/><input type="checkbox"/><input type="checkbox"/></p> <p>22 Do employees have positive business manners? <input type="checkbox"/><input type="checkbox"/><input type="checkbox"/><input type="checkbox"/></p> <p>23 Do the products or services of the business have original characteristics comparing with those of competitors? <input type="checkbox"/><input type="checkbox"/><input type="checkbox"/><input type="checkbox"/></p> <p>:</p> <p>(4) Sales activities</p> <p>31 Does the business prepare a corporate brochure or catalog? <input type="checkbox"/><input type="checkbox"/><input type="checkbox"/><input type="checkbox"/></p> <p>:</p> <p>33 Has the number of customers increased over the last three years? <input type="checkbox"/><input type="checkbox"/><input type="checkbox"/><input type="checkbox"/></p> <p>34 Has the number of orders increased over the last three years? <input type="checkbox"/><input type="checkbox"/><input type="checkbox"/><input type="checkbox"/></p> <p>:</p> <p>(5) Organization and personnel affair</p> <p>41 Do employees make reports, communicate effectively and consult each other as necessary? <input type="checkbox"/><input type="checkbox"/><input type="checkbox"/><input type="checkbox"/></p> <p>42 Does the business conduct a morning assembly and daily meetings in order to ensure hat all the information is shared? <input type="checkbox"/><input type="checkbox"/><input type="checkbox"/><input type="checkbox"/></p> <p>:</p> <p>(6) Production (Tool and facility)</p> <p>51 Are production reports and working reports made every day? <input type="checkbox"/><input type="checkbox"/><input type="checkbox"/><input type="checkbox"/></p> <p>:</p> <p>65 Are the meetings between sales department and factory held to share sales information and production information to adjust the delivery date and quantity? <input type="checkbox"/><input type="checkbox"/><input type="checkbox"/><input type="checkbox"/></p> <p>:</p>	<p>4 : Good 3 : Relativity good 2 : Relatively bad 1 : Bad</p>
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The following points were focused for the practical use of the benchmark index for NPCC (customization).

- i) To serve as a know-how for company diagnosis consulting to be utilized in the actual pilot company diagnosis and consulting > “Visualization of outcome of company diagnosis”
- ii) To objectively assess the business conditions of SMEs, and using the benchmark for self-evaluation of the companies, for developing BDS, and for facilitating policy implementation > preparation of statistical data base.

Concerning the first point, the benchmark index was designed to cover all areas of management so that it should be comparable to the coverage of company diagnosis and consulting activities through OJT. About 10 benchmark questions were set for each of the 6 categories.

For the second point, the qualitative evaluation levels were set in attempt to quantify and produce statistical data for the 12 pilot companies, such as their average score. This information can be used for future in considering strategic options described in the section as follows.

(4) Schedule of company diagnosis consulting

In consideration of industrial sector, company size, convenience, etc., of pilot companies, company diagnosis was divided into company diagnosis I-IV as shown in the table below and it was carried out for half a year. The Japanese Experts took care that the diagnosis teams and experts did not make diagnosis of another competing company.

At first, the Experts considered gradual reduction of the number of diagnosis days of one company during the progress of OJT; however, it was decided to uniformly allocate ten days to each company, because the capacity development of NPCC’s staff required time and intensive guidance. A longer period is considered more effective for them.

Table 2-20 Company diagnosis implementation schedule

	Company	Industrial sector	Employee	Team	JPN Experts	Period
I	Ly Ly Food	Food processing	250	I	Ishibashi	16-28 October, 2013
	Bayon Bakery	Food processing	100	II	Hayashi	16-29 October, 2013
II	Sentosa Silk	Apparel	100	I	Ishibashi	11-25 December, 2013
	ABC Bakery	Food processing	70	II	Ohyama	16-26 December, 2013
III	Champeï	Service	31	I	Ishibashi	9-22 January, 2014
	KC food	Food processing	25	II	Hayashi	9-23 January, 2014
IV	Diamond Log	Plastics	20	I	Ohyama	10-24 February, 2014
	Sky line apartment	Service	35	II	Hayashi	10-25 February, 2014
V	Peace Nail Factory	Metal processing (Nail)	35	I	Ohyama	26 February- 14 March, 2014
	Tree sisters	Apparel	25	II	Hayashi	26 February- 15 March, 2014
vi	Protein Food	Food processing	7	I	Ohyama	1-11 April, 2014
	Mineral water JOY	Food processing	30	II	Ishibashi	1-11 April, 2014

2.2.3 (Activity 2-3) Company diagnosis consulting applying SME supporting benchmarks

Activity 2-3: NPCC conducts the pilot company diagnosis consulting together with interested parties and tests the pilot SME supporting benchmarks.

The company diagnosis was conducted over the 12 pilot SMEs. The benchmark index for the business performance was applied as one of the key instruments for the diagnosis.

(1) Conduct of company diagnosis on pilot SMEs

1-1) LyLy Food

a) Present situation of pilot company

The company, with 250 employees, enjoys the No.1 position in snack confectionary manufacturing in Cambodia. A new rice cracker has a 10% share of its total products, whose demand exceeds the 24-hour production capacity.

b) Contents of company diagnosis and issues subject to follow-up

Employee-conscious survey was carried out with 41 employees excluding workers. The result was that HRM was an issue to be resolved. Then, a new rice cracker production line was focused on for production diagnosis. The ratio of defectives was controlled with visual management, although it became high temporarily in incidental power failure.

c) Design of action plan for follow-up

Since HRM was an issue to be resolved, we select the Inspection Dept., which showed the highest separation rate at present, for clarification of causes of the separation and for taking appropriate measures. In addition, the team emphasized the importance of cost management of a new product and provided the support. The team was requested to give advice on matters related to forms and sheets in introduction of accounting information system, and the team assisted them in this area.

1-2) Bayon Bakery

a) Present situation of pilot company

The company is the largest bakery chain which runs 12 shops in Phnom Penh. Each shop baked its products for sale; however, a central bakery factory was built and just started to deliver products to each shop.

b) Contents of company diagnosis and issues subject to follow-up

The team was requested to propose the layout of the new factory and proposed it based on the efficient flow line. Since the central bakery was in a low sanitary level, the team motivates them to restructure their factory to meet the sanitary standard by showing the cases of Japanese food processing factory with photos. They requested a proposal for a new sanitary, efficient and energy saving factory. They also asked for 5S guidance. However, the company was reluctant to disclose information necessary for company diagnosis which was not collected sufficiently, leading to ambiguous problem identification. The issues were identified and the action plan was designed and implemented in the follow-up process.

c) Design of action plan for follow-up

Since the new factory was under construction, the team provided information on sanitation, efficient operation and energy saving for it. The team selected a model shop for 5S guidance and implemented.

1-3) Sentosa Silk

a) Present situation of pilot company

The lines of business are uniform, show room, publishing and construction. The president is the chairperson of CWEA (Cambodian Women Entrepreneurs Association). The raw material of silk products totally comes from Cambodia for production and sale from within the company. The showroom shop location is relatively good and its business is stable.

b) Contents of company diagnosis and issues subject to follow-up

The team focused on the uniform business for company diagnosis. As a result, an issue to be solved was the development of JD (Job Descriptions); JD could strengthen the production management which could cope with the order fluctuation and made clear the job assignment of each member of the personnel. In addition, 5S management of stock storage was not achieved and was thus targeted for improvement.

c) Design of action plan for follow-up

The objective was to build up a production system to cope with the order fluctuation by applying the system to be able to record daily production quantity as the basis of production management. 5S was applied to the stock storage. The organization chart was also improved and JDs were developed.

1-4) ABC Bakery

a) Present situation of pilot company

The company runs a chain store of bread/cake shops, which is a recently-emerged new industry. The parent company is successful in Viet Nam and provides some of major management resources such as funds, raw materials and process/recipes. The components individually procured and managed from Cambodia are mainly labor force and customers. The major concerns of the management are human resource management and matters related to customer acquisition and maintenance.

b) Contents of company diagnosis and issues subject to follow-up

The parent company in Viet Nam provides some of major management resources such as funds, raw materials and process/recipes.

As a result of consideration that the proposals and activities lead to KAIZEN story consistently, the team spent many hours for guidance of environment analysis and strategy design. The prior issue was to direct to strengthening the customer base by differentiating with competing shops with improvement of shop operation.

c) Design of action plan for follow-up

Based on diagnosis results , guidance was provided in consideration of improvement of shop operation of head office (display, layout, sale, inventory control, production order, etc.).

1-5) Chanpei

a) Present situation of pilot company

The lines of business are SPA, restaurant, bar and market research. The company owns two SPA shops which are the largest in the city.

b) Contents of company diagnosis and issues subject to follow-up

The company had formulated the strategy and implementation plan by itself by undertaking regular market surveys and competitive analysis. The sense of satisfaction of employees is high with high retention rate. The company had a strong interest in Asian SPA standard. It requested the evaluation of its own strategy.

c) Design of action plan for follow-up

The review on the strategy and technical assistance on formulation of SOP (Standard Operation Procedure) were to be provided.

1-6) KC Food

a) Present situation of pilot company

The company entered into manufacturing of dry meat/floss in 2007 based on its dry meat/floss shop in Orusey Market and started to build a sanitary machine-operated production factory from 2011. It grows to a company of 7 officers (including president) and 19 factory employees. Its management system is still under development.

b) Contents of company diagnosis and issues subject to follow-up

The sanitary factory has already been completed and it was in acquisition of HACCP approval (at the time of diagnosis). The operability was as low as 50% and the company had not focused on marketing so much. Therefore, the team took up marketing as the highest priority issue. As a result, the team proposed marketing enhancement (development of packaging by taste considering target customers, non-price strategy (competing with differentiated products, package design, sanitary production environment, etc.) and preparation of tools for strengthening human resources management including Job Descriptions, Operation Manuals, Skill Maps, etc.

c) Design of action plan for follow-up

The team implemented the follow-up activities from April 2014 when HACCP was acknowledged.

1-7) Diamond Logo

a) Present situation of pilot company

The company is a plastics processing company which keeps a certain percentage of share in plastics household products with strong purchasing power of raw material from a special route, even under unfavorable conditions of high electricity cost. It belongs to an industrial sector which has a possibility of FDI linkage; however, it has not undertaken business management with awareness of foreign investors but daily watch-and-wait management deriving from the cottage industry.

b) Contents of company diagnosis and issues subject to follow-up

Although its business has expanded steadily, it merely remained at a family business in overall management. It was necessary to enhance its various QCD-related management levels to the level of internationally acknowledged company management standard as SME with injection molding technology which was important in Cambodia.

c) Design of action plan for follow-up

The team started introducing 5S activities at first, which the president asked. The team took up step by step approach in quality management, production management, delivery control and inventory control.

1-8) Skyline Apartment

a) Present situation of pilot company

The company operates luxury apartment houses for foreigners and a boutique hotel on the owner's property. The apartment house is 5 years old. When it started its business, competition was low; however, it becomes higher gradually. It still enjoys 90% occupancy rate. Now, it is requested to establish a long-term strategy.

b) Contents of company diagnosis and issues subject to follow-up

The team investigated the contents of proposal with 4P analysis by collecting information from Japanese real estate companies in addition to conducting interview survey to the president and the management. The team made a positioning map to propose a differentiating measure from competing apartment houses and how to use it in concept creation in large-scale renovation.

c) Design of action plan for follow-up

The team started evaluating with JDs and KPIs as well as their practical use.

1-9) Peace Nail Factory

a) Present situation of pilot company

The company has the largest share in Cambodia with long experience and good technology in nail manufacturing; it supplies high quality and cost-competitive products. Peace Group, which it belongs to, is a famous enterprise group with Peace Book Center (PBC), which imports and sells books and stationary, as a core company. Its management base is stable. However, the business to deal with general nails is low in both profitability and growth potential, which might lead to decline.

b) Contents of company diagnosis and issues subject to follow-up

The domestic market is anticipated to be lost suddenly according to the competing environment emerged after the unification of ASEAN market. As for the survival strategy, it was necessary to establish a management system to which foreign investors gave favorable evaluation by strengthening QCD management level considering FDI linkage. As the next step, it should understand the importance of maintaining accounting documents (B/S, P/L and cost accounting report) as well as the method to develop them.

c) Design of action plan for follow-up

The action plan included assistance in preparation of quality standards with selection of control items and guidance how to record them. As the prerequisite for these activities, the team promoted 5S and KAIZEN so that even the on-site workers could enjoy the output of activities.

1-10) Peace Nail Factory

a) Present situation of pilot company

The company is an apparel manufacturer established at 2011 of which major products are company uniforms, T-shirt and bags. The number of employees counts 14. This company has started with retail business through its brand strategy. As it has expanded to cover various products, company is seeking a new business strategy.

b) Contents of company diagnosis and issues subject to follow-up

The company has two kinds of basic business models; one is a branding under its brands "AMRA", "ANG" and "3 Sisters Fashion", another is company uniform manufacturing. The strength

and weakness of each model was examined in company diagnosis. Reflecting on the benchmarks for business performance, the marketing of products (uniforms), employee training and 5S were set as issues for follow-up respectively.

c) Design of action plan for follow-up

The follow-ups for this company were launched in July of 2014. Evaluation by the benchmarks for business performance proceeded twice in the period in order to visualize the result of follow-up consulting in addition to every month visiting instructions.

1-11) Protein Food

a) Present situation of pilot company

The company is a manufacturer of non-additive and pure domestic dry food with a process by cottage industry. The major products include dry meats of beef, pork and chicken and various dry fruits.

PR activities of Cambodian government to promote domestic products increase the exposure of the company to media, and then sale to large distribution chains grows. However, it is not clear whether the growth can be kept as it is, because it does not have sufficient know-how to properly distribute the non-additive products without preservatives to the market by keeping quality. Now, the expansion of its factory is under way. The issue is how to keep quality and expand sales along with its completion.

b) Contents of company diagnosis and issues subject to follow-up

It produces tasty products with a reputation of careful handiwork; however, every management level was still kept at a family business level. The issue was to expand the sales channel by deciding management items and their levels as a company and implementing them without fail.

c) Design of action plan for follow-up

It was planned that the contents and draft schedule of the action plan were made at the meeting with the team in the latter half of June 2014. The contents were: creation and implementation of control standards concerning production quality and quality assurance (best-before date etc.), introduction of 5S activities based on such QC and others.

1-12) Mineral water Joy

a) Present situation of pilot company

The company is a well-established company producing and selling drinking water since 2001. Seven investors including the present president bought the company in June 2013. The president is too busy and gives direction to newly hired GM on business improvement for further growth.

b) Contents of company diagnosis and issues subject to follow-up

Active sales activities were not achieved at the time of diagnosis, because the capacity was almost fully utilized for production with existing facility and no further remaining capacity remained for the additional volume. Since the factory manager knew well about the facility's production capacity through his work experience since the beginning of operation, there was no significant problem in production, but the productivity was expected to grow for reduction of workload and by layout improvement.

c) Design of action plan for follow-up

The priority to review incentives was high. The team collaborated with the GM for improving the operational basis such as organization chart, working regulations, job description (JD), etc., through

undertaking morale survey and analyzing the wage table. The team started to improve the layout and workability and reducing work load by productivity improvement with 5S promotion and detailed workflow analysis.

(2) Evaluation by pilot SMEs

The team made a questionnaire survey to companies after the company diagnosis implementation. The following figures are the summary of evaluation of 12 companies. In reply to the question of “How much benefit does your company gain from the company diagnosis?”, 11 companies (92%) gave high evaluation of “A lot” as shown in Figure 2-4. Three items as shown in Figure 2-5 employs five-grade evaluation: “Understanding of the report” is 4.1, “Feasibility of proposed content” is 4.2 and “Expectation of management improvement” is 4.2, all of which gives high evaluation.

There were numerous descriptions about high expectations for follow-up saying “please cooperate for growth of our company” as well as messages of appreciation on free description column (refer to attached document for details).

Question: “How much benefit does your company gain from the company diagnosis?”

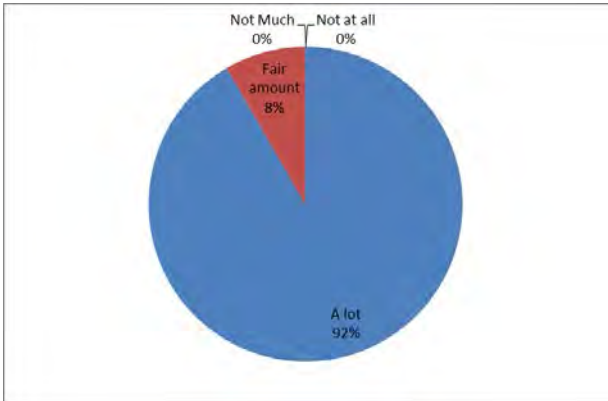


Figure 2-4 Questionnaire survey result (Benefit of company diagnosis)

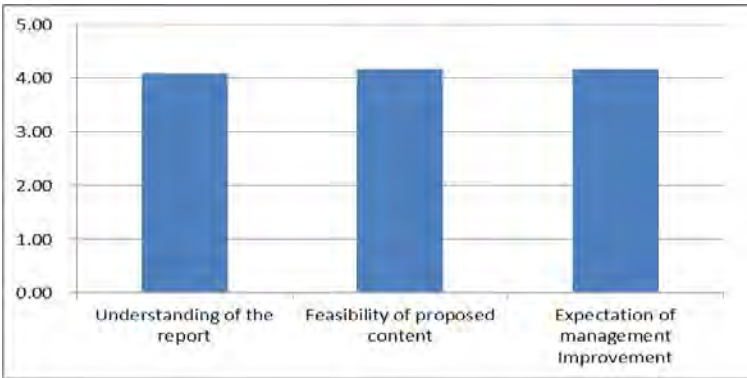


Figure 2-5 Questionnaire survey result (How you received company diagnosis)

2.2.4 (Activity 2-4) Issues related to assisting measures and information sharing with GD-SMEH

Activity 2-4: NPCC provides feedbacks to GD-SMEH responding to Activity 1-4.

As mentioned in the previous chapter, due to the restructuring of Ministry, there was a sweeping policy team reshuffle in the GD-SMEH in the middle of the project term. The complex of policy-related activities had to be re-started at that stage. The priority make-up for the activities had to be concentrated on the policy framework formulation process. With a limited timeframe for the project activities, the discussion and formulation of pilot measures was not put into action as it was planned. There were, thus, no pilot measures that the company diagnosis team at the NPCC side could be tested with after all.

Instead of testing the pilot measures from the policy team at GD-SMEH, the company diagnosis team side conducted specific consulting for two of the pilot companies. They were responded upon the interests received through JBAC (Japanese Business Association of Cambodia) from Japanese investing companies for partnership with Cambodian SME. The consulting was focused on improvement of business management to be suitable for relevant linkage with foreign investing companies. It was more or less simulating application of the possible pilot measures for promotion of linkage with FDI. Although the actual linkage (partnership agreement) was not realized in these cases as the Japanese investing companies postponed the investment, the test consulting provided feedback from the pilot companies to the policy team of GD-SMEH for the future pilot measures in this relation.

With regard to the potential inputs to possible measures for the human resource development (HRD) for SME, the collaboration was enhanced through information exchange and coordination of seminar and business courses participation between CJCC and the Project. At the initial stage of the Project, there was a plan for a systematic collaboration cycle between CJCC and the Project in exchanging participants' information on business courses of CJCC and seminars of the Project so that mutual coordination would realize more efficient information provision to stakeholders and recruiting participants for both activities. The systematic scheme was not realized but the collaboration in exchange of information served efficient coordination of the activities of both parties. The NPCC team provided information on SME's interests on HRD, and CJCC responded to provide related information on their business courses. The CJCC provided their activity information, and the NPCC responded to provide related consulting and recruiting the potential participants. This was another substitutive implementation of the pilot measures.

In addition to above, the information of the 12 pilot companies was provided to the policy team on their current situation of access to finance. It was very useful to formulate a part of the policy framework in the area of access to finance responding to the actual interest of SME. This is also regarded as a related activity in this context.

2.2.5 (Activity 2-5) Evaluation of the company diagnosis consulting and sharing experiences

Activity 2-5: NPCC reviews the pilot company diagnosis consulting conducted in Activity 2-3 and share its outcomes with stakeholders.

(1) Outcomes of the pilot SMEs from the company diagnosis consulting (evaluation by the benchmarks)

The company diagnosis and consulting activities were organized from 2013 Sept to 2014 May. The initial company diagnosis was conducted for two weeks per company and the follow-up was organized for 6 to 7

times per company after the diagnosis and till March 2015. During this period, self-evaluation using the management checklist was requested from company directors on three occasions; once during the company diagnosis activity, twice during the follow-up activities. These results were collected, analyzed and made available in a radar chart. These results were shared with the company as a feedback.

The average score of the twelve companies was shared among pilot 12 companies so that comparison with the average could provide a certain idea as of where each company may be situated and motivated to improve management upgrading activities. The step-by-step improvement was recognized through a series of evaluation results.

The radar chart of one pilot company is indicated as an example. Six categories in follow-up are plotted out of company diagnosis in this radar chart. The overall management improvement of this company is supposed to be advancing in a satisfactory manner.

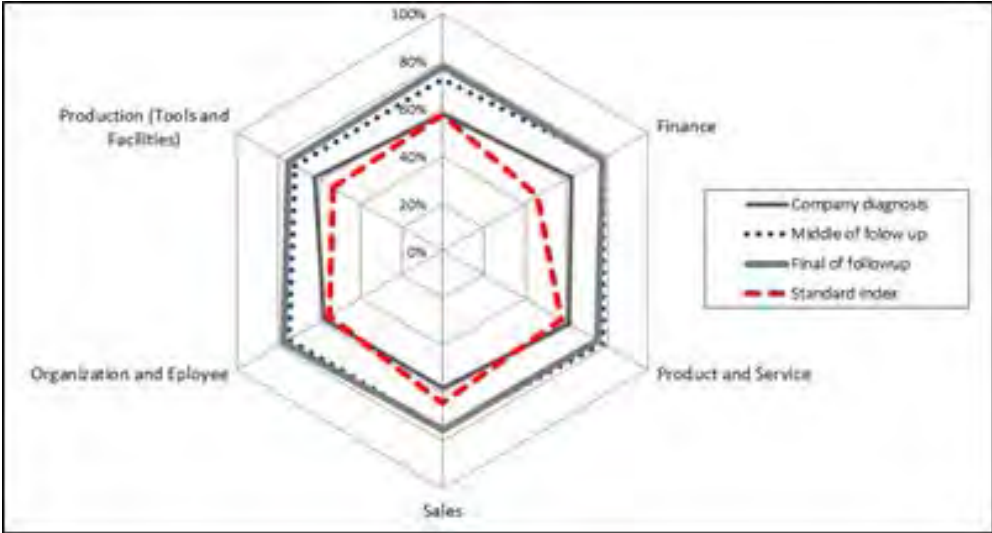


Figure 2-6 Improvement of business performance at pilot SME

The average values for manufacturers (food processing, apparel, machine and plastic molding) and that of service industry are calculated addition to twelve companies’ average values in order to offer type of business standard. This is trial for applying the data by type of business. These radar charts are shown on the previous page.

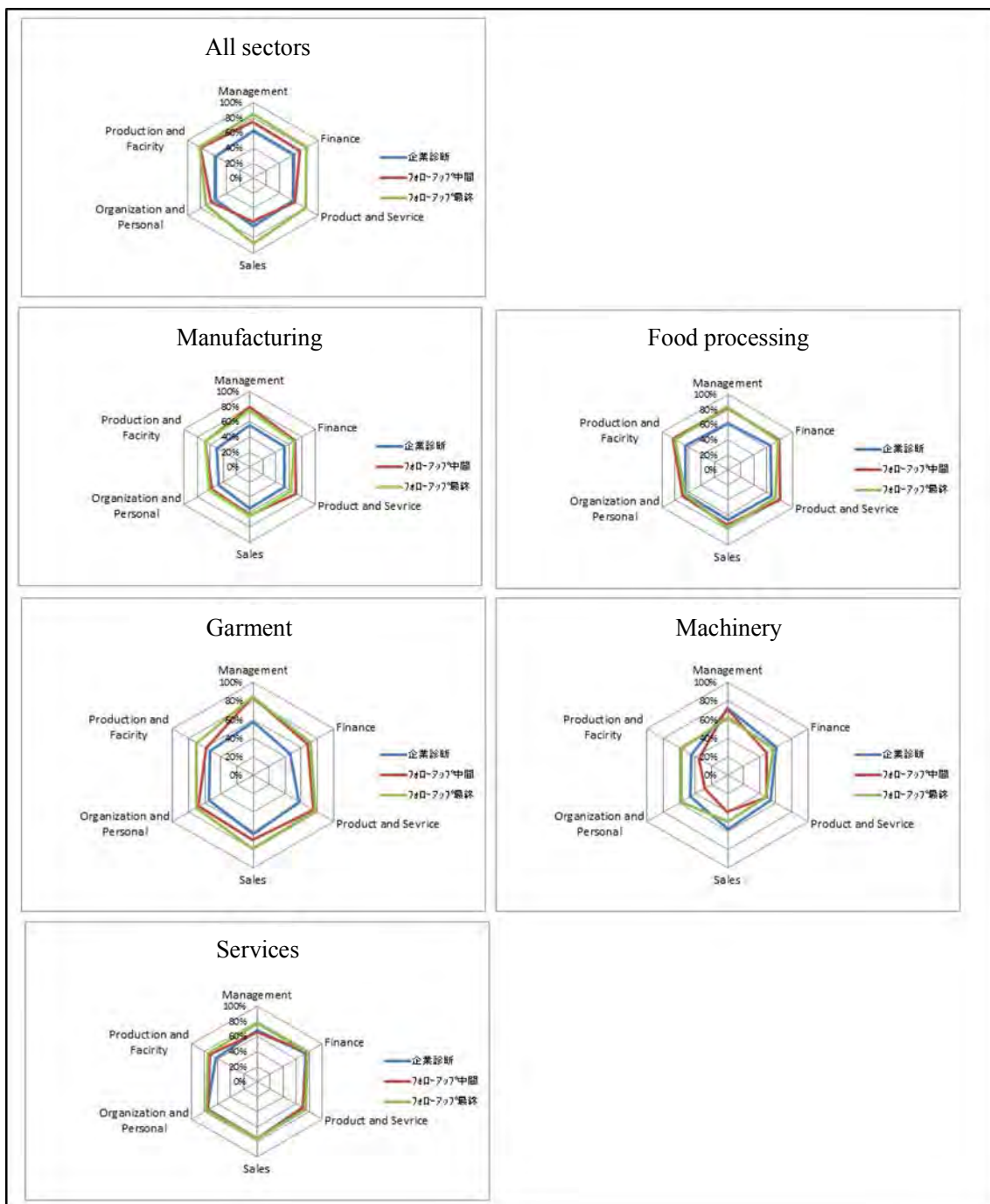


Figure 2-7 Sectoral characteristics of improvement of business performance at pilot SME

(2) NPCC's self-evaluation on the consulting activities

The sectors of twelve companies for company diagnosis were: six food processing, two apparel businesses, two services, one plastic injection molding and one metal processing. Three Experts gave guidance to two company diagnosis teams. The first phase of company diagnosis to twelve pilot companies completed with the guidance of Japanese Experts and NPCC's teamwork, although there were several difficulties and constraints of activities due to company convenience in company diagnosis. As a result, these companies gave high evaluation as described above and gave high expectation to the support for follow-up.

On the other hand, NPCC staff, at this stage, could hardly give proposals which could well satisfy the

companies in some cases, although technology transfer was conducted to NPCC staff to some extent. There are gaps between the capacity of staff and expectation of companies at the initial stage.

In the follow-up activities, the Japanese Experts kept giving guidance to NPCC staff with care and patience in order to develop their capability for company diagnosis/consulting, leading to fostering consultants to be able to contribute to the development of Cambodian economy and constructing the SME supporting system.

(3) Process management and follow-up activities for company diagnosis consulting

1) The implementation and outcomes of follow-up activities

The follow-up activities were aimed at technology transfer of consulting among the NPCC members. The follow-up activities were conducted on 12 model companies by the Supporting Team consisting of NPCC members and Japanese Experts. The Supporting Team conducted follow-up activities on 12 Model Companies according to the action plan from the time after the company diagnosis until March 2015. Consulting technology transfer of was conducted by OJT (On the Job Tanning) method in order to be effective. There were meetings before and after visits to the model companies. It was planned that NPCC members would gain know-how in regard to consulting skills and knowledge.

a) Team organization and schedule

The following tables summarize the schedules of follow-up activities in terms of time periods, teams in charge, and respective experts.

NO	Company name	Period	Team	Expert in charge (main/sub)
1	LyLy Food Industry	Dec. 2013 through March 2015	I	Ishibashi
2	Bayon Bakery	March 2014 through March 2015	II	Hayashi, Ishibashi
3	SentoSa Silk	Jan. 2014 through March 2015	I	Ishibashi
4	Asia Bakery & Confectionery	March 2014 through March 2015	II	Ohyama
5	Champey Spa and Salon	June 2014 through March 2015	I	Ishibashi
6	KC foods	April 2014 through March 2015	II	Hayashi, Ohyama
7	Diamond Plastic	March 2014 through March 2015	I	Ohyama
8	Sky line Apartments	July 2014 through March 2015	II	Hayashi
9	Peace Nail Manufacturing Handicraft	April 2014 through March 2015	I	Ohyama
10	3 Sisters	June 2014 through March 2015	II	Hayashi
11	Ky Siv Chheng Protein Foods	June 2014 through March 2015	I	Ohyama
12	JOY Drinking Water	May 2014 through March 2015	II	Ishibashi

b) Outcomes of the follow-ups

Issues identified in the company diagnosis were grouped as follows:

- i) eight companies have human resource management issues,
- ii) seven companies have production management issues,
- iii) six companies have sales and marketing issues,
- iv) three companies have accounting management issues, and
- v) three companies have issues in other fields. (Appendix (7)-2-6: Result of Company Diagnosis)

Follow-up activities were conducted to solve these issues above, in accordance with the formulated strategies and action plans for each company. Practical action plans were formulated in order to consider the priorities and relevance of the issues to be tackled. (See Appendix (7)-2-6 for the contents and outcomes of the follow-up activities of the 12 model companies)

After these activities, all of the 12 Model Companies had outcomes of management improvement. Outcomes were reported as follows:

- i) seven companies improved productivity,
- ii) seven companies improved motivation,
- iii) five companies increased sales,
- iv) three companies improved product quality,
- v) two companies improved delivery,
- vi) one company had cost reduction, and
- vii) six companies had other outcomes. (See Appendix (7)-2-6: Outcomes of the follow-ups)

The largest improvement percentage was shown to be Productivity Improvement and Process management and follow-up activities for company diagnosis consulting Improved Motivation (23%), followed by Increased Sales, Improvement of Product Quality, Delivery Improvement, and Cost Reduction in the fifth place. Peace Nail Manufacturing Handicraft, Inc. has experienced Increased Sales, Improvement of Product Quality, Lead Time Reduction, and Cost Reduction.

After the follow-ups, the remaining challenges were found in the following areas which include:

- i) Sales and Marketing; eight companies,
- ii) Human Resource Management; six companies,
- iii) Production Management; three companies,
- iv) Financing; three companies, and
- v) Other challenges; three companies. (See Appendix (7)-2-6: Remaining Challenges)

The numbers of challenges after the follow-up activities were reduced by about 15%, from 27 to 23. During comparison of company challenges, it was found that regardless of areas, challenges in Production & Services were significantly reduced. Challenges in Human Resources were also reduced, but challenges in Sales and Marketing had increased. The cause of the bottleneck in Production Management was resolved via consulting, and attention was now shifted to issues regarding Sales and Marketing. In the future, further corporate growth can be achieved by solving the challenges in sales and marketing. The standard of

Cambodia’s SMEs can be anticipated via model companies sharing their experiences with other companies.

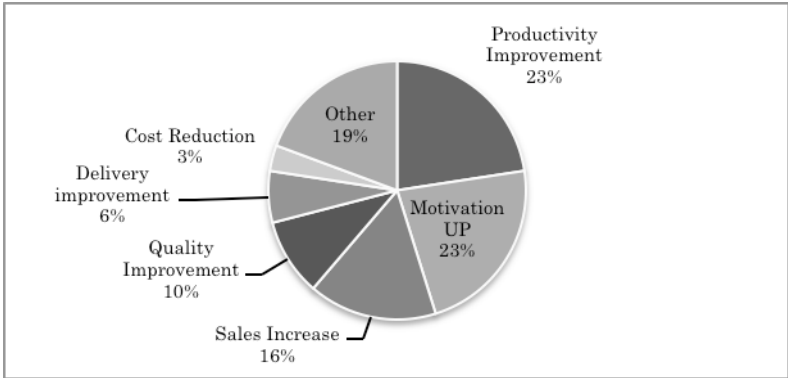


Figure 2-8 Outcomes of Follow-up Consulting

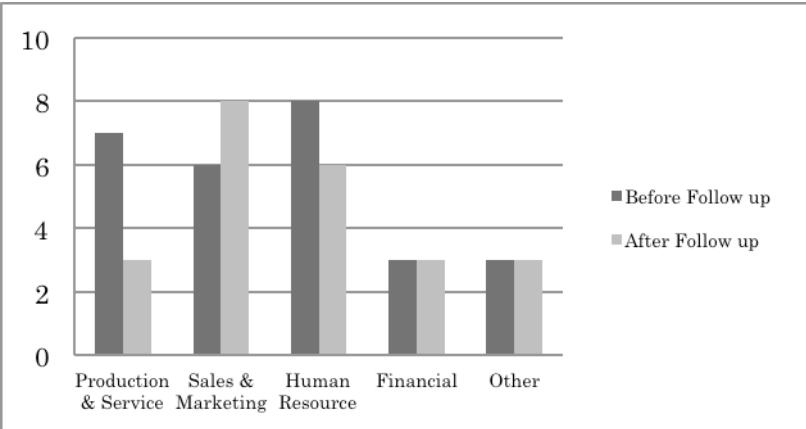
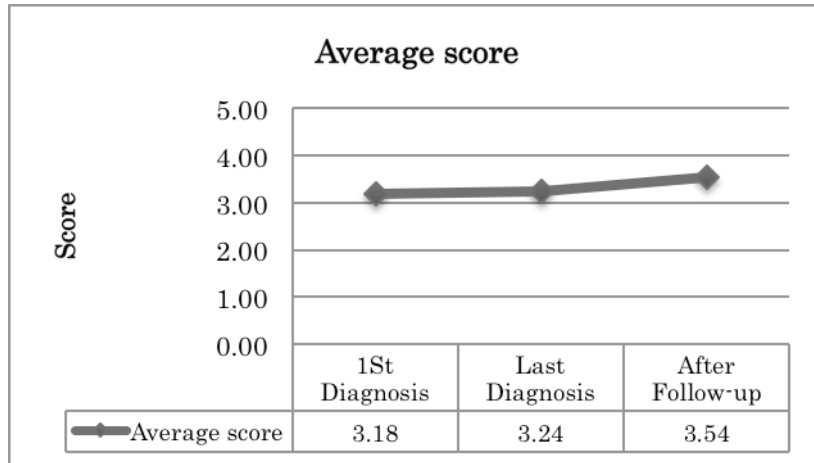


Figure 2-9 Comparison in Challenges of Companies

- 2) Evaluation and sharing of the follow-up activities
 - a) Capacity development of NPCC

In order to effectively build up to increase the capacity of NPCC members, a Consultant Evaluation Sheet (See Appendix (7)-2-7-1: Consultant Evaluation Sheet) was developed which defined diagnostic and consultation skills, performance assessment through the feedback from expert-evaluation and self-evaluation. The evaluations were conducted after the first round of company diagnosis, the last round of company diagnosis, and at the end of follow-up activities. They have shown that the average score of all of NPCC members gradually improved from 3.18, 3.24, and 3.56 points, respectively (See: Figure 2-10 Trends of self-evaluation result). Diagnostic skills in particular have gradually improved (See: Figure 2-11 Trends of categorized self-evaluation results).



1st. Diagnosis: October, 2013, Last Diagnosis: Jun, 2014, After Follow-up: April, 2015

Figure 2-10 Trends of Self-evaluation result

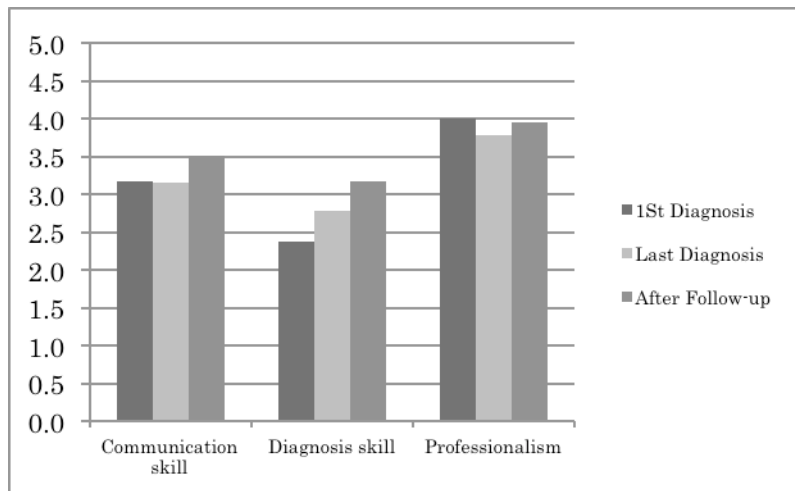


Figure 2-11 Trends of categorized self-evaluation result

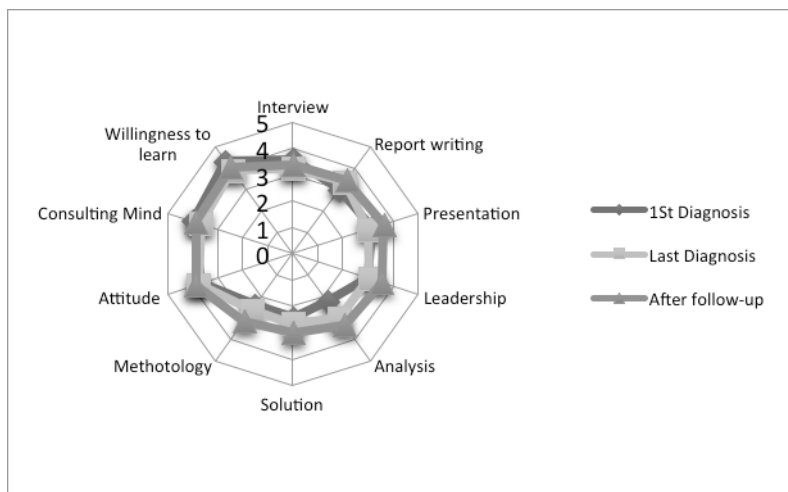


Figure 2-12 Self-evaluation result on skill development

b) Evaluation by NPCC

According to the follow-up questionnaires evaluated by NPCC: Visit Frequency was 100% adequate, and Period was about 90% adequate. To the question, “Which topics were useful for you?”, 46% responded “HRM”, which was the highest response; followed decreasingly by “Production”, “Strategy”, “Sales-Marketing”, and “Accounting”. NPCC could implement skill improvement, and inferred that Period and Visit Frequency was appropriate. NPCC has been trained mainly in relation to production management by the APO (Asian Productivity Organization). In JICA’s project programs, more comprehensive management approach, Company Diagnosis and Consulting, has been provided as OJT in addition to the area of production management. As a result, it is observed that NPCC acquired various other skills and knowledge through the programs.

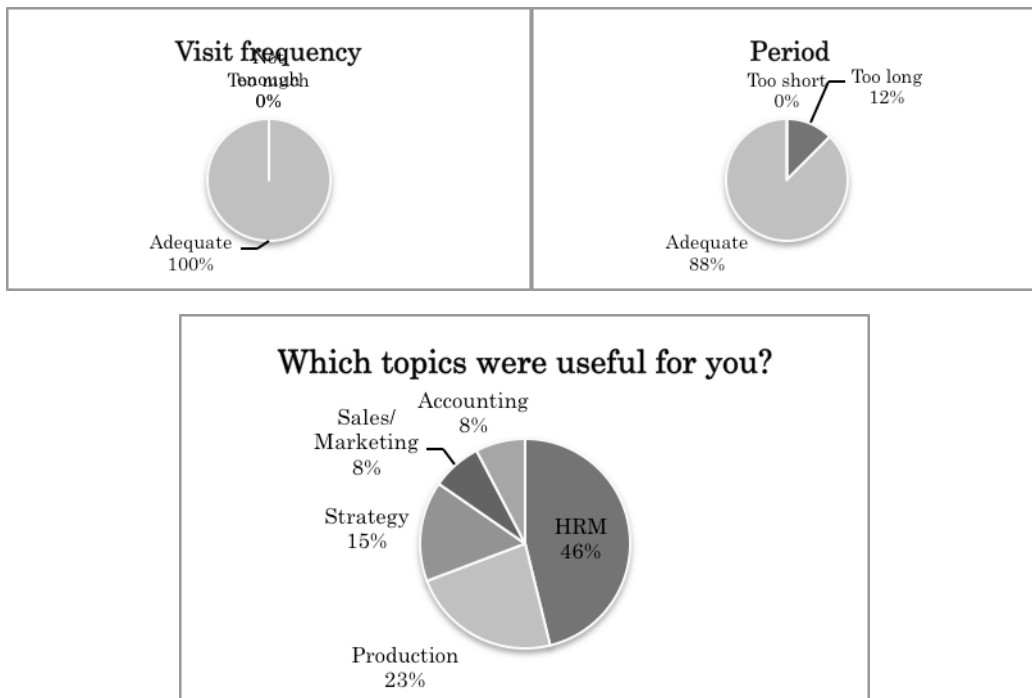


Figure 2-13 Follow-up questionnaire (Evaluation by NPCC)

c) Evaluation by Model Company

According to the Follow-up questionnaire of the model companies, Visit Frequency, and Period was said to be 70% adequate. However, 30% of answers rated Visit Frequency as “Not enough”, and 20% rated Period as “Too short”. For “Content of Advice”, 100% responded “Excellent” or “Adequate”; for “Benefit of future management”, 90% responded “Great” or “Adequate”. From the model companies, follow-up activities have been well-received but further continuous support was requested.

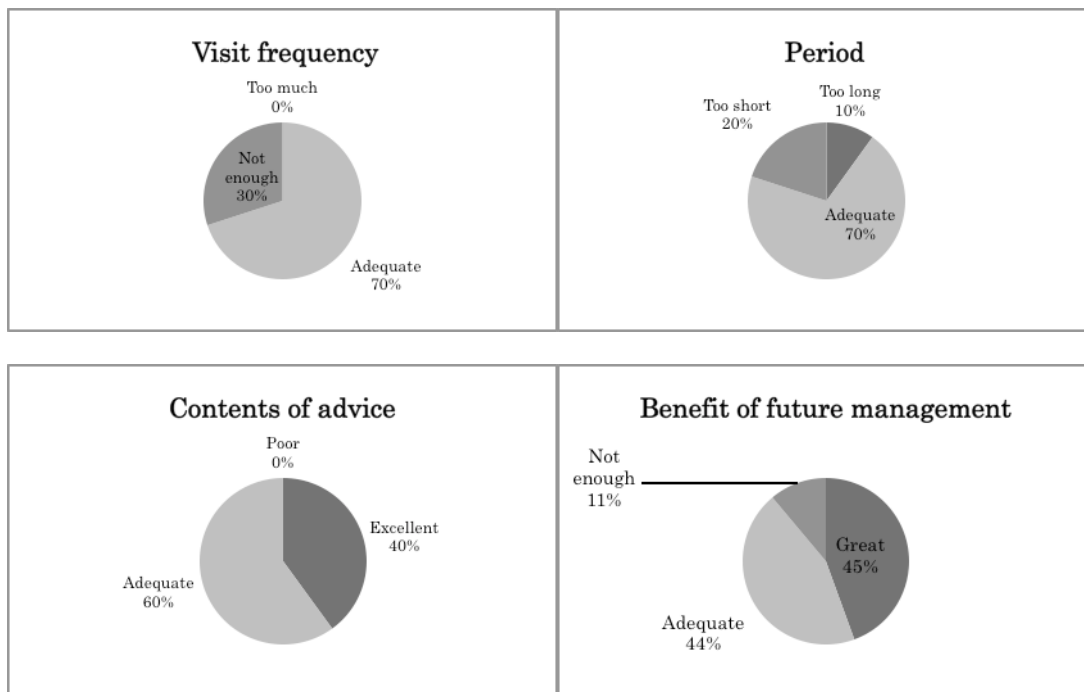


Figure 2-14 Follow-up questionnaire (Evaluation by Model Company)

(4) Outcomes of activities and further challenges for capacity development

a) Outline of focusing point in OJT

In company diagnosis OJT, the Japanese Experts undertook technology transfer for company diagnosis and consultation as a tool for SME promotion. The Experts performed activities using the OJT method to diagnose/analyze real companies, drew up an action plan for management improvement for application in order to increase the knowledge of NPCC staff about business management and to enhance their capability for analysis. When providing this OJT, the following was focused on:

i) Correcting capacity deviation by team configuration

Two teams were formed for OJT considering the participants' experience and capability.

ii) Schedule control and improvement of participants' attendance rate

All participants had their routine work. The schedule was adjusted so that they could attend the training as much as possible. The participants set up the schedule and adjusted it with the company for diagnosis by themselves so that they could recognize the main points of arrangements and time management in implementation of diagnosis. They tended to be late for meetings etc. The Experts always strongly told them to keep punctuality.

iii) Knowledge make-up

The Experts gave lectures for explanation whenever they encountered applicable cases concerning knowledge being useful for company diagnosis and consulting.

iv) Training for logical thinking

The Experts instructed the trainees to be accustomed to logical thinking based on concrete facts as much as possible so that they could provide diagnosis/analysis and proposal to the management of diagnosing

company with great satisfaction.

v) Quality improvement of output

The Experts had a meeting for reporting the diagnosis result to advise the management of diagnosing company to improve management. For the meeting, the report was shared and the presentation was rehearsed beforehand so that the supporting pilot company could easily understand it and can expect fruitful output.

vi) Share of experiences

The Experts planed the diagnosis schedule by two teams to be synchronized and had meetings for reporting diagnosis result to the diagnosing companies in almost the same timing. Further, two teams shared their experience and output by making presentation of each experience at a meeting with two teams just after the above meetings.

b) Achievements for improvement of NPCC's capability with OJT and further challenges

Through the company diagnosis and follow-up activities, NPCC was able to experience how to solve the challenges and solutions faced by companies via OJT. The NPCC skill was improved through the outcomes of all model companies – which were highly evaluated by companies.

Each NPCC staff member carried out the diagnosis of six private companies through OJT implementation and proposed measures for management improvement. As a result, the following outputs were obtained:

- The staff learned the process concerning preparation of diagnosis and proposal as well as their presentation.
- The staff confirmed that construction and implementation of strategies for human resource development (HRM) and marketing were commonly critical issues for the most of pilot companies.
- The staff recognized that there was a variety of issues by each company in different areas mentioned as above, and that it is necessary to apply suitable expertise and cases for effective use for their solutions.

Meanwhile, the Experts trained them through OJT about the theories which are applicable for analysis of and taking measures for problems on a workplace of private companies; however, the level of understanding by staff is more to be substantiated with the theories and knowledge for how to use them. In classroom lectures prior to OJT, the Experts explained various management theories using textbooks; however, the staff did not apply them thoroughly for the improvement of company management by reviewing the contents of such textbooks and/or lectures. The reasons are considered to be: the suitability of level of textbooks prepared by the Experts and contents of lectures (the targeted level might well be a bit introductory), limited field experiences to solve a corresponding problem, and limited know-how to apply relevant methodologies to Cambodian companies.

In order to cope with these conditions, it would be necessary to take measures that NPCC staff themselves prepare textbooks for use of required human resources development; to internal/external organizations and/or private BDSPPs. Since they recognize the diversity of knowledge and technologies required to support companies, it was necessary to review the function and responsibility of NPCC to be furnished as a supporting agency in the future including the configuration of organization itself and use of external resources.

2.2.6 (Activity 2-6) Upgrading the SME supporting benchmarks and strategic options for further utilization

Activity 2-6: NPCC improves the pilot SME supporting benchmarks developed in the activity 2-2 through the activity 2-3; and prepares strategic options for their common application.

With regard to the benchmark index, the management checklist, it was applied in this project for the company diagnosis and consulting activities. In order to be utilized for general consulting (or self-evaluation) the following options of activities are to be considered. (These strategic options were discussed and accepted on the course of company diagnosis consulting activities and officially adopted as the approval made at the final JCC in April 2015.)

(1) Enlarging the number of sample companies and wider data accumulation

Though the benchmark index was tested among 12 pilot companies in this project, the number of companies should be increased to have more results on the benchmark index for enhancing the objectivity of the standardized index and possible identification of sectoral characteristics. It is recommended that the management checklist should be utilized for company diagnosis and consulting as (for example) a combined methodology, it is not only a good tool for consulting by NPCC and in general but also a good data collection opportunity.

The advantage of the management checklist is that improvement could be achieved by applying the checklist to scale with the actual situation of the company and to target benchmarks for better. With this list, not limited to the self-evaluation, the consultant with limited experiences may be able to provide initial consulting instruction. The consulting package with the list may well be noted for the efficient way to provide BDS to SME. The following is one of the model examples for the consulting package with a list for a 6-month period.

	Reviewing Subjects	Necessary days
April	Interview for company profile, Site visit, Checklist explanation, 1 st evaluation	Two day
May	Overall management, Financial management	One day
Jun	Product, Service and technology, Sales and marketing	One day
July	Organization and HRD, 2 nd evaluation	One day
August	Production	One day
September	Final evaluation, Identification of remaining challenges	One day

From the experiences of the project activities this time, the number of actual visits for company diagnosis counted 3 to 4 times in 2 weeks – which was perceived as an activity overload for the pilot companies as they have to respond many requests from the NPCC side. Their interests tend to be more direct for practical solutions and methodology for improvement. The model consulting package above is suggesting principally a one day visit a month (2 days for the initial stage only). In this way, it allows fair time and flexibility for the preparation of analysis and reporting for both company side and consulting party side.

The above model is covering all 6 management areas. One of the management areas could be selected during the first visit, and more focused consulting can be made to concentrate on the area selected for the following schedule.

This consulting package model is very compact and useful. It may seem to be too simplistic, but it is very realistic and is considered to be practical to apply for the current situation of SME and BDS in Cambodia. The full-length consulting package should be designed as to the development of management level of SME and capacity of BDS.

(2) Simplified benchmarks and sectoral benchmarks

For the management checklist of this time, there were some comments that 65 questioning items were too lengthy and difficult to answer in full. It is true that the number and contents of those items should be adjusted to the development level of SME. However, a customized list may not be utilized for the comparative analysis among other companies. In order to respond to both requirements, the simplified but uniform list with 40 or so questioning items may well be designed for the SME with a scale of about 20 employees. In this way, the application of the list is easier for SME and economizes the time for that. The average scores can also be made for both full-length list and simplified version.

There are also requests for customized list for the specific sector. The sector specific list can be made, after the number of sample companies reaches a certain level to verify the list is appropriate and data is reliable to compare with. The potential priority sectors for the sectoral list may include garments, metal processing, food processing, hotels, restaurants, etc.

(3) Web application

The abovementioned issue is that the management checklist (benchmark index) is mainly used for management improvement in company diagnosis by consultant and company. On the other hand, it can also be used as one tool for self-evaluation in general. It may provide triggers to the management level of one company to recognize own company's situation objectively and also to examine improvement measures.

In this case, a web-site is a very useful vehicle to provide this opportunity. The list could be put on the home page and users could carry out self-evaluation on their companies freely. The accumulation and standardization of data are systemized and company management could evaluate through the questioning items and easily compare the result of own company and standard index with other companies. Data verification, review and correction should constitute the further scope for expansion of this system.

2.3 (Output 3) Institutionalization of NPCC's training program

【Output 3】 NPCC institutionalizes the training programs for the company diagnosis consulting.

(1) Activities for Output 3

Activity 3-1: NPCC provides its consulting programs developed by NPCC in order to strengthen their initiative.

Activity 3-2: NPCC reviews the outcomes of the Activity 2-1 to 2-6 and 3-1; and develops the continuous training programs for sustainable quality consulting services for SME support.

Activity 3-3: NPCC proposes the criteria of a quality consultant for SME support.

Activity 3-4: NPCC organizes awareness raising programs on company diagnosis and holds workshops for SMEs and stakeholders to disseminate the good practices resulted from the Project Activities.

(2) Overview of the Activities

NPCC has gained and developed its capacity in management methodology and know-how on 5S/KAIZEN, HACCP/GMP/GHP and so on through the technical assistance from the international development partners such as JICA and APO. In 2011, they coordinated the original program on their own budget and provided seminars in the provinces (Battambang and Pursat) and provided consulting services in the area of productivity and food safety based on 5S/KAIZEN. In 2013 and 2014, they continued to extend their programs to the awarding programs on 5S/KAIZEN. (The whole activities were named “Advanced 5S” program.)

For the “Output 3”, JICA’s project activities were designed to assist their original program in standardization through improvement and substantiation with technical advice. The “qualification criteria for SME supporting consultant” and the “respective outlook for the future development of BDS market” were also to be formulated through the activities for the “Output 3”.

(3) Activities Achievement Summary

Activities for “Output 3” have been conducted as scheduled till just before the restructuring of Ministry in January 2014. The activities covered up to the initial stage of pilot SME selection process in Battambang. However, due to the change in situation by the restructuring, the “Advanced 5S” program activity itself has suspended. It was mainly because of the loss of budgetary foundation, and eventually the program was stopped. Although this project tried to support and encouraged NPCC for revive the program, it was not realized. The program was the major part and indispensable for the “Output 3”. Practically, thus, activity 3-2, “NPCC develops the continuous training programs for sustainable quality consulting services for SME support”, has lost its activity base and could not achieve the goal as planned. Responding to this situation, instead of the original plan, it was agreed to present options for prospective training program that NPCC should promote in the “Prospective outlook for the future development of BDS market (direction for the future role of NPCC)”. With regard to the activity 3-3, the criteria was formulated based on activities for the former part of “Output 3” and outcomes of “Output 2”.

2.3.1 (Activity 3-1) Conduct of NPCC’s original training program

Activity 3-1: NPCC provides its consulting programs developed by NPCC in order to strengthen their initiative.

(1) Overview of the NPCC’s original program for SME consulting

1) Advanced 5S

The NPCC development program was called “Advanced 5S”. It was an attempt to extend 5S guidance which has been conducted for private companies around Phnom Penh to companies in rural area by NPCC’s own budget. It aims at supporting the improvement of productivity of a company and development of SMEs in a community by giving guidance not only in 5S but also in tools such as GMP/GHP which it has learned from donors.

In 2013, the sectors of concern were the rice milling sector in line with the governmental policy of export promotion of rice by improvement of quality/productivity. Rice milling companies in Pursat and Battambang Provinces where the rice milling companies are concentrated were selected as beneficiaries for the support. Secondary to it, the selection work of participating companies has been undertaken under instruction by Director General of Industry; however, only few participating companies applied due to insufficient announcement etc. Then, NPCC added the food processing companies to candidates and narrowed the area to only Battambang Province, and finally it could start the preliminary survey after entering 2014.

The original plan was to give on-site guidance to three selected companies once a month (of which Japanese Expert would accompany it once or twice); however, continuation of this program itself has become impractical because there is no budgetary support due to the former organizational reform of ministries and agencies.

2) Support for NPCC development consulting program implementation and support to sustain activities

Preliminary survey was carried out by visiting Battambang Province from March 4 to 6, 2014. The following table shows the companies for preliminary survey.

No.	Visit day	Company name	Main business and product
1	March 4, 2014	Phin Sareth	Production of dry rice noodle
2	March 4, 2014	Baithang	Rice milling
3	March 5, 2014	ETT	Production of bottled drinking water
4	March 5, 2014	Loran Group PLC	Rice milling
5	March 5, 2014	Kim Se Rice Mill	Rice milling
6	March 6, 2014	Yamleurng	Rice milling
7	March 6, 2014	Phou Poy Rice Mill	Rice milling

Japanese Experts gave guidance on how to prepare selection criteria at the meeting for company selection with NPCC staff in the afternoon of March 21 (Fri.) 2014 after the preliminary survey implementation.

When NPCC staff asked experts how to actually select the company, an expert instructed that the method and schedule for selection should be discussed and determined within NPCC. As a result, three companies, ETT, Kim Se Rice Mill and Phou Poy Rice Mill, were selected through the discussion within NPCC. However, this program was no longer able to be continued and implemented. It because it had lost its budgetary support due to the restructuring of the Ministry as mentioned in the previous Chapter. The Japanese expert side instructed NPCC to draw up an alternative plan. The experts held study meetings several times to instruct NPCC and supported the formulation of an alternative plan. NPCC was able to draft the initial alternative plan and carried out one presentation on that. However, there were still constraints in budget and found to be very difficult to sustain the motivation of continuation of their original plan without budgetary foundation.

2.3.2 (Activity 3-2) Prospect for the further development of the training program and NPCC’s function

Activity 3-2: NPCC reviews the outcomes of the Activity 2-1 to 2-6 and 3-1; and develops the continuous training programs for sustainable quality consulting services for SME support.

>> Modification: Options for prospect of future NPCC and training programs relevant to the future NPCC in the context of prospective outlook for the future development of BDS market.

(1) Reviews on NPCC’s activities

Experts discussed the adjustment of the above with the original plan and an alternative “Output” with two leaders of NPCC in order to preserve the same effect as designed in the original plan, “development and institutionalization of the training programs”.

In the course of the discussion process above, the experts suggested that NPCC could make an inventory of existing intellectual assets in order to identify potential for formulation of manuals on them. It was aimed to suggest to formulate manuals instead of developing the training programs as for the alternative “Output”. After a continuous discussion and consultation with JICA headquarters, it was agreed that the potential training programs would be outlined in the context of the future function of NPCC in the “prospective outlook for the future development of BDS market” which is another “Output” of the Project described in the following section.

(2) Prospective outlook for the future development of BDS market (direction for the future role of NPCC)

The details for the future BDS market were outlined in the SME policy framework. That is, in order to promote the BDS market at the initial stage, the necessary steps should be taken by the governmental initiatives such as introduction of guidelines/regulations to promote a business enabling environment (BEE) for BDS. It is also a necessary step to identify the prospective BDS market through researching the actual needs of SME for their business development. In this context, the substantiation of existing pilot BDS provided by the government is to provide cases of good practices for the future private sector BDS providers (BDSP). The role of existing public BDS is an intermediary process of governmental measures to facilitate private sector BDSP and BDS market promotion.

The role of NPCC currently providing consulting services is important, as it should make a good example of best practices. However, there are still weak points in NPCC's capacity such as the fact of past experience and knowledge not being adequately shared and not fully institutionalized as well as physically limited number in capable consultant staff. Unless this weakness is improved and strengthened, it is regrettable to admit that NPCC can hardly be recognized as a best practice case for the private sector BDS. It is also difficult for them to be in a position to facilitate and/or train private sector BDSs with the capacity at the current situation, although the potentials were already observed at the individual staff level.

It will be necessary for the NPCC to meet its next challenges by assuming the functions of a public related Cambodian BDS organization (which is assumed to be a facilitator as a main role) while supporting the expansion of the private sector BDS market in the near future. In order to pursue these directions, the following are important:

- a) The capacity improvement of the technical ability of NPCC that can be trusted as a public BDS and the maintenance of a strong organization for implementing BDS are necessary in the short term.
- b) It is important that NPCC pushes forward their services shifting or handing over to the private sector in the mid-and-long term. It is also important that NPCC makes a division of duties of a section in charge of direct BDS and a section carrying it out indirectly by trusting private sector consultants.
- c) It is necessary to conduct a study on whether NPCC will aim to be an independent organization or remain an internal department of MIH.

In doing so, it is important to select and decide the functions and responsibilities among following options to formulate a future organization. NPCC (or a future SME promotion organization) will have to facilitate bringing up appropriate SME supporting consultants and utilize private sector BDS, while promoting the development of private sector BDS.

<Option of the NPCC future image>

- i) Positioning as a direct BDS implementation division in MIH

The improvement of the function which carries out SME support by its staff directly.

- The improvement and enhancement of the current function of NPCC which builds up and reinforces its system through personnel training as an agency of MIH.
- The improvement of the function implementing policy measures (in principle gratis as a part of public services).
- The improvement of the information function on policy measures: It is vital to become the focal point of information related to SME, especially any information related to the policy measures which support the promotion of SME. A requirement should be in place to take specific action to obtain and timely update information on the related policies and policy measures that are under authority of other ministries, as cross-cutting exchange of information is still a challenging area in administrative procedures.
- The improvement of cross-ministry coordination function: It is necessary to consider specific measures to coordinate measures among ministries, as SME is not limited to the manufacturing sector under the authority of MIH.
- The improvement of the function in private sector involvement and coordination with private

sector BDSP: Considering the limited number of consultants at the NPCC side, it is required to secure an adequate minimal institutional foundation. Appointment and coordination with experts in the private sector would be realistic to substantiate the current situation of NPCC's capacity. The concrete mechanism to undertake this task should be considered, such as a transparent recruitment system, official qualification/guidelines, and relevant task descriptions.

ii) Positioning as an indirect BDS implementation division in MIH

- The improvement of the function that can be referred to as BDSP "reference function" and the function to smoothen matching with BDSP in accord with the needs of the SME "matching function".

- The improvement of the function to provide the information on the measures (at least access information) with MIH and other ministries.

- The improvement of the function that offers standard guidelines on BDS, qualification requirements, a fee system with maintenance, as well as supervision and management of private BDSP. The improvement of the function to provide maintenance and offer standard guidelines on BDS, qualification requirements and a fee system.

- The improvement of the function to manage and supervise private sector BDSPs,.

- The improvement of the function to arrange opportunities of human resource development for private sector BDSP

iii) Positioning as an independent governmental agency specialized in BDS

- Organization which is separated from authority of business approvals and/or regulations of private enterprise keeping independency. (Example: The Organization for Small and Medium Enterprises and Regional Innovation (SMRJ) in Japan)

- Prospective organizational structure: Organization which is run as a private operation but by supervision of inter-ministerial authority including MIH as the authority of SME promotion. - The improvement of the function to provide BDS through introducing both functions mentioned above, reference and matching (facilitation), to private sector BDSPs indirectly. The support will be provided in applying policy measures with or without fees.

- An agency having a wide range of sectors should also gain information from various sources which will contribute to the further consultation as feedback from the real business community. The requirement is the adequate foundation of consultants (number and quality) and networks in the BDSP and business community itself.

iv) Positioning as an independent private organization specialized in BDS

- A special agency, keeping internal experts in each field such as quality/productivity improvement and KAIZEN, and external experts through its network as well. In order to correspond to various BDS needs, a set of standard fee range in principle should be effectively prepared. (Example: Japan Productivity Center, Japan Management Association, etc.)

- The organization, its administration management side as well as its financing aspect, both should be highly independent, so its influence on government is relatively small.

- Conflicts with private enterprises are hard to occur because it is a private organization which is unrelated to authorization and regulation authorities.

- The organization which should be easy to be consulted with for the private sector side. (On the other hand, some SMEs may hesitate about use of support because it is not free.)

Having mentioned the above, it is important for NPCC to decide upon its future directionality in its organizational structure according to the needs and requirements of SME. The following elements are to be listed as minimum functions to be considered at NPCC, regardless of the structure of its future institutional organization.

- i) NPCC sets up a new operation department for APO to conduct secretariat-type duties. The secretariat duties of APO will be solely conducted by the new department and do not suppress the duties of the BDS section.
- ii) Staff receive training as BDSP continuously. The organization shall have an autonomous BDSP upbringing function in the future.
- iii) The organization manages a wide range of network not limited in the business community but in public and academia to deal various challenges of SMEs with expertise in their areas.
- iv) The organization accumulates various wisdom (business excellence) to contribute to management improvement, and plays its role as the Center of Excellence of corporate management modernization in the Nation.

The following items are points to be noted when we conduct a study on the options indicated above.

1) Viewpoint of the study process

- i) Internal viewpoint

What are the experience and knowledge of duties that have been operated for conventionally? In addition, will they be utilized in the future?

How do the NPCC staff think about the further required knowledge, skills and organizational functions to be gained?

- ii) External viewpoint

What are the functions and roles of BDSP which the international development partners requires?

What are the functions and roles of BDSP which other ministries and government agencies expect?

What are the functions and roles of BDSP which the SMEs expect?

2) Viewpoint of the organizational foundation

- i) Financial base

- Which ministry is in jurisdiction?

- Is it possible to secure the budget?

- A government budget or self-contained finance?

- Is there a possibility of fund support by any development partners or other organizations?

- ii) Human resource base

- Where are human resources which have enough knowledge for industrial promotion?

iii) Technology base

- Studies of technological assistance by development partners.

iv) Political base

- May an agreement be fixed as a part of the industrial policy of the government?

v) Private support base

- Can support be obtained from the chamber of commerce, economic group, investor group and financial facilities?

3) Viewpoint of the organizational function

i) Function of delivering industrial policy and measures

A function to provide policy information and policy measures to SMEs with promotion needs.

A function to evaluate the significance of policy measures to be applied to different kinds of SME.

A function to grasp which and what kind of SMEs have keen needs for support.

ii) Functions of development and implementation of support programs

A function to develop and implement effective support programs

A function to clarify and obtain knowledge and technologies necessary for program implementation

A function to bring up human resources who can develop and implement the programs

A function to calculate charge of man-hours necessary for program implementation

A function to calculate budget necessary for program implementation

A function to raise the budget necessary for program implementation

iii) Cooperation and coordination functions

Private BDSP categories

A specialized consultant; corporations or individuals

Financial institution

A licensed tax accountant or a certified public accountant

Lawyer

Private sectors such as chamber of commerce or economic groups (ex. sectoral associations)

Public BDSP categories

Industry promotion departments of other ministries or government offices

Industry promotion departments of the local government

BDSP database compilation

Networking among BDSPs

Upbringing and skill improvement of BDSPs

Authorized system for the qualification of BDSPs

Guidelines and rules to perform the functions related to “reference” and “matching” of BDSPs

iv) Support functions for other departments

Factory audit, inspection and investigation

Other authorization examination

v) APO secretariat functions

Ripple effect to BDSB functions

Way to be compatible with BDSB duties

There are various elements to be considered for the promotion of Cambodian BDS discussed above. NPCC, being in the position of the major BDSB from the public side, should take initiatives through its voluntary strategies in directing the whole nation as well as the BDS market for development, and in providing detailed guidance for implementation of development measures including financial back-ups, schedules and institutional settings. A clear start in this direction by NPCC is one of the most important and indispensable keys to the development of the BDS market and the successful outcomes from the prospective SME policy in the future.

2.3.3 (Activity 3-3) Formulation of qualification criteria for SME supporting consultant

Activity 3-3: NPCC proposes the criteria of a quality consultant for SME support.

(1) Qualification development of SME supporting consultants

The qualification of SME supporting consultants was considered and developed in this project, in order to ensure the quality of consultants for standardized services. This qualification is to specify and indicate the required basic knowledge and technical capability of NPCC staff and stakeholders who would provide consultancy services to SMEs.

a) Focus points for qualification development

As the initial reference of the qualification criteria, the qualification adopted on OJT courses by the Japanese Certified SME Consultant (Shindanshi) was used. (The courses were provided in Thailand and Indonesia.)

In Japan, there is the “Ability-based Job Grade System” developed as a core part of personnel management system. This system provides not only a grade of consultant, but also criteria for the required knowledge and skills applicable to each grade. This system has also been referred as a useful framework.

Additionally, the current situation of Cambodian SMEs and the capacity of NPCC consulting staff were well analyzed and considered for the development of the qualification to be relevant to Cambodian SME.

b) The contents of qualification

i) Consultant grade

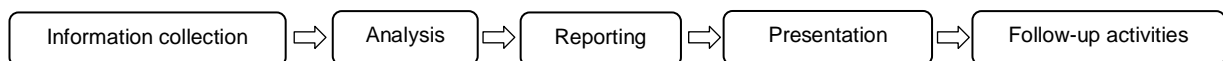
The consultant grade was divided into four levels; “Assistant”, “Junior”, “Intermediate” and “Senior”. The consultant grade was examined at three grades at the initial stage, “Junior”, “Intermediate” and “Senior”; however, many NPCC staff were found to be still in Junior or under Junior with limited experience and

knowledge. The more introductory level, Assistant, was thus additionally established under Junior in order to meet the current consultant grade level.

ii) Evaluating criteria by the consulting process

Grade	Definition
Assistant	<ul style="list-style-type: none"> - Assistant for senior consultants; Assistant collects information and analyzes the data under instruction of senior consultant. - Assistant is not voluntarily involved in the consulting process by himself.
Junior	<ul style="list-style-type: none"> - Junior consultant can be involved in a part of consulting process under support of senior consultant. - Junior consultant can apply introductory knowledge and methods, but not high-end theoretical practices.
Intermediate	<ul style="list-style-type: none"> - Intermediate can collect information and analyze by himself at the satisfactory level, the support by senior consultant is required in the process of reporting and presentation. - Intermediate can instruct junior consultant in the process of information collection and analysis. - Intermediate has wide coverage of knowledge and experience; they can utilize high-end theoretical practices to a certain extent.
Senior	<ul style="list-style-type: none"> - Senior can complete all the process of consulting by himself and direct appropriate instructions to his junior consultants. - Senior has extensive knowledge and experience; he can utilize high-end theoretical practices. - Senior can propose and comment on SME supporting measures.

When setting forth evaluation criteria, the consulting process was divided into 5 steps. The criteria were set to meet the requirement of knowledge and skills at each step. Review was carried out constantly throughout the OJT process for NPCC staff.



The quality requirements consist of 10 items and these ten items are categorized into 3 large classifications which indicate relation among evaluation elements. The definition of each element is referred in the Appendix (7)-2-7-2.

Large classification	Evaluation element
Capacity to develop human relationships	i) Interview ability, ii) Reporting ability, iii) Presentation ability
Method and knowledge on company diagnosis	iv) The ability for grasping the problem, v) Solution ability, vi) Knowledge/method/application
Attitude, consciousness and ethics on company diagnosis	vii) Leadership, viii) Consulting ethic, ix) Willingness to learn, x) Attitude for consulting activities

iii) Task requirement by grade

Task requirements were set as to operational tasks and scored with evaluation level with marks indicated in

“Δ”, “○”, “◎”. These signs represent following criteria.

Δ: Capable with instruction

○: Capable with own judgement

◎: Capable with providing tutoring to the junior staff

These levels are utilized as a tool for motivating SME consultants to master the task requirement. The following shows a part of task requirement for pre company diagnosis as an example.

Major item	Operational tasks	Assistant	Junior	Intermediate	Senior	Remarks
Pre-company diagnosis	Schedule arrangement	Δ	○	◎	◎	
	Interview		Δ	○	◎	
	Information collection		Δ	○	◎	
	Reporting for pre company diagnosis		Δ	○	○	Fill out the fixed format
	Company evaluation			Δ	○◎	

iv) Knowledge requirement

Though there is a large amount of knowledge required from a SME consultant, the basic knowledge requirement are indicated in the table below. They were identified and categorized based on the activities of the project. The following listing is not exhaustive and remains to be reviewed and developed further where necessary.

	Necessary knowledge
Management strategy	SWOT analysis, PPM theory, Domain, Growth strategy, Competitive strategy
Marketing	Market research, Market segmentation, Positioning map, Marketing mix, Internet marketing
Financial analysis	Way of thinking for B/S (Balance sheet) and P/L (Profit and loss statement), Financial analysis, Cost management
HRM	Job description, Capacity evaluation method, Education and training, Leadership theory, Motivation theory, HR promotion and training
Production management	5S, Work management, Layout improvement, Work sampling, IE (Industrial Engineering), Proses management, Purchasing management
Quality management	PDCA cycle, QC 7 tools, (Pareto chart, Fishbone chart, Graph, Management chart Histogram, Scatter graph, Statistical management method, ISO/HACCP

(2) Utilization of qualification criteria

i) Initial classification evaluation

NPCC staff could be evaluated by ability, responsibility and knowledge, and graded into assistant, junior, intermediate, and senior. The educational background and working experience are considered for evaluation and classification. The qualification grade has to meet the actual position/title in the NPCC such as Assistant to Administrative, Junior to Leader, Chief, Leader, etc.

ii) Training

The relevant training by grade is to be planned and organized. Necessary tasks and knowledge for each class should be mastered and improved in each grade's curriculum. While NPCC has programs of donor trainings such as APO and JICA and so on, NPCC should organize original curriculums according to this consultant qualification. Materials are also made by NPCC staff using previous materials or by revising them. The mutual training system is also to be considered among NPCC staff. The way of training should not only include lectures, but also discussion. Training programs are to be scheduled intensively and systematically for a certain period.

iii) Promotion

Evaluation could be done periodically; half a year or once a year after initial classification. The person who meets evaluation results with regard to quality standards and tasks by grade in a superior class could be promoted. The Director of NPCC should clarify how to acquire the necessary ability and task requirements for promotion of their subordinates who express a desire to be promoted.

2.3.4 (Activity 3-4) Awareness raising and promotion seminar and workshop of company diagnosis

Activity 3-4: NPCC organizes awareness raising programs on company diagnosis and holds workshops for SMEs and stakeholders to disseminate the good practices resulted from the Project Activities.

The project included a series of workshops and seminars as a part of its program. The following 2 seminars and workshops were held for company diagnosis related activities;

- Awareness Raising Seminar on the Significance of Company Diagnosis (August 29, 2013),
- Final Seminar and Workshop on Company Diagnosis & Consulting (April 29, 2015),

(1) Awareness raising seminar (August 29, 2013)

The Awareness Raising Seminar, as the first seminar, was held at Phnom Penh Hotel aiming at recruitment of model companies for the company diagnosis consulting of Output 2 by specializing in PR of company diagnosis consulting.

1) Outline of implementation

Opening day and hour: 9:00am~5:30pm August 29, 2013

Place: Cristal Ball Room, Phnom Penh Hotel

Participants: 127 persons, Participating companies: 58 companies

Private companies/SME associations (FASMEC, CIC, YEAC, CWEA, GMAC, etc.) (83 persons), media (22 persons), international organizations (11 persons), other governmental agencies (11 persons)

	Seminar Agenda	speaker
09:00--09:25	Opening Remarks	Mr. Hiroshi Izaki Chief representative of JICA H.E. Meng Saktheara Director General of MIME
09:25--09:35	Overview of the JICA Project	Mr. Masayuki Ishida Project Leader
09:35--9:55	Introduction of company diagnosis	Mr. Hideo Ishibashi Expert on Production Management
9:55--10:10	<i>Coffee Break</i>	
10:10--11:10	Introduction to successful case studies of company diagnosis in Japan	Mr. Kaoru Sanbe Chief Executive Officer of Footmark Corporation
11:10--12:00	Q&A session	
12:00--13:00	<i>Lunch</i>	
13:00--14:00	Self-company diagnosis workshop	Mr. Takao Hayashi Expert on Production Management
14:00--14:15	<i>Coffee Break</i>	
14:15--14:30	Company Diagnosis cases in Kingdom of Cambodia	Video (DVD)
14:30--15:00	Recruitment of the model companies	Ms. Peng Davuth Kalyan Leader of NPCC
15:00--15:15	Q&A session	
15:15--15:30	Closing	H.E. Meng Saktheara Director General of MIME

2) Outline of session

After the speeches of Mr. Izaki, Chief Representative of JICA Cambodia Office, and Mr. H. E. Saktheara, former Director General, the following was undertaken: presentation of outline of this project, company diagnosis and cases of Footmark's company diagnosis by Footmark, workshop of company diagnosis by participating companies from the floor, and a video showing the cases of company diagnosis in Cambodia. Then, we explained how to apply it to model companies.

<Outline of contents of presentation>

Outline of this project	Presentation of the purpose of this project; three pillars of the project: development of SME promotion policy, incentives of pilot company diagnosis of ten SMEs and advanced diagnosis of 5S/KAIZEN to three SMEs; and conceptual forecast of this project (Project Scope and Post Project)
Presentation of company diagnosis	After explanation of positioning of company diagnosis in company management in comparison with diagnosis by a doctor, and outline and detailed process of company diagnosis, a case study of company diagnosis for Indonesian SME (glove manufacturing) was presented. The explanation was also made as cases of Cambodia's company diagnosis concerning macro analysis of product development of Seng Hout Group, preparation and use of Job Description in HRD and measures for defects reduction, which were carried out in the project last time.
Presentation of cases of company diagnosis by Footmark	Footmark made presentation of: outline of company, product development story starting from baby diaper cover to swimsuit/nursing care/body care training at present; swimming business including swimsuit/swim cap with high share etc.; strength of the company; company growth with active use of company diagnosis; and principles of the company. Mr. Ikeda, Factory Manager of Cambodian Factory, made a presentation of the opening ceremony at PRESEZ with video demonstration.
Workshop of company diagnosis by participating companies	Explanation was made concerning the method of simple diagnosis check with 12 items which was excerpted from the Benchmark Index. A simulated diagnosis workshop with participation of three companies of KC Food, Ky Siv Chheng Protein Food and Sentosa Silk was carried out after performing self-checks and preparing radar chart by participating SME managements.
Video showing of cases of company diagnosis in Cambodia	Demonstration of video which is made by this project budget: explanation of company diagnosis in this project; merits obtained from the company diagnosis by the president and site supervisor of the company participated in it last time by interview style with two NPCC staff; advice to companies which are expected to join the project; request for participation of the project, etc.
How to apply model companies	NPCC asked for participation in the project by explanation of: guideline for applicants to the company diagnosis project; company selection criteria and selection flow; and company diagnosis consulting flow and schedule.

In the seminar, active question and answer sessions were undertaken, and not only manufacturers but also service companies showed strong interest in this project. More than half of the participants remained to the end of seminar (about 70 by our estimation). As a closing speech, HE Saktheara, the former Director

General, MIME expressed his hopes for SME promotion and expectation to policy making, including replies to questions. In particular, he stressed that the linkage/cooperation structure between the government and SME was of great importance and asked for SME’s cooperation by saying that the government would prepare a policy in terms of the following through this project implementation: 1) to seek better business environment including improvement of access to funds/favorable tax treatment, 2) to promote capacity building in local economy, and 3) to seek reform of the law based on international standards. (We will separately prepare the seminar report for the detail of the seminar including above.)

3) State of application to pilot companies

33 companies, which attended the seminar, submitted applications for company diagnosis. The following is the classification of company by scale and sector. The graph shows 3 companies with employees over 100; and 5-8 companies with employees over 50, 30 and 20, respectively.

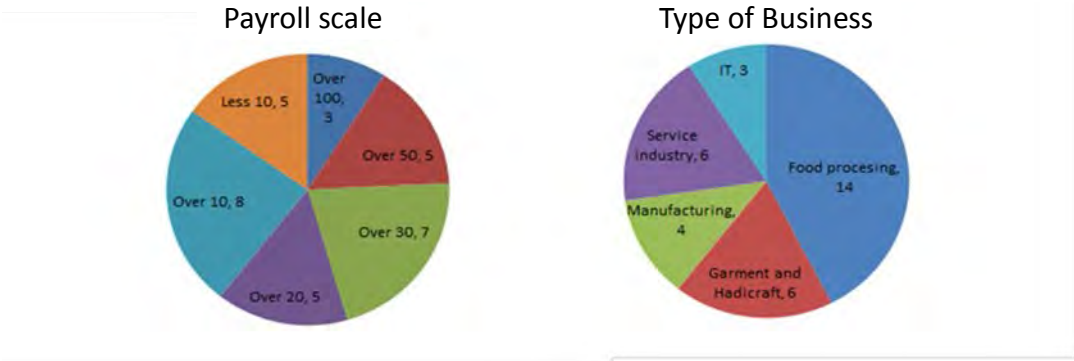


Figure 2-15 Structure of Applicants

In recruiting this awareness-raising seminar, it was necessary to collect a large number of SMEs with high growth potential who wish to be selected as pilot company while convey Japanese knowledge of company diagnosis in Southeast Asia and Japan. For this, the Japanese Experts, together with NPCC staff, visited the following local SME associations and companies to conduct capacity building and recruiting activities.

- CIC (Cambodia Investor Club) 13 August
- GMAC (The Garment Manufacturers Association in Cambodia) 13 August
- FASMEC (Federation of Association for Small & Medium Enterprises of Cambodia) 14 August
- CJCC (Cambodia-Japan Cooperation Center) 15 August

<The following are individual companies>

- Cam Paint (Paint manufacturer) 1st August
- KC food (Dried meat manufacturer) 6 August
- Three Sisters (Uniform manufacturer / Subcontractor of garment industry) 8 August
- Peace Nail (Nail manufacturer) 22 August

In addition, the press release was prepared to be delivered through the route of JICA Cambodia Office and gave advertisement to Cambodian Daily (day of 22th, English) and Phnom Penh Post (day of 26th, English and Khmer). The team leader appeared on the SME program of CNC TV to make PR of the whole project and make an announcement of this seminar for recruitment.

Participants, which were mostly SMEs, could fill the conference room with 120 seats thanks to the support of above SME associations. It was covered by the media such as Bayon Radio and Television, CNC TV, Phnom Penh Post, etc. due to the effect of press release arranged/adjusted by JICA Cambodia Office.

In this seminar, the Expert team completed a video film titled “Dawn of Cambodia (Sub-title: improvement of management by company diagnosis)” as a part of seminar materials with the cooperation of four pilot companies in the former project and NPCC staff.

The material by speaker was translated into Khmer and its document file was prepared.

(2) Outcome of the Project and experience sharing seminar on company diagnosis (April 29, 2015)

The Final Seminar and Workshop on Company Diagnosis and Consulting were held at the Sofitel Hotel with the aim of disseminating the effectiveness of company diagnosis and consulting and sharing the outcomes of project activities. In the last session, the Award Ceremony was held and twelve pilot model company representatives were awarded with completion certificates that were accredited by JICA and MIH.

1) Outline

Date: April 29, 2015 9:00am~5:30pm
 Venue: Ball Room II, Hotel Sofitel Phnom Penh Phokeethra
 Participants: 244persons; 12 Model Companies (27 persons);
 Private Companies (132persons); Associations (10 persons); Media (6 persons); Other Government Agencies (69 persons).

	Seminar Agenda	Speaker
09:00--09:10	Remarks - JICA	Mr. Itsu Adachi Chief Representative, Japan International Cooperation Agency, Cambodia Office
09:10--09:20	Opening Remarks	H.E. Dr. Cham Prasidh Senior Minister, Minister of Ministry of Industry and Handicrafts
09:20--09:35	<i>Coffee Break</i>	
09:35--9:50	Overview of Company Diagnosis and Follow-up activities	Mr. Um Serivuth Acting Director National Productivity Centre of Cambodia (NPCC)
09:50--10:50	Reporting from model Companies (Team I) (6 Companies)	Representatives from companies Team I of NPCC / Japanese Expert Team
10:50--11:50	Reporting from model Companies (Team II) (6 Companies)	Representatives from companies Team II of NPCC / Japanese Expert Team
11:50--12:45	Q&A Session and comments	NPCC / Japanese Expert Team
12:45--13:45	<i>Lunch</i>	
13:45--15:15	Work Shop Session (Production / Human Resource)	NPCC and Participants Japanese Expert Team
15:15--15:30	<i>Coffee Break</i>	
15:30--15:45	Work Shop Conclusion	NPCC and representative of Participants Japanese Expert Team
15:45--16:00	Q & A Session and Comments	NPCC / Japanese Expert Team
16:00--16:15	Closing remarks	H.E. Dr. Cham Prasidh Senior Minister, Minister of Ministry of Industry and Handicraft
16:15--16:30	Certification giving ceremony (12 Companies)	H.E. Dr. Cham Prasidh Senior Minister, Minister of Ministry of Industry and Handicraft

2) Outline of Presentation

Following the speeches of Mr. Adachi, Chief Representative of JICA Cambodia Office, and HE Sokkung, Under Secretary of MIH, there were presentations by the 12 pilot model companies on the achievement of company diagnosis and follow-up activities, and a Q & A Session and Comments.

In the afternoon, production management and human resource management (HRD) workshops were held in parallel. After that, workshop conclusions were held in a plenary session for all participants.

<Outline of contents of presentation>

Presentation of Company Diagnosis and Follow-up activities	Deputy Director of NPCC explained about selection process of the 12 pilot model companies and results of the company diagnosis, follow-up activities and outcomes.
Presentation of outcomes by pilot model companies	The outcomes of this project were presented with the following points of view from the 12 pilot model companies. (See “Appendix (7)-2-8: presentation slide of companies”.) I. Company Profile II. Result of Company Diagnosis III. Follow-up Activities IV. Outcomes V. Remaining Challenges VI. Conclusion
Q & A Session and Comments	After the question and answer session, Deputy Director of NPC explained the effectiveness of company diagnosis and future action plan of NPCC organization.

3) Outline of Workshop

From the results of the joint analysis of the 12 pilot model companies with the NPCC, the subjects of the workshops were defined as production management and personnel management which were the subjects of elevated much interests from SME side. Each workshop presentation by each group had a short lecture followed by a group discussion. After that, in order to share knowledge with all participants, a conclusion was presented by each representative group of the production management and personnel management that participated in the workshop. The overview of each workshop is as follows:

i) Production Management Workshop

This workshop was facilitated by four NPCC members for 56 SME participants. It focused on making method for QCD (Quality, Cost, and Delivery) improvement, via group discussions regarding issues and solutions experienced by participants. Herewith, this workshop was aimed to get hints for company's management improvement, to be aware of the importance of QCD management in corporate management, to share the impact and solution of QCD in participants. The implementation outline is as follows.

< Short lecture >

Mr. Um Serivuth, Deputy Director of NPCC, explained that the ultimate concept of production management is PQCDSM (Production, Quality, Cost, Delivery, Safety, and Morale). He also explained 5S and KAIZEN methods as tools to implement PQCDSM, and to improve QCD for the lower management methods 4M (man, machine, material, method) and 3M (MUDA, MURI, MURA).

< Group discussion >

SME Participants were divided into three groups, and four NPCC members joined as facilitators in each group, discussed with group members for thirty minutes. Participants positively and constructively discussed with group members to share information.

< Group presentations >

The three groups gave five-minute presentation each. Representatives of the group made presentations about topics such as: Quality improvement and cost reduction due to mechanization; Purchase incentives for the reducing return cost; On-time delivery for early procurement of importing materials; Importance of packaging; and, Prevention of overproduction or lack of stock via a production plan to linked inventory control.

ii) HRM (Human Resource Management) Workshop

This workshop was facilitated by three NPCC members to 72 SME participants. SMEs of Cambodia have a high job turnover rate, having an adverse effect on the productivity of companies. Thus, the theme of this workshop was "How to reduce job turnover rate". It aimed at improving the organizational management of solution sharing in practice. Experience and cases in which job turnover rates were reduced were shared through group discussion. The Implementation outline is as follows.

< Short lecture >

The HRM lecture was composed of two parts. The first part, led by Mr. Bunsry from NPCC, was about the concept of HRM, and the current situation regarding Japan's turnover rate and the reasons therein. The latter portion, by Mr. Sophea of NPCC, explained cases from pilot model companies that reduced their job turnover rates.

< Group discussion >

SME Participants were divided into three groups, held a group discussion for thirty minutes, and made presentation materials from the results of the discussion. Participants shared specific problems and experience in the active discussion and information exchange.

< Group presentation >

The three groups gave five-minute presentations each about their results such as: Improvement of the working environment; Announcement and preparation of the internal regulation; Assignment of the job title and salary according to employee's ability; and, Role of manager and leader.

iii) Conclusion session

This session aims to share solutions. Each group held a presentation of outcomes of the discussions about production management and Human Resource Management. The presentation outline is as follows.

< Production management group >

Presenter spoke on the importance of QCD- the following points are should be managed.

- To improve a working ratio of machines and workers.
- To reduce costs optimize the assignments of workers in regard to mechanization- increase the working ratio of machine to worker.
- To minimize the loss by quality deterioration, manage the finished product of storage conditions. 5S methods are effective tools.

- To prevent loss and defective products, strengthen the inspection of the received raw materials by preparing the SOP (Standard Operating Procedures)
- Prevent overproduction and lack of stock via a production plan linked to inventory control.

< HRM group >

Presenter spoke about the importance of reducing the Turnover ratio- the following points are should be managed:

- Regarding management, there should be the training of leadership and management. There should also be explanation about the rules of the salary and incentives and that position and salary should be given according to skill.
- Regarding the personal aspect, managers should have also a duty to perform coaching, to understand about the job, to help a problem-solving.
- Regarding the working environment implement 5S and KAIZEN. Productivity can be improved in a comfortable working environment value good teamwork.

4) Conclusion

The seminar drew 244 participants; many in fact, that extra chairs needed to be brought in to accommodate everyone - which proved the growing potentials of SME for industrial development as well as high interest in company diagnosis. Presentation materials had been prepared in advance by all of the model companies and were translated into English and Khmer for distribution to participants. The workshop also included content that NPCC and experts had planned in advance. SME participants had an active and constructive discussion.

According to the results of the questionnaire, all participants answered that they have an interest in company diagnosis consulting; this includes 55% that answered “Yes, very much”, and 45% that answered “Yes”. In answer to the question, “Did you understand Company Diagnosis Consulting as presented in today’s seminar?”, responses of “Yes, very much” and “Yes” totaled to 84%. Thus, all participants had an interest in company diagnosis, and 84% understood it. Comments and suggestions written in the comment field of the questionnaire included, “good information from this seminar”, and “wish to participate in JICA activities like this one”. This showed that there was further expectation and demand in Cambodia. for company diagnosis and consultation.

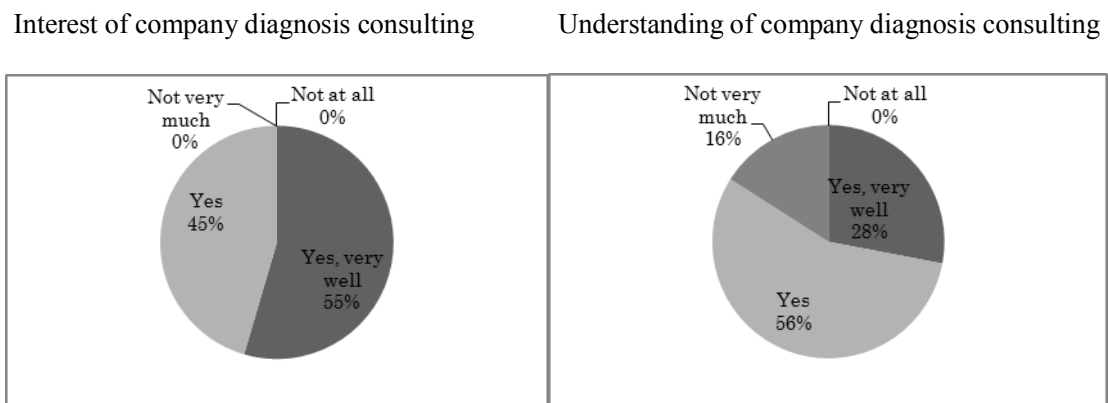


Figure 2-16 Company Attitude Toward Diagnosis Consulting

2.4 Study Visit in Japan

Under the original plan in 2013, the study visit in third countries was planned in October. The expert team was organizing training sessions in Korea and Taiwan as requested by the counterpart executives. The Japanese government requested to exclude Taiwan. The schedule was changed from October to December because of the restructure schedule of ministry.

Under the new structure, the destination was changed to Japan and the study visit in a third country was combined with the trainings in Japan. In the end, the classes targeting at high level officials (DG, DDG, and Directors) were organized for one week along with two-week courses for working level officials (Deputy Directors, Officers). They both started on Nov 2nd. The high level officials ended on Nov. 8th and the working-level ended on 15th. The details can be found in a separate report.

< Participants >

High level officials;

- H.E. Mme. PEOU Vorleaks, Director General, GD-SMEH
- Mr. HENG Sophoan, Deputy Director General, GD-SMEH
- Mr. LOR Sathya, Director, Department of Handicraft
- Mr. REAM Chanvanna, Director, Department of SME

Working level officials;

- Mr. CHHEA Layhy, Deputy Director, Department of SME
- Mr. KONG Pagnarith, Deputy Director, Department of Handicraft
- Mr. BUN Kim Ngun, Chief Officer, Department of Handicraft
- Ms. SANG Sokunthy, Chief Officer, Department of SME
- Mr. TEM Rithy, Officer, NPCC

< Schedule >

Date	Time		Agenda
Tue, Nov 4	14:00	~ 15:00	The Ministry of Economy, Trade and Industry
	16:15	~ 17:30	Japan International Cooperation Agency
Wed, Nov 5	10:00	~ 12:00	Orientation (JICA)
	14:00	~ 15:30	The Japan Chamber of Commerce and Industry The Tokyo Chamber of Commerce and Industry
	15:45	~ 17:00	Japan Federation of Credit Guarantee Corporations
Thu, Nov 6	10:00	~ 12:00	Organization for Small & Medium Enterprises and Regional Innovation, JAPAN
	13:30	~ 15:30	The Small and Medium Enterprise Agency
	15:45	~ 17:00	Japan Small and Medium Enterprise Management Consultant Association
Fri, Nov 7	9:00	~ 10:30	Company Visit 1: Material Co., Ltd. (Ota-ku, Tokyo)
	11:00	~ 12:00	Japan External Trade Organization
	14:00	~ 15:30	Tokyo Metropolitan Small and Medium Enterprise Support Center
	15:30	~ 17:00	Market Inspection Tour 1 (Tokyo)
Sat, Nov 8	10:00	~ 12:00	Discussion on policies with the Advisory Board Members
	13:00	~ 18:00	Market Inspection Tour 2 (Tokyo)
Sun, Nov 9		~	Off
Mon, Nov 10	9:30	~ 10:30	Tama Branch, Tokyo Metropolitan Small and Medium Enterprise Support Center (Akishima-shi, Tokyo)
	10:30	~ 11:30	TAMA Techno Plaza (Akishima-shi, Tokyo)
	13:30	~ 15:30	Tokyo SME University (Higashiyamato-shi, Tokyo)
Tue, Nov 11	AM	~	Travel (Tokyo to Nagoya)
	13:00	~ 15:00	Toyota Commemorative Museum of Industry and Technology (Nagoya-shi)
	15:00	~ 17:00	Chubu Division, Organization for Small & Medium Enterprises and Regional Innovation, JAPAN (Nagoya-shi)
Wed, Nov 12	9:00	~ 12:00	Company Visit 2: Ito Precise Tools Factory Co., Ltd.
	13:30	~ 17:00	Company Visit 3: TEKNIA Co., Ltd.
Thu, Nov 13	9:00	~ 10:30	Aichi Prefectural Government (Nagoya-shi)
	11:00	~ 12:00	Aichi Prefectural Federation of Small Business Associations (Nagoya-shi)
	14:00	~ 17:30	Company Visit 4: Osakaya K.K. (Handa-shi)
Fri, Nov 14	AM	~	Travel (Nagoya to Tokyo)
	10:30	~ 11:30	Debrief Meeting
Sat, Nov 15	11:00	~ 16:00	Chiba Minami Boso Co., Ltd., Roadside Station Tomiura (Minamiboso-shi)

Chapter 3 Issues and challenges in operation of the Project

The greatest challenge in conducting the project activities has already been mentioned in the previous Chapters. It is the impact from organizational restructuring in government ministries and agencies. The activities relating to policy formulation component were affected the most. All of the top officials as well as team itself were replaced. The company diagnosis component also suffered from the change in initiatives after the manager was replaced, and this resulted in capacity development being affected seriously. In regard to the NPCC's program development (standardization), of which Output 3 was initially anticipated, the assumed NPCC's original program, Advanced 5S, was in fact terminated, and the plan itself was forced to be replaced. For all the components, the organizational restructuring resulted in challenges due to the impacts indicated below:

- i) Succession of activity did not occur as result of change in personnel,
- ii) Determination/management of strategy by the Department, General Department, and Ministry itself in the new structure did not proceeded timely, and
- iii) Insufficient number of staff in the new administration (including limited experience with staff) led to difficulty in procuring participation in project activities.

The details of i) and ii) were already described in the previous Chapter. With regard to iii) above, the difficulty remains in not only has the number of staff been perpetually lacking, but the lineup remained same to that of the previous structure, even though the SME Department was promoted and expanded to General Department after the restructure. Comparing with NPCC, which is one Department, consists of 23 staff whereas the total number of staff in SMEH, which is General Department, is 31 personnel, and it is far from structure of 3 Departments. For the SME Department and Handicraft Department, staff were not allocated to adequately to their sections for several months after the new structure had commenced. For this reason, everyone in the departments, including the chief and sub chief, had to deal with over-lorded tasks in their departments. There were very limited successors who consistently took in charge of certain areas of tasks, and it was difficult to manage to follow the schedule and tasks as planned. One of the few tasks that had inherited from the previous system was just to attend seminars and meetings with officials at other ministries which were already committed for the attendance. This proved especially difficult as they were physically not in the office, and made the situation worse. Very limited staff could get involved in the project activities in this situation. In the policy component activities, about three to four persons participated in the twice a week scheduled meetings, "regular meetings". For this, two third of the team of twelve persons were left behind. In the end, except for a certain staff who always participated in the meeting, and one advisor, activities could only be shared with staff that happened to be available on that day to attend the meetings.

As for the company diagnosis component, only certain staff could participate in the activities, which became the norm. This was due to change in executive initiative due to change in top official level at NPCC from the restructure of ministry. The confusion was observed in the sound conduct of department policy for its tasks during the transitional period. It brought the change in the foundation for the Output 3, which was the loss of Advanced 5S program. Because of the confusion at this stage, the most of effort of NPCC staff was put on the conduct of activities, seminars and training courses, by the other international organizations which were already committed and announced in public.

Concerning policy formulation component in the new administration at the initial stage, the challenges rested in fundamental structural issues, such as weak organizational system in the General Department,

limited experience/capacity in personnel. In this project, while additional support was required to recover these fallbacks, it was the biggest challenge to make up the one-year delay of activity schedule. The basic advisory tasks for the fundamental institutional building, in reality, were additionally put over as inevitable tasks (such as technical assistance to support GD's annual action plan, assistance for setting up SMEs' One Stop Service registration mechanism, and assistance for international SME related activities ex. ASEAN activities, etc.) to continue the project activities which were not planned at the initial stage of the project.

In addition to above, it is recommended for the further activities that the capacity development should cover further areas including indirectly but closely related issues, such as financing and accounting issues. In the Project, the expert was joined the Expert Team as from the voluntary proposal from the experts side. It contributed a great deal to substantiate the policy issues in the process formulation process particularly in the area related to financial issues. It was also very effective to provide relevant technical assistance for pilot SMEs in terms of financial management at the company diagnosis activities.

Chapter 4 Outcomes of the project and suggestions for the further activities

【Output 1】 GD-SMEH drafts the SME policy based on the initial policy outline developed by the Taskforce of the Ministry; and policy formulation process is refined.

The actual result for Output 1 is formulation of the “SME promotion policy framework”. Originally, this output (including reviews of the actual situation, various analysis, and discussion on policies) was supposed to have finished, with voluntary tasks from the counter part, by the end of July, 2014, which is 13 months after commencement of the project. Based on this output, the task force from the counter part was supposed to have continued on; taking the main lead in creating the policies. The Japanese Expert team was to provide technical support related to policy formulation, including capacity development of personnel and the system, and contribute to sophistication of the process. This “policy framework” experienced organizational restructuring of government and had to be formulated practically in 10 months, in an environment where personnel and system of the government were not in good form. For this reason, although Japanese experts fully made an effort to engage with the counterpart, including regular meetings for discussion scheduled twice a week, the policy framework was structured mainly by Japanese experts based on the discussion of the policy team.

With regard to the Output of the project which aimed to enhance and upgrade the policy formulation process in MIH, in reality, we are midway in our progress. However, we have been able to build a part of basic policy formulation system, which will lead to the actual formulation of policies. Although the initiative was taken by the experts in structuring the policy framework, in terms of staff capacity and function of GD-SMEH, though limited, the project was able to provide an upgraded capacity in formulation of policy and put in place a system. It was also notable that some of counterpart staff gained very practical knowledge and know-how for policy formulation process, which would fully contribute to the policy formulation process of the GD-SMEH. The knowledge and know-how transferred included; further understanding of the significance and structure of the policy framework, the coordination among related government agencies and stakeholders, and actual formal process of policy drafting to prepare for submission to the Council of Ministers as outlined as follows.

As another outcome for the Output of enhancement and upgrading of the policy formulation process, the further formal process of policy formulation (actual drafting process) was adopted by JCC and the consensus of the participating stakeholders to the final seminar as a part of the policy framework. That is to say, there formed the consensus agreement that the further steps of drafting the SME promotion policy should be succeeded from the Project based on the policy framework adopted to the formal process under the SME Sub-Committee. After the SME Development Framework of 2005, it had been said many times that it was necessary to discuss SME policies, but there were no official places set up to discuss these issues nor any comprehensively covered working documents to work with. The consensus on the policy framework itself this time, thus, proves major progress in this area.

As a follow-up after the final seminar, we have requested the counterpart to hold an SME Sub-Committee while the awareness of the consensus among the stakeholders is still fresh, and proceed with formal procedures to confirm the adopt of the policy framework. In response to this, setup of SME secretary and nomination of staff is proceeding in the GD-SMEH, so that it can formally function once again as the administrative office of the SME Sub-Committee. In addition, preparations are now under on-going process for holding the SME Sub-Committee before summer, and notifications will be ready for any interested

members of each government agency to invite for participation to the task forces⁵ after they are set up.. These should be executed promptly. The “policy framework” should be formerly adopted as soon as possible, and the task force should commence and an actual formulation of policies is expected.

It is important that this is to be executed in tandem with review of implementation of the Industry Development Policy that is currently adopted. The implementation measures for modernizing SME, which is one of the objectives of the Industry Development Policies, can be realized more by actual formulation of SME policy based on the “policy framework”. The sophistication process from “policy framework” to actual “policy” requires a higher level discussion on specific issues and review of measures. For the counterpart to take initiative as administrative office of SME issues, it is necessary to continue their active involvement and coordination in the post project activities by themselves, while actively introducing technical support by external experts and knowledgeable resource personnel in a timely manner.

【Output 2】 NPCC strengthens its capacity through company diagnosis consultancy; and develops related SME supporting benchmarks for business performance.

As achievement of the company diagnosis component, major outputs for Output 2 are outcomes from the company diagnosis activities and development of “benchmark index for evaluating SME business performance (prototype)”. They were executed as part of the OJT process of company diagnosis and its follow-up consulting activities, and finalized through many layers of improvement. The former is recognized as the improvement of business management in pilot 12 SMEs and capacity development at NPCC in terms of comprehensive consulting services with company diagnosis. The latter index will serve as a tool for company diagnosis consulting.

Though they are still treated as initial models, through NPCC activities, they will become the basis for creating further programs and tools that are easier to use, or they will be basis for development as guidelines for implementing SME supporting measures.

From the point of view of capacity development, the experts have transferred know-how and consulting techniques and provided a system to support their actual implementation, which can be used as consulting tools by NPCC. This includes management methods focusing on special areas such as production management and food safety and sanitation management, spreading out to operational strategies, such as products/markets, development of human resources and personnel, finance, and introducing analysis of issues in company management from a more comprehensive point of view and utilizing consulting methods. However, the comprehensive method relies on understanding of the content at staff level, and requires know how backed up by experience, hence it is difficult to grasp all the content in a limited period. It is important to continue and repeat the series of activities that they experienced through OJT, so that this would be firmly formed as their capacity.

⁵ In the “policy framework”, the “task force” is proposed as a form of “working group”. However, in the final seminar, HE Prasadidh proposed that it should be recognized more mobile, goal-oriented, and should be called “task forces” instead of “working groups”. So, agreed .

【Output 3】 NPCC institutionalizes the training programs for the company diagnosis consulting.

A major output for Output 3 is formulation of the “Prospective outlook for the future development of BDS market (direction for the future role of NPCC)” which included the “direction of prospective training programs and options for future NPCC”. It was a substitutive output for Output 3. Output 3 was originally the standardization and substantiation of a training program developed by NPCC (a standardization of Advanced 5S). However, this original goal was not pursued because of the termination of the Advanced 5S program at C/P side due to the restructuring of Ministry.

NPCC is in need of thorough clarification in their future direction and policies, and establishment of a concrete action plan from a mid to long term point of view. It is important that instead of aiming to have capacity developed as the individual consultant as a BDS provider, NPCC as a whole should enhance the functions of the BDS providers, which correspond to the needs of SME as an organization, and enhance its capacity of the function in order to facilitate (train) private sector BDS providers to be developed.

The challenges faced by NPCC and the reality of private sector BDS, which were revealed through OJT of company diagnosis consulting targeting 12 pilot companies. It indicates sophistication of the future function of NPCC from a direct BDS provider to a facilitator. It also requires that NPCC contributes to training of private sector BDS providers in the future.

It is to be noted once again that the project activities, with limited time and drastic changes in the C/P foundation, could not comprehensively assist to accumulate knowledge, experience and information within the organization without establishing and implementing a clear policy and a concrete action plan. It is also important to provide an implementation system for measures/procedures required by the policies, taking into account the progress of SME promotion policy, while at the same time, strengthening the role of providing feed backs concerning the needs of SME to the policy formulation side.

【Project Purpose】 “SME support system” of Ministry of Industry and Handicraft (MIH) is strengthened to formulate SME policy and to implement measures based on the SME support needs.

This project aims to promote coordination between the policy formulation area and its implementation area, resulting in both parties improving their efficiency through synergy. That is, by trial and error of the measures and providing feedback from the site, we planned activities, which lead to maximum effect through planning and enforcement of realistic policy measures, which are not merely based on theory. However, due to restructuring of government and organizational reform, half-way through the project, coordination between the two areas could not go ahead.

On the other hand, even though the manner of coordination was different to what the project had anticipated in the beginning, the activities were able to cover both areas in parallel. We were able to provide feedbacks on the actual situation/challenges of SME to the policy side, and we were able to provide feedbacks to the implementation side in regard to the direction of the policies, taking into account the previously mentioned input. This aided in enhancing the content of activities in both areas. It also helped the policy side to recognize the importance of implementation, and helped the implementation side be aware of the existence of policies and the reasons for implementation. As both sides were able to understand the meaning of their actions, we believe that it was very effective as technical support. Although there is a tendency for administrative procedures to be in silos, it will be very effective and efficient to put policy forward for implementation with the scheme provided by this project which was incorporated with a

cross-cutting engagement system.

However, we must admit that we are still left with organizational/system issues, even though we were able to achieve some technical cooperation. This was greatly dependent on the initiatives of the counterpart in direction/operation management in general, and also in the leadership of their implementation. We believe that the roots are in the area that is outside of capacity development of the current project. To be more specific, it is strongly recommended that GD-SMEH should initiate and implement a clear and concrete strategy for its mission, so that all the officials could commit their tasks with high level of motivation and confidence. In order to deal with these issues, it would be useful to look into concrete technical support projects in areas, which focus on 1) supporting fundamental improvement in administration, 2) providing assistances in policy formulation areas together with complementing leadership which can handle issues in cross-cutting way with other related authorities, such as coordination of SME Sub-Committee.

【Overall Goal】 SMEs are promoted through “SME support system” of MIH.
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According to the “Objectively verified indicators” of the PDM, the two issues are major indicators for the accomplishment of “Overall Goal”, i) the implementation of the activities for 12 pilot SMEs and ii) the improvement of performance of them. These are more or less accomplished through the successful conduct of the project activities and supporting the “SME support system” of MIH from additional aspects. In this meaning, the project was successfully accomplished the goal describe as above. The actual significance of the “SME support system” is, however, to develop a comprehensive and concrete support policy and measures for SME promotion capturing wider scope of SME promotion as a national level. In this respect, it still requires continuous effort of MIH to further strengthening its capacity for formulation and implementation of a policy and measures. The overall goal is suggesting that more of the SME should receive and enjoy benefits from the policy and measures at the national level and the business performance of most of SMEs is improved by them to support their sustainable development.

In order to pursue for this actual significance, it is needless to say that the keen requirement is the further strengthening of the capacity of MIH in policy formulation and policy measure implementation. That is to say, it is simply to further strengthen the administrative capacity on policy initiative in; “the completion of the SME policy from the policy framework submitted by this project”, “the introduction and implementation of relevant measures based on the policy”, and “the promotion of private sector BDS and the strengthening of public sector BDS facilitation”. The MIH is the authority of SME policy as a whole but it is not a sole authority for every sectoral aspects. Its authority has to have strong initiatives in coordination of policy among line ministries and stakeholders. The initiatives should also extended to policy implementation areas which is not limited to the activities of NPCC but whole GD-SMEH and inter-ministerial foundation such as SME Sub-Committee. With regard to the inter-ministerial activities, the secretariat function is the very core of activities which should be recognized in reviving the SME Secretary function. The base of capacity strengthening of MIH in this respect is human resource development of MIH in policy and strategy formulation system, and mechanism for institutional memory. It is important to re-confirm the significance of further effort and continuous activities for capacity development, both internal and external.

Appendix

- (1) Project Design Matrix (PDM)
- (2) Plan and Actual Conduct of Operation
- (3) Revised schedule of the work plan for policy team
- (4) Activity photos
- (5) Overview of Counter Part Organization
- (6) Study Visit Final Report
- (7) Project Activities
 - (7)-1 Policy Formulation Component
 1. SME Promotion Policy Framework
 2. Concept Note for SME Policy
 3. Policy Review Paper no1 RS-Phase III and SME (comparison with SME Development Fwk)
 4. Policy Review Paper no2 NSDP 2009-2013
 5. Policy Review Paper no4 IDP 2014-2024
 6. Statistics on SMEs
 7. SME Promotion Survey Terms of Reference
 8. Survey Questionnaire
 9. Final Report - JICA SME Survey
 10. PRAKAS on Organization and Functioning of Planning and SME Promotion Dept.
 11. PRAKAS on Organization and Functioning of SME Department (Modified)
 12. PRAKAS on Organization and Functioning of Handicraft Affairs
 13. PRAKAS on Organization and Functioning of National Productivity Center of Cambodia
 14. The guideline of formulation of policies, strategic plans and action plans
 15. Self-Evaluation Sheet
 - (7)-2 Company Diagnosis Component
 1. Company Assessment Criteria
 2. The guideline and worksheet for preparatory company diagnosis
 3. The guideline for company diagnosis
 4. Management Checklist
 5. Result of questionnaire to company diagnosis activities
 6. Results, Outcomes and Remaining Challenges of company diagnosis activities
 - 7-1. Consultant Evaluation Sheet
 - 7-2. SME consultant qualification
 8. Final report of 12 pilot companies' (12 reports)
- (8) Others Accounting and Financial Component
 1. ANNOUNCEMENT on The introduction of Cambodia International Financial Reporting Standards (CIFRS)
 2. PRAKAS on Promulgation of Cambodian Financial Reporting Standards
 3. PRAKAS on Introduction of Financial Reporting Template for Small and Medium-Sized Enterprises

Appendix (1)

PDM

Annex 1: Project Design Matrix (PDM) (Ver.1) on 2014.10.14 based on (Ver. 0)

Project title: Project for Strategic Strengthening of Small and Medium Enterprise (SME) Support System

Duration of the Project : 2 years (24 months)

Project site : Phnom Penh, Battambang and/or Pursat

Beneficiaries of the Project:, General Department of Small and Medium Enterprises and Handicraft (GD-SMEH) (Department of Planning & SME Promotion, Department of Small & Medium Enterprises, and Department of Handicraft Affaires) and General Department of Industry (GDI) (National Productivity Center of Cambodia: NPCC), Ministry of Industry and Handicraft (MIH), private BDS providers, and SMEs in the Project sites.

Narrative Summary	Objectively Verified Indicators	Means of Verification	Important Assumptions
<p>Overall Goal</p> <p>SMEs are promoted through “SME support system”¹ of MIH.</p>	<ol style="list-style-type: none"> 1. MIH implements the company diagnosis consulting at 12 SMEs in the Project sites. 2. Performance of the Pilot SMEs are improved in the Project sites. 	<ol style="list-style-type: none"> 1. Interview and questionnaire survey. 2. Interview and questionnaire survey 	<ol style="list-style-type: none"> 1. Drastic changes in political and socioeconomic environment do not occur. 2. Sufficient human/financial resources are secured for execution of SME policy/measures; and the “SME support system” is utilized.
<p>Project Purpose</p> <p>“SME support system” of MIH is strengthened to formulate SME policy and to implement measures based on the SME support needs.</p>	<ol style="list-style-type: none"> 1. The draft of SME policy is approved by MIH. 	<ol style="list-style-type: none"> 1. Document(s) produced 	<ol style="list-style-type: none"> 1. Government policy on SME support is not significantly changed. 2. Sufficient human/financial resources are secured for execution of SME policy and measures.

¹ The SME Support System of MIH is a system for the SME policy formulation and its implementation including human resource development. Through the System, the SME policy is continuously refined with the plan-do-see process and consultants for SMEs are trained and maintained their consulting quality.

<p>Output 1: GD-SMEH drafts the SME policy based on the initial policy outline developed by GD-SMEH; and policy formulation process is refined.</p> <p>Output 2: NPCC strengthens its capacity through company diagnosis consultancy; and develops related SME supporting benchmarks for business performance.</p> <p>Output 3: NPCC institutionalizes the training programs for the company diagnosis consulting.</p>	<p>1-1. The draft of SME policy is developed. 1-2. 10 coordination meetings among related entities are held. 1-3. 1 seminar to disseminate the outcomes of the SME policy formulation process are held.</p> <p>2-1. SME supporting benchmarks for business performance are developed. 2-2. The performance of the pilot SMEs are improved at least in 2 categories of the benchmarks as indicated in 2-1.</p> <p>3-1. The continuous training programs for sustainable quality consulting services for SME support are developed. 3-2. The criteria of a quality consultant for SME support is produced. 3-3. 1 seminar to demonstrate the significance of company diagnosis consulting and 1 workshop for SMEs and stakeholders to disseminate the good practices resulted from the Project Activities are held.</p>	<p>1-3. Document(s) produced 1-4. Interview and questionnaire survey 1-2. Interview and questionnaire survey</p> <p>2-1. Document(s) produced 2-2. Interview and questionnaire survey, and document(s) produced.</p> <p>3-1. Interview and questionnaire survey, and document(s) produced. 3-2. Interview and questionnaire survey, and document(s) produced. 3-3. Interview and questionnaire survey</p>	<p>1. The staffs of the MIH remain the current positions to implement the Project. 2. Sufficient numbers of SMEs participate in the Project as the pilot SMEs.</p>
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Narrative Summary	Inputs	Important Assumptions
<p><u>Activities for Output 1:</u></p> <p>1-1 GD-SMEH reviews the existing SME policies in other countries, and conduct research on the issues and difficulties surrounding Cambodia's SMEs in order to evaluate their support needs for improvement.</p> <p>1-2 GD-SMEH identifies the relevant SME policy based on the outcomes from the activity 1-1, and substantiate the initial policy outline developed by GD-SMEH.</p> <p>1-3 GD-SMEH develops the setting to invite views from and consult with stakeholders such as the ones from academia, private sectors as well as public entities</p> <p>1-4 GD-SMEH puts the policy into actions through NPCC; and NPCC feedbacks the results from Activity 2-1 to 2-6.</p> <p>1-5 GD-SMEH organizes the seminars to disseminate the outcomes of the SME policy formulation process.</p> <p>1-6 GD-SMEH drafts SME policy and prepare a proposal for the improvement of the SME policy formulation process through the Activities 1-1 to 1-5.</p> <p>1-7 GD-SMEH institutionalizes the improved policy formulation process.</p>	<p>Cambodia Side</p> <ol style="list-style-type: none"> 1) Counterparts and administrative personnel <ul style="list-style-type: none"> ➤ Project Director ➤ Project Manager ➤ Project Implementing Officers 2) Facilities <ul style="list-style-type: none"> ➤ Office space with furniture for JICA Experts ➤ Training venues 3) Available information related to the Project 4) Recurrent Costs <ul style="list-style-type: none"> ➤ Salaries and allowance of counterparts personnel ➤ Utilities to run the Project <p>Japanese Side</p> <ol style="list-style-type: none"> 1) JICA Experts <ul style="list-style-type: none"> Expertise of the members will include the following areas: <ul style="list-style-type: none"> ➤ SME policy ➤ Company diagnosis consulting 2) Counterpart training in Japan and/or the third country 3) Cost of travel for JICA Experts 4) Cost for organizing training and seminars in Cambodia 5) Cost for contracting local resource persons 6) Printing cost of training and seminar materials 	
<p><u>Activities for Output 2:</u></p> <p>2-1 NPCC refines the selection criteria of the pilot companies; and selects the pilot companies for company diagnosis consulting.</p> <p>2-2 NPCC prepares for the pilot company diagnosis consulting as On the Job Training; and develops the pilot SME supporting benchmarks for the business performance.</p> <p>2-3 NPCC conducts the pilot company diagnosis consulting together with interested parties and tests the pilot SME supporting benchmarks.</p> <p>2-4 NPCC provides feedbacks to GD-SMEH responding to Activity 1-4.</p>		<p style="text-align: center;"><u>Preconditions</u></p> <p>The relevant staffs are assigned for the Project.</p>

2-5 NPCC reviews the pilot company diagnosis consulting conducted in Activity 2-3 and share its outcomes with stakeholders.

2-6 NPCC improves the pilot SME supporting benchmarks developed in the activity 2-2 through the activity 2-3; and prepares strategic options for their common application.

Activities for Output 3:

3-1 NPCC provides its consulting programs developed by NPCC in order to strengthen their initiative.

3-2 NPCC reviews the outcomes of the Activity 2-1 to 2-6 and 3-1; and develops the continuous training programs for sustainable quality consulting services for SME support.

3-3 NPCC proposes the criteria of a quality consultant for SME support.

3-4 NPCC organizes awareness raising programs on company diagnosis and holds workshops for SMEs and stakeholders to disseminate the good practices resulted from the Project Activities.

Appendix (2)

Plan and Actual Conduct of Operation

業務フローチャート(計画/実績)

Plan and Actual Conduct of Operation



Outputs and Activities	Main Player	Year 1				Year 2			
		1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Output 1: GD-SMEH drafts the SME policy based on the initial policy outline developed by GD-SMEH; and policy formulation process is refined.									
1-1 GD-SMEH reviews the existing SME policies in other countries, and conduct research on the issues and difficulties surrounding Cambodia's SME in order to evaluate their support needs for improvement.	GD-SMEH	■	■		■	■	■		
1-2 GD-SMEH identifies the relevant SME policy based on the outcomes from the activity 1-1, and substantiate the initial policy outline developed by GDI.	GD-SMEH		■	■	■	■	■	■	■
1-3 GD-SMEH develops the setting to invite views from and consult with stakeholders such as the ones from the academia, private sectors as well as public entities.	GD-SMEH		■	■	■	■	■	■	■
1-4 GD-SMEH puts the policy into actions through NPCC; and NPCC feedbacks the results from Activity 2-1 through 2-6.	GD-SMEH			■	■	■	■	■	■
1-5 GD-SMEH organizes the seminars to disseminate the outcomes of the SME policy formulation process.	GD-SMEH					■	■	■	■
1-6 GD-SMEH drafts the SME policy and prepares a proposal for the improvement of the SME policy formulation process through the Activities 1-1 through 1-5.	GD-SMEH			■	■	■	■	■	■
1-7 GD-SMEH institutionalizes the improved policy formulation process.	GD-SMEH					■	■	■	■
Output 2: NPCC strengthens its capacity through company diagnosis consultancy; and develops related SME supporting benchmarks for business performance.									
2-1 NPCC refines the selecting criteria of the pilot companies; and selects the pilot companies for company diagnosis consulting.	NPCC	■	■						
2-2 NPCC prepares for the pilot company diagnosis consulting as On the Job Training; and develops the pilot SME supporting benchmarks for business performance.	NPCC	■	■	■	■	■	■	■	■
2-3 NPCC conducts the pilot company diagnosis consulting and tests the pilot SME supporting benchmarks.	NPCC	■	■	■	■	■	■	■	■
2-4 NPCC Provides feedbacks to GD-SMEH responding to Activity 1-4.	NPCC								■
2-5 NPCC reviews the pilot company diagnosis consulting conducted in Activity 2-3 and shares its outcomes with stakeholders.	NPCC		■	■	■	■	■	■	■
2-6 NPCC improves the pilot SME supporting benchmarks developed in the activity 2-2 through the activity 2-3; and prepares strategic options for their common application.	NPCC					■	■	■	■
Output 3: NPCC institutionalizes the training programs for the company diagnosis consulting.									
3-1 NPCC provides its consulting programs developed by NPCC in order to strengthen their initiative.	NPCC		■	■	■	■	■	■	■
3-2 NPCC reviews the outcomes of the Activity 2-1 through 2-6 and 3-1; and develops the continuous training programs for sustainable quality consulting services for SME support.	NPCC			■	■	■	■	■	■
3-3 NPCC proposes the criteria of a quality consultant for SME support.	NPCC							■	■
3-4 NPCC organizes the awareness raising programs on the company diagnosis and holds workshops for SME and stakeholder to disseminate the good practices resulted from the Project Activities.	NPCC	■	■					■	■
		1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
		1st year				2nd year			

Appendix (3)

Revised schedule of work plan
for policy team.

Schedule of the Project Activities on SME Promotion Policy Formulation

(Tentative Plan as of April 29, 2014)

Task Breakdowns	Year 1			Year 2												Year 3		
	2014												2015 (initial closing)			2015		
	April	May	June	July	August	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	March	April	May	June	July	August	
JCC	April 29																	
(1) Workplan	■																	
(2) Survey on Current Situation of SME		■	■	■	■													
2-1) Existing Policies related to SME in Cambodia		■	■	■	■													
2-2) Reviews on the SME policies in the major countries		■	■	■	■													
2-3) Identification of issues and troubles to be improved for SME in Cambodia (Demand side)			■	■	■	■												
2-4) Identification of needs of SME (Demand side)			■	■	■	■												
(3) Drafting the SME Promotion Policy																		
(3-1) Direction of SME promotion policy		■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	
3-1-1) Identification of applicable/effective policy measures for Cambodian SME					■	■	■	■	■	■	■	■	■	■	■	■	■	
3-1-2) Developing pilot policy measures and test implementation (simulation with NPCC)						■	■	■	■	■	■	■	■	■	■	■	■	
3-1-3) Review on the Taskforce Framework and substantiation with the outcomes from above																		
(3-2) Establishment and collaboration with Advisory Board		☆	☆	☆														
3-2-1) Designing the Advisory Board, and organizing meetings (☆ : Japan side, ● : Cambodia side)		☆	☆	☆														
3-2-2) Feedbacks inclusion to the drafting process	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	
3-2-3) Advancing policy formulation process in GD-SMEH	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	
(3-3) Pilot measures simulation (Collaborative work with NPCC)																		
3-3-1) Pilot simulation implementation																		
3-3-2) Feedbacks and improving the draft	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	
(3-4) Policy drafting process																		
3-4-1) Draft development and submission	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	
3-4-2) Developing a plan for the improvement policy formulation process in GD-SMEH																		
(4) Recommendation on institutionalizing the improved policy formulation process																		
4-1) Direction for the advancing the GD-SMEH's policy formulation process (related to (3-4), 2) above)	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	
4-2) Technical assistance to introducing improvement																		
(7) Advocacy and experience sharing (workshops/seminars)																		
7-1) Awareness raising seminar	Mid-term reporting SME Policy Launch	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	
7-2) a) Workshops on company diagnosis consulting																		
7-2) b) Seminars on company diagnosis consulting																		
7-3) a) Policy dialogue and feedback seminar	First draft reporting S	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	
7-3) b) Policy advocacy seminar	First draft reporting S	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	
(8) Study trip to Japan (and the third countries)																		
(9) Reports	Workplan	Mid-term Progress report																

→ : other works ○ : seminars/workshops ☆ : Advisory in Japan

Appendix (4)

Photos from activities:

Photo (Policy formulation and Company Diagnosis Component)

<Policy Formulation Component>



Kick-off meeting with MIH
(April 25, 2014)



Kick-off meeting with MIH
(April 25, 2014)



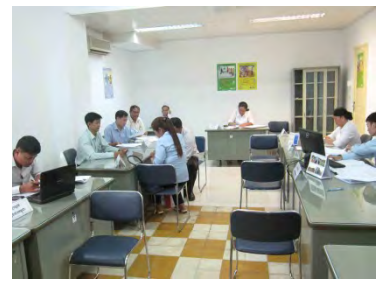
Scene from regular meeting with
GD-SMEH (2 days every week)



Scene from regular meeting with
GD-SMEH (2 days every week)



1st. Joint Coordinating Committee
(JCC) (April 29, 2014)



One Roof Service Office of MIH



Meeting with CWEA)



Meeting with delegates from JICA HQ
with SM. HE. Cham Prasidh



Seminar arrangement meeting with
GD-SMEH



1st Policy Seminar
(July 15, 2014)



Presentation by DG. HE. Peou Vorleaks
at Seminar, July 15 2014



Policy Seminar
(July 15, 2014)



Policy Seminar
(July 15, 2014)



Policy Seminar
(July 15, 2014)



Policy Seminar
(July 15, 2014)



2nd Policy Seminar
(April 28, 2015)



2nd Policy Seminar
(April 28, 2015)



2nd Joint Coordinating Committee
(JCC) (April 28, 2015)

<Company Diagnosis Component>



Interview with Ly Ly Food



Factory, Ly Ly Food



Class room style lecture
(Sept. 2014)



Presentation or Company Diagnosis
at Champei



Follow-up at Bayon Bakery



Follow-up at Sentosilk 社
(Factory layouting)



Reporting at Mineral water



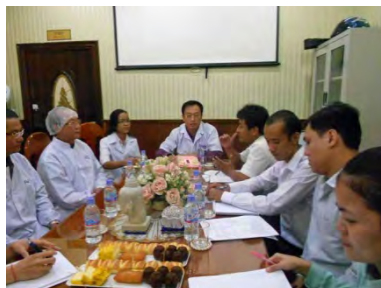
Factory of Mineral water JOY
(bottle cleaning process)



Follow-up at Diamond Log



Store at ABC Bakery



Interview with ABC Bakery



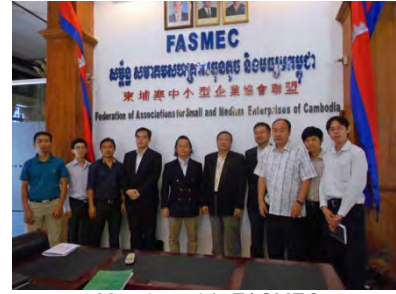
Factory at Peace Nail Factory



Awareness Raising Seminar
(August 29, 2014)



Presentation at Awareness Raising Seminar



Meeting with FASMEC



Final Seminar
(April 29, 2015)



Final Seminar
(April 29, 2015)



Workshop at Final Seminar
(April 29, 2015)



Certificate Awarding at Final Seminar
(April 29, 2015)



Certificate Awarding Ceremony
Policy Team (May 8, 2015)



Certificate Awarding Ceremony
Comp. Diagnosis Team (May 8, 2015)

Appendix (5)

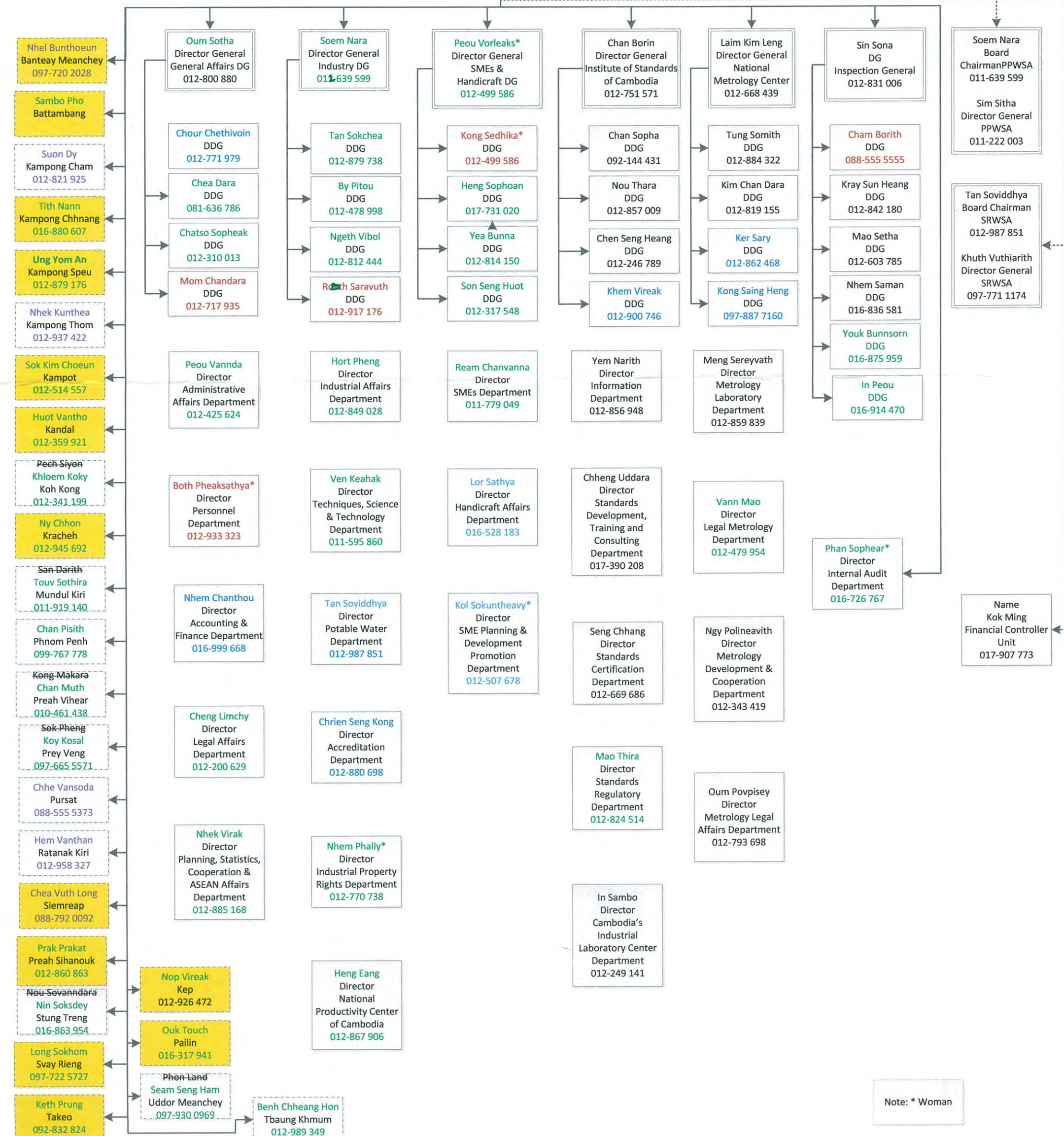
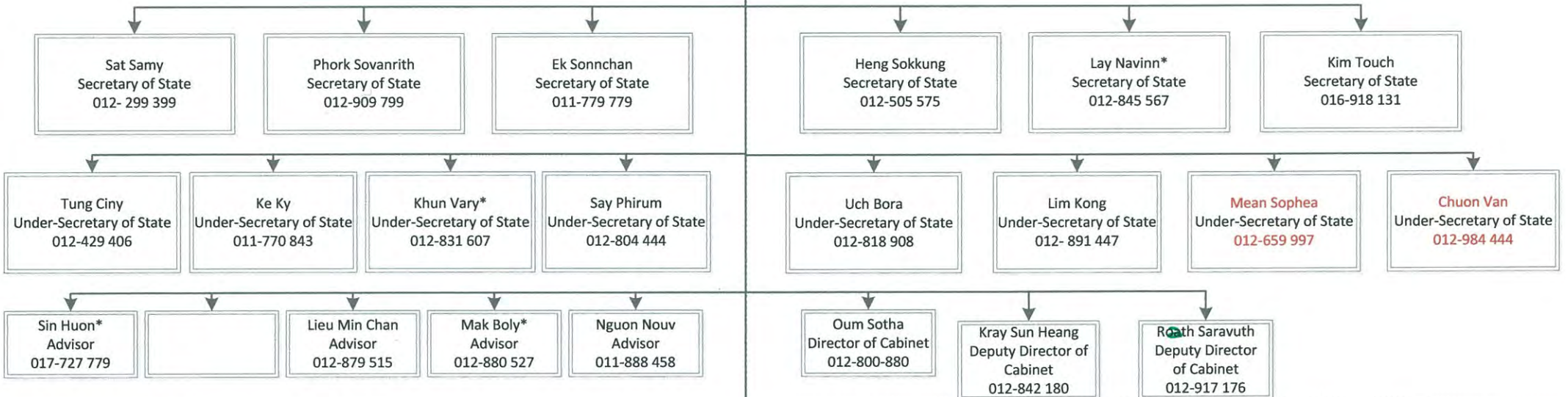
Organization chart of MIH:



Ministry of Industry & Handicraft

Draft of February 5, 2014 – 22:15

Cham Prasidh
Senior Minister
& Minister of Industry &
Handicraft
012-821 888



Note: * Woman

Appendix (6)

Final report on Study Visit to Japan:

Japan International Cooperation Agency

Cambodia

**Strategic reinforcement of support systems for
Small and Medium-Sized Enterprises**

Country-Focused Group Training in Japan

Final Report

December **, 2014

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Abbreviations and Acronyms

BDS	Business Development Services
GD-SMEH	General Department of SME and Handicraft
J-SMECA	Japan Small and Medium Enterprise Management Consultant Association
JCCI	Japan Chamber of Commerce and Industry
JETRO	Japan External Trade Organization
JFG	Japan Federation of Credit Guarantee Corporations
JICA	Japan International Cooperation Agency
MAFF	Ministry of Agriculture, Forestry and Fisheries
METI	Ministry of Economy, Trade and Industry
MHLW	Ministry of Health, Labour and Welfare
MIH	Ministry of Industry and Handicraft
MOC	Ministry of Commerce
NPCC	National Productivity Center of Cambodia
Pref.	Prefecture
R&D	Research and Development
SME	Small and Medium-sized Enterprise
SME Agency	Small and Medium Enterprise Agency
SMRJ	Organization for Small & Medium Enterprises and Regional Innovation, JAPAN
TMG	Tokyo Metropolitan Government
Tokyo-CCI	Tokyo Chamber of Commerce and Industry
Tokyo-SMECA	Tokyo Small and Medium Enterprise Management Consultant Association
TSMESC	Tokyo Metropolitan Small and Medium Enterprise Support Center

1. Report

(1) Course Overview

	For Director-General Level Staff	
Title	SME policy and its formulation process (J14-22004)	
Schedule	4 November, 2014 (Arrival) - 11 November, 2014 (Departure)	
Participants	4 Persons H.E. PEOU Vorleaks Director General, General Department-SME & Handicraft Mr. HENG Sophoan Deputy Director General GD-SMEH, Mr. LOR Sathya Director, Department of Handicraft Affairs, GD-SMEH Mr. REAM Chanvanna Director, Department of SME, GD-SMEH	
	For Staff	
Title	SME policy, its formulation process and implementation (J14-22058)	
Schedule	4 November, 2014 (Arrival) - 16 November, 2014 (Departure)	
Participants	5 Persons Mr. KONG Pagnarith Deputy Director, Department of Handicraft Affairs Mr. CHHEA Layhy Deputy Director Department of SME Mr. BUN Kim Ngun Officer, Department of Handicraft Affairs Ms. SANG Sokunthy Officer, Department of SME Mr. TEM Rithy Officer, NPCC, GD-Industry	

(2) Agenda

(a) Positions and Objectives of the Training in the Project

The Study Tour members visited public and private institutions responsible for implementing SME promotion measures and SMEs in Japan as interested parties for which the measures are intended. Through visits to institutions, the members learned Japan's experience concerning SME promotion policies and deepened their understanding on SME support policies and measures. It was managed to arrange lectures during visits in order for the members to learn not only current, mature status of Japan but also the early stages and history of SME promotion policies in the postwar years of recovery so that the members can adapt the measures to current Cambodia.

The Study Tour members visited institutions of Japan's government, local government bodies, and relevant organizations; responsible personnel there explained roles of the institutions, implementations of measures, cooperation with other institutions, and actual activities. The members also visited SMEs that make use of measures so that the members had opportunities to recognize the importance of policy making through grasping the current situation in which SME support measures contribute to increase in added value.

The members visited local companies as well as those located in metropolitan areas in order to study the importance of SMEs' localities and originalities. The members studied how SME policies should be to reflect regional characteristics and how management strategies of SMEs and measures should be in accordance with policies.

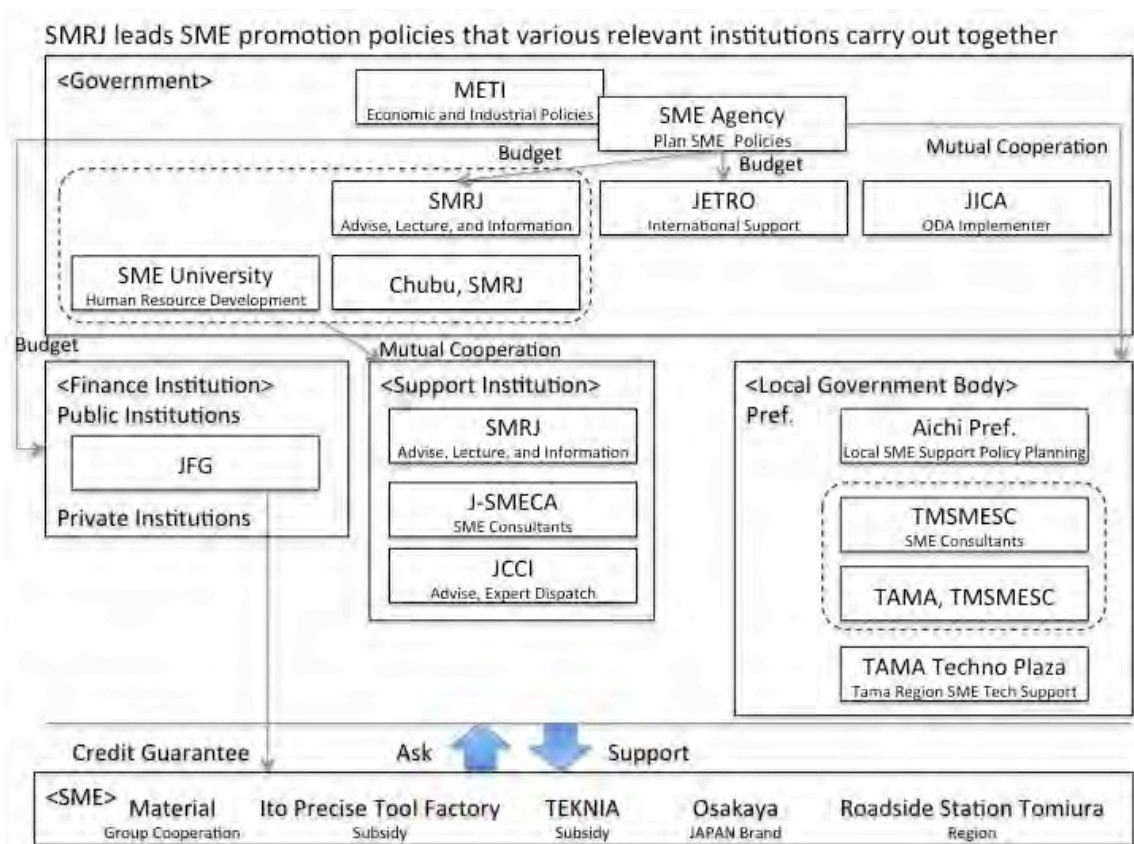
In addition to visits, the members arranged discussions on policies with members of Japan's advisory board; experts from industry and academia stated their opinions from multiple viewpoints so that the discussion seemed to be an opportunity for "awareness" to the members.

The members tried to have this training program enable the members to acquire useful implications for the project so that the project can help to strengthen SME support systems.

(b) Visits to Relevant Institutes and Training

The Study Tour members visited twenty one institutions in eleven days: (1) institutions of Japan’s government and local government bodies, or policy-making institutes, (2) institutions implementing measures, (3) support institutes, and (4) SMEs or users of measures.

Presenters of organizations that the members visited thoroughly prepared for presentations so that the members could take lectures in an efficient manner. There were a lot of questions and answers which seemed be attributed to the trainings before their visit to Japan and explanations to the organizations about an outline of the project in prior to the lectures.



(I) Government and Local Public Body (Policy-Making Institute)

The members visited three governmental institutions: METI and SME Agency are national institutions, and Aichi Prefectural Government is a local government body. METI is responsible for making general industrial policies, while SME Agency is dedicated to make SME policies. On the other hand, Aichi Prefectural Government makes policies in response to regional conditions.

As for these institutions, the members observed that national and local government have similar systems for policy-making and measure implementation.

Through the training, the members' understood there are two ways of policy-making, i.e., nation-wide and local governments' policy-making. The latter is a combination of top-down policy-making, in which national policy are taken into account to implement measures in the regions, and bottom-up policy-making, in which requirements from companies reflecting industrial structures peculiar to the regions are taken into account.

(II) Policy Implementation Institute

The members visited twelve institutions that implements policies: SMRJ, Chubu Head Office of SMRJ, Tokyo SME University, JETRO, and JFG are national institutes; Tokyo Metropolitan Small and Medium Enterprise Support Center (TSMESC), Tama Branch of TSMESC, Tokyo Metropolitan Industrial Technology Research Institute, and Aichi Prefectural Federation of Small Business Associations are local public bodies' institutes.

The members learned that SMRJ is the core institute responsible for implementing measures and that it supports SMEs comprehensively. They also learned that financial access support is exceptional for it is under control of Financial Services Agency, so that institutes other than SMRJ provide financial access support. The members visited JFG as an institute providing financial access support and credit guarantee systems were explained there.

As for institutions relevant to local public bodies, the members learned that Tama Branch of TSMESC and Tokyo Metropolitan Industrial Technology Research Institute provide one-stop support service for both management and technology, and they studied support for product inspection and intellectual property rights management when visiting a public experiment facility.

It was explained that Aichi Prefectural Federation of Small Business Associations is an organization to support SMEs in establishing cooperative associations that can improve conditions of buying and selling as well as strengthen competence by cooperation among companies.

(III) Support Institute

The members visited two support institutes: JCCI and J-SMECA.

It was explained that companies had been enforced to join JCCI (it is not mandatory now) and that JCCI does businesses entrusted by Japan's government while JCCI is an association of private companies. The members learned the importance of public-private partnership.

It was explained that J-SMECA supports SMEs as a private BDS and that Japan's government certifies Small and Medium-sized Enterprise Consultants to keep skills of BDSs at certain levels and above.

(IV) SME (Users of Measures)

The members visited five SMEs to see which measures they actually use and observed the realities of business. In Tokyo area, the members visited Material Co., Ltd., which processes aluminum, to study the status of the SME cluster in Ota Ward and a case in which SMEs develop new product in cooperation. In Aichi Prefecture, the members visited Ito Precise Tools Factory Co., Ltd., which manufactures end products, and TENKIYA Co., Ltd., which manufactures auto parts, to study the auto industry that is vital there. Through these two successive visits, the members found out similarities and differences in product development, human resource development, business relations with auto assembly manufacturers, and so forth. In Aichi Prefecture, the members visited Osakaya K.K., which manufactures and sells baby clothes. Increasing added value of products by means of brands such as Japan Brand was explained there. In Chiba Prefecture, the members visited Chiba Minami Boso Co., Ltd. and Roadside Station Tomiura to study product development making use of local resources and a case making use of multiple measures.

During visits to SMEs described above, every president gave a lecture by himself and the members made a tour of factories so that the members could receive clear explanation of presidents' thoughts on business and companies' business strategies. The members were impressed to see that every company has clear-cut corporate philosophy. The members seemed to be impressed to hear that managerial ability and corporate philosophy are no less important than technology.

(V) Discussions

The members arranged discussions with members of JICA Headquarters and Japan's Advisory Board during this training program.

At JICA Headquarters, the members discussed with H.E. PEOU Vorleaks, Director General, how the project should be from then on, and so forth. The Director General first expressed her gratitude regarding the entire project and the opportunity of the training in Japan, then stated the importance of policy-making for SMEs in Cambodia and the significance of further capacity development in NPCC, and finally mentioned request for further extension of the project, thinking of the delay in policy-making caused by vulnerabilities due to the reorganization, employees' lack of experience, and so forth.

In the discussion with members of Japan's Advisory Board, experts from industry and academia stated their opinions on the current status of Cambodia from multiple viewpoints. Participants of the training made presentations on the progress of policy-making and there were questions to the presentations on understanding of Cambodia's peculiarity, countermeasures against the fact that products sold as souvenirs are actually imported from

neighboring countries, and so forth. The members seemed to acquire new viewpoints to understand the situation of their country. Some members pointed out the importance of grasping the current status, statistics in particular, and suggested writing white papers. It was pointed out that effective measures are the most important regarding SME policies, so that policy-making is a matter-of-urgency in that sense.

(VI) Inspection Tours

In Tokyo, the members made market inspection tours to Akihabara and Omotesando. The members saw accumulation of electrical appliance stores, home electrical appliances in particular, in Akihabara and the expansion status of the commercial areas in Omotesando. At stores in these areas the members focused on differences in product and public relations display, product stacking, and so forth as contact points with consumer goods market or consumers, considering the possibility of consumption increase in Cambodia.

In Nagoya, the members visited Toyota Commemorative Museum of Industry and Technology and had an opportunity to learn the fact that Toyota, which is now recognized as a global company, began its business from the innovation of a loom, relationship between relevant industries, the background for which KAIZEN was invented, and so forth. Visits to Ito Precise Tools Factory Co., Ltd. and TEKNIA became fruitful because the members had already learned the background of Toyota's growth, etc.

Tables shown below are summaries of visits.

(I) Government and Local Public Body (Policy-Making Institute)

Date	November 4, 2014	Location	METI (Tokyo)
Presenter	Keiji YODA, Deputy Directory, Economic and Industrial Policy Division		
<p>The members were told that METI is the institute responsible for making the entire industry policies and that the growth strategy, which is the third pillar of Abenomics. Background of the policies and the agendas of measures planned in accordance with appreciation of the yen, population decrease, and so forth. It was emphasized that policies can be adapted in accordance with the occasion.</p>			
Date	November 6, 2014	Location	SME Agency (Tokyo)
Presenter	Osamu TAMURA, Director, Office for International Cooperation		
<p>SME Agency, which is a department of METI, is a governmental institution responsible for making various SME support policies. It was explained how SME support policies in addition to the current policies have been changing since the war, focusing on the background. It was also explained about organizational structures for making policies. In the Q&A session, the members asked questions regarding issues that the project faces such as the background of making policies for SME support.</p>			
Date	November 13, 2014	Location	Aichi Prefectural Government (Aichi Pref.)
Presenter	Miyuki HIRAGAKIUCHI, Policy Division, Department of Industry and Labor		
<p>The members were explained about local public bodies' industrial policies and support policies for SMEs. The members asked if local public bodies implement measures according to Japan's government policy in a straightforward way, and the answer was that they plan their own policies, considering governors' instructions and SME owners' opinions acquired through interviews on their sites. The importance of local public bodies' originality and method of making policies in a bottom-up way were emphasized.</p>			

(II) Policy Implementation Institute

Date	November 6, 2014	Location	SMRJ (Tokyo)
Presenter	Kazuki NISHINA, Deputy Director, International Center		
<p>SMRJ is the core institute responsible for implementing measures that SME Agency plans. The roles of SMRJ and measures provided for SMEs such as advice for management, expert dispatch, human resource development, the expense of SMEs, and so forth were explained in detail. Some the members seemed to be interested in investment in venture companies.</p>			
Date	November 11, 2014	Location	Chubu Head Office, SMRJ (Aichi Pref.)
Presenter	Mamoru IWASE, Director, Management Support Division		
<p>Chubu Head Office of SMRJ supports SMEs in Aichi, Mie, and Gifu Prefectures. The result of surveys on effects of electric vehicles, which were carried out because the auto industry is the biggest in this region, and the auto industry cluster were explained. Local measures such as support for expansion to the aircraft industry, which can be replacement for the auto industry there, were explained as well.</p>			
Date	November 10, 2014	Location	SMRJ Tokyo SME University (Tokyo)
Presenter	Seiichi KAGEYAMA, Director, Management Division		
<p>SME Universities, which is an incorporated organization of SMRJ, are institutes specialized in training SME owners and officers in charge of SME support. The process for planning curriculums was explained in the lecture; many of them are determined in accordance with policies as well as needs of SME owners. Inspections to classrooms, the library, and the dormitory were carried out.</p>			

Date	November 7, 2014	Location	JETRO (Tokyo)	
Presenter	Toshio KII, Deputy Director, Trade and Economic Cooperation Department			
<p>JETRO, which is an incorporated administrative organization of METI, supports SMEs in overseas expansion and invites foreign companies to Japan. It was explained in the lecture that JETRO is gathering information on overseas market and regulation and that it has 73 branches abroad and 37 in Japan. The members saw the way in which information is provided over the Web and the Business Library, where information on foreign countries such as Cambodia is gathered and used.</p>				
Date	November 5, 2014	Location	Japan Federation of Credit Guarantee Corporations (Tokyo)	
Presenter	Yoichiro HORINO, Executive Director			
<p>It was explained that JFG's business, the mechanism of subrogation, the relationship with CRD Association, which provides credit risk databases, and so forth. A breakdown of basic properties and the governmental fund assistance were also explained in the lecture, which seemed to a little bit difficult for the members to understand. The members asked questions regarding procedures for commercial loans and subrogates that SMEs should follow; the presenter answered those questions, referring to concrete credit guarantee systems.</p>				
Date	November 7, 2014	TMG Agency ¹	Location	Tokyo Metropolitan Small and Medium Enterprise Support Center (Tokyo)
Presenter	Kazuhiko HOSAKA, Director, Planning and Management Division			
<p>The members visited TSMESC to see an institution that implements measures in local government bodies. It was explained that TSMESC plans to support SMEs according to growth stages such as establishment and developing stages. It was also explained that in addition to SMRJ, which is a governmental organization, Tokyo Metropolitan Government supports SMEs in channel development for local traditional crafts and in leasing facilities.</p>				

¹ Tokyo Metropolitan Government Agency

Date	November 10, 2014	TMG Agency	Location	Tama Branch, Tokyo Metropolitan Small and Medium Enterprise Support Center (Tokyo)
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Presenter	Koichi HIRAKAWA, Branch Manager			
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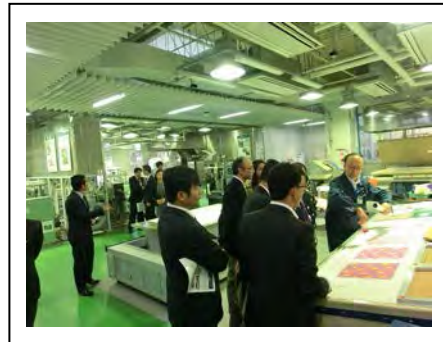
The members visited the Industrial Support Square TAMA, which is a branch of TMSMESC and located at Tama Region. It provides one-stop service for SME support since it is located at the same site as other Tokyo Metropolitan Government's agencies such as a Vocational Skills Development Center. It was explained that the Industrial Support Square TAMA particularly focuses on industry due to requirement for funds and technology development.



Date	November 10, 2014	TMG Agency	Location	Tokyo Metropolitan Industrial Technology Research Institute (Tokyo)
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Presenter	Misako YAMAGUCHI, Director, Support Division, TAMA Techno Plaza			
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Tama Techno Plaza is located at the same site as the Industrial Support Square TAMA and supports industries such as electronic devices and textile industries in quality inspection and prototype development as a public experimental facility. The members saw its facilities there. It was explained that inspections are charged but inexpensive; it gathers information on overseas countries such as technology regulation for companies that want to export their electric and electronic devices; and it supports collaborative research and intellectual property rights management.



Date	November 13, 2014	Location	Aichi Prefectural Federation of Small Business Associations (Aichi Pref.)
Presenter	Ken ASAI, Director-General		
<p>Every prefectural government has a Federation of Small Business Association according to legal requirements, which supports SMEs in establishing cooperative associations in order to improve conditions of buying, selling, and so forth. It was explained in the lecture that actions associations should take vary in accordance with stages of industrial development, and that there is associations for traditional arts and crafts in Aichi Prefecture, which jointly place advertisements.</p>			

(III) Support Institute



Date	November 5, 2014	Location	JCCI (Tokyo)
Presenter	Hidefumi KOBAYASHI, Director General, International Division		
<p>History of Chamber of Commerce and Industry (CCI), services provided for member companies, and regional resources utilization were explained. Managerial Improvement Loans (MARUKEI Loans), which is carried out with governmental support, was explained in detail. It is characterized in that SME owners must consult with experts before getting low-interest loans from Japan Finance Corporation. It was also explained that qualification systems such as the official test in bookkeeping are profitable business for CCI as well as they contribute to human resources development.</p>			
Date	November 6, 2014	Location	Tokyo-SMECA (Tokyo)
Presenter	Tadashi NOGUCHI, Executive Director		
<p>Small and Medium Enterprise Management Consultant Associations are associations of qualified Small and Medium-sized Enterprise Consultants, who are private BDSs, and in charge of developing skills of consultants. It was explained in the lecture what the qualification systems are; it is a governmental certification test; and what registered consultants do.</p>			
Date	November 7, 2014	Location	Material Co., Ltd. (Tokyo)
Presenter	Junichi HOSOGAI, President		
<p>Material Co., Ltd. is an SME doing business in metal processing located at Ota Ward area, where many SMEs gather. It was explained that racing bobsleds require high aerodynamic technology to design and artisan skills to process materials according the designs, so that the company developed bobsleds in conjunction with other SMEs that are good at other fields. Presentation materials comprised of images and movies in order to attract the members' interest.</p>			

Date	November 12, 2014	Location	Ito Precise Tools Factory Co., Ltd. (Aichi Pref.)
Presenter	Masanori ITO, President		
<p>The company manufactures tools such as jigs for measurement used for precision and quality inspections of mass-produced parts such as auto parts. It is an SME but does build-to-order manufacturing according to direct orders from large companies such as Toyota. The status of quality control and the method for human resource development in which a pair of a journeyman and an apprentice are jointly working were explained specifically. It was also explained that the company kept employees by making use of employment measures of MHLW.</p>			
Date	November 12, 2014	Location	TEKNIA Co., Ltd. (Aichi Pref.)
Presenter	Hiroshige TAKAHASHI, President Narimasa MATSUZAKI, Director-General		
<p>The company manufactures parts of machine tools and electric/electronic components. Since orders from the auto industry are decreasing, it is trying to manufacture parts of aircrafts. The company trains engineers working for other companies in the same industry as well as its employees. It expanded to Thailand 10 years ago with support of experts in SMRJ. It was explained from investors' point of view that the company does not make use of Thailand's investment incentives because they are not so beneficial to SMEs.</p>			

Date	November 13, 2014	Location	Osakaya K.K. (Aichi Pref.)
Presenter	Makoto TAKIMOTO, President		
<p>The company plans, wholesales, and sells clothes for babies. It was explained that buyers and consumers had recognized the company by differentiation in threads used as raw materials and the method of manufacturing and that the company strengthened its brand value through the selection of Japan Brand so that it could create new sales channels. The members seemed to be impressed to see that the corporate philosophy is regarded as important in the company.</p>			
Date	November 12, 2014	Location	Chiba Minami Boso Co., Ltd. Roadside Station Tomiura (Chiba Pref.)
Presenter	Fumio KATO, Executive Director		
<p>The members visited two neighboring Roadside Stations, Furari and Tomiura, and visited a factory processing loquat, which attracts attention as a regional resource. It was explained that the factory receives subsidies from MAFF, for example, and that it had test-marketed for several years to understand customers and in order for local producers could get accustomed to shipping products directly to direct sales stores. President Kato's support for Roadside Stations in Vietnam was introduced as well.</p>			

Date	November 4, 2014
Agenda	Discussion with members of JICA Headquarters
Participants	Hikomichi MURAKAMI (Deputy Director General and Group Director), Minoru YAMADA (Director), Miho OIKAWA, Private Sector Development, Industrial Development and Public Policy Department, JICA. Tsutomu NAGAE, Visiting Expert, JICA
<p>Mr. Murakami, Deputy Director General, explained that the meeting was held to hear opinions on actions the project should do in the remaining time. H.E. PEOU Vorleaks, Director General, told that GD-SMEH is responsible for the project due to the division of ministries and agencies, however, the department lacks experience; she would propose extension of the project if the project ends in June as planned because the division would not have completed making policies. Mr. KONG Pagnarith, Deputy Director, explained the schedule for drafting plans. Mr. CHHEA Layhy, Deputy Director, explained that human resources were not sufficient. Through this dialogue, information on current issues was shared among participants.</p>	
	
Date	November 8, 2014
Agenda	Discussion on policies with Advisory Board members
Participants	Naohiro KUROSE, Professor and Head, Business Creation Department, Kaetsu University Hisayoshi HASHIMOTO, Professor, National Graduate Institute for Policy Studies Yoko Yoshimoto, Chief Researcher, Economic & Social Policy Department, Mitsubishi UFJ Research and Consulting Co., Ltd. Noriyuki YONEMURA, Board Chairperson of Myanmar Economy and Investment Center; Former Chairman of Japan Small and Medium Enterprise Management Consulting Association
<p>First, the members presented the progress of making policies. Then, members of Japan's advisory board asked questions regarding the way the members grasp the peculiarity of Cambodia, the measures to the fact that products sold as souvenirs are imported from neighboring countries, and so forth. It seems that the members could have acquired new viewpoints to understand their own country through discussions with experts in industry and academia from multiple viewpoints.</p>	
	

(VI) Inspection Tour

Date	November 11, 2014	Location	Toyota Commemorative Museum of Industry and Technology (Aichi Pref.)		
Attendant	Hatsuko KOROKU				
<p>This is a private museum that Toyota group runs, where exhibited objects make visitors understand the founder's improvement process through reproduction by machinery used at that time. The members could see a technological seed such as the establishment of auto industry, which was carried out because the founder believed that the company could cast engines because they had casting technology for looms. The members grasped the structure of automotive harnesses through models. In addition, they understood the basics of manufacturing such as casting processes and KAIZEN through exhibited objects and movies.</p>					
Date	November 7-8, 2014	Location	Market Inspection Tour (Akihabara)		
Attendant	Hideaki NAKATAKA, Kazumasa FUJIWARA				
<p>The members visited Akihabara area, which is known for appliance stores, and saw “volume display” at the stores and the way to appeal the price making great use of primary colors. In contrast, Omotesando area is known for high-end commercial stores and the members understood that merchandise is displayed using enough space and the way to emphasize the quality making use of facade and lighting, comparing the ways of Akihabara.</p>					

(c) Conclusions of the Training

It seems that the members could have understood the current status of Japan's SME support systems, which they understood through literature and other means in this project, are actually working in an organic way. Furthermore, they could have acquired new awareness of problems because they could compare Cambodia's situation with Japan's so that they could understand issues Cambodia is facing more clearly. The project could contribute further progress of future projects, as the members could understand what they should do in making policies through these vibrant experiences.

The following paragraphs summarize the members' remarks stated at the debriefing meeting held on November 14, in the last stage of the training. It shows that the training contributed to deep understanding and improvement in awareness of problems. Experts made comments on the members' remarks regarding viewpoints required to advance further activities, pointed out lacking information, and concluded the significance of the training.

(I) Understanding Japan's Policies for SMEs

- Understanding Policy Making
 - There are two approaches for policy-making processes: the head can make policies in a top-down manner, while officers can also propose policies in a bottom-up manner.
 - The Japan Chamber of Commerce and Industry offers a mechanism by which they can gather members' requests and suggest requests to officers responsible for proposing policies through meetings with officers held periodically.
 - It is noteworthy that Japan's industrial structure has been changing since the recovery period after the war until now when population is decreasing, and that both public and private sectors have been changing their response to environment accordingly.
- Finance Support
 - Japan Federation of Credit Guarantee Corporations mediates between financial institutions and SMEs. In case that Japan Finance Corporation does not finance SMEs directly, SMEs can get financed by means of the credit guarantee system. It should be pointed out, however, that SMEs must pay guarantee fees.
 - The Japan Chamber of Commerce and Industry provides Managerial Improvement Loans (MARUKEI Loans), which finances SMEs without security after management consultation with experts. In this system, experts determine whether financing would solve real problems. For example, a business owner may ask for finance, saying that he/she has to purchase new machinery due to low

efficiency. However, it is not sure whether more products can be sold.

- SMRJ has a scheme to finance capital.
- Human Resource Development
 - SMRJ does business such as SME universities to cultivate SME owners and SME support experts, i.e., private BDSs.
 - I found management important at Tokyo SME University. Management includes leadership or business skills. I was told at Material Co., Ltd. that management skill is important in addition to technology.
 - It was pointed out at TEKNIA that small enterprises need support and that they must grow by their own efforts rather than keep getting support.
 - I was impressed to see that J-SMECA helps qualified Small and Medium-sized Enterprise Consultants to do their business and to keep their skills.
- Public Services for Small and Medium-sized Enterprises
 - SMRJ is important in that advises on market creation and innovation.
 - TAMA Techno Plaza provides a lot of support services: advice by experts, quality inspection, market creation, etc.; design or support; R&D and innovation in accordance with market, which are not free of charge but inexpensive; intellectual property rights management. Manufacturers must provide products compliant with quality standards that specifications require.
- Export Promotion Policy
 - Japan needs overseas markets because of decreasing population.
 - We learned export promotions and incentives for exports in Japan. Japan's government wants to increase the total amount of export. When large enterprises such as Toyota expand overseas, supporting SMEs will expand overseas at the same time accordingly. It is the effect at which Japan's government aims. JETRO has long history and it seems that its mission now is to explore markets comparable to China or the US.

(II) Fostered Awareness

- We heard excellent opinions in the discussion with members of the Advisory Board. It was pointed out about tourism cluster that there is strong demand for souvenirs in Siem Reap but products sold there as souvenirs are imported from Thailand and Vietnam. We have to cultivate Cambodian products. SMEs in cooperation with agricultural sector must promote agricultural product development.
- There are a lot of statistical data in presentations at institutions we visited. Rich statistical data are available in Japan. Mr. YONEMURA, a member of the Advisory Board, pointed out that it is difficult for Myanmar's Government to make policies

because statistical data available there is not enough and the government cannot grasp the current status. Cambodia's situation is the same as Myanmar.

- Local banks and finance institutes are important. About half of SMEs adopt the estimate tax system. In my opinion, credit guarantee institutes are indispensable at the early stage of SME support.
- SMEs must change the way they manage in order to continue business rather than keep the way they used to do. In that sense, human resource development is quite important.
- Cambodia's government had better support private BDSs in that SMEs do not trust the government because of bribes or frauds.
- Cooperation among SMEs can be the key for SME support policies. Besides activities of National Federation of Small Business Associations, Material Co., Ltd., which belongs to private sectors, develop products by means of cooperation with multiple SMEs.
- It seems that they do not pay much attention to the effect of ASEAN Community Building in 2015, which is coming soon.

(III) Experts' Advice to The members' Awareness

- You might have found out that national institutes and those of local public bodies have similar structure as you visited a lot of institutes.
- Multiple policies are implemented simultaneously in Japan. You might have understood which institute does what kind of service and that experts in BDS coordinate services.
- As for BEE (business enabling environment), it is necessary to determine industries that will be supported. It is difficult to support all the industries, so that prioritization is necessary. As explained at the SME Agency, Japan's SME support policies used to focus on filling gap between large enterprises and SMEs at its early stage. However, the biggest theme is innovation nowadays.
- Cooperation among SMEs in Cambodia is still at its early stage but it is developing. PPMSI was the only SME association in 2007 but YEAC and FASMEC were founded in 2010. Things have changed in only four years.
- Speaking of BDS, two private BDS companies take part in NPCC's activities to acquire consulting skills and this fact implies that NPCC can be a base for making use of BDSs. YEAC can function as a BDS provider.
- Private initiatives in terms of SME support should be strengthened rather than public sectors that provide all the services, by providing information extensively on successful pilot companies, regarding case studies, know-hows, key for success, and

so forth.

- Information of registered companies in statistics should be maintained in cooperation with MOC.
- JETRO is regarded as an IPA (Investment Promotion Agency) in the context of foreign investment. In Cambodia, CDC (Council for the Development of Cambodia) performs similar functions as those of IPAs. You had better consider what kind of services could be provided in cooperation with CDC.
- TAMA Techno Plaza is a public facility for experiment as for technical support and has similar functions as those of MIH ICLL. It should be noted that each one of the 47 prefectures in Japan has its own public experiment facilities and, in contrast, there is only one in Cambodia. Such facilities should be provided so that SMEs can easily access and make use of them.
- The fact that SMEs do not keep financial statement hinders financial access. As incentives for SMEs in Japan to keep accounts, there are preferential tax systems such as a blue tax return.
- As stated above, there are various policies you should make. In order to implement such policies, you should estimate rough budgets for each policy to make budget plans. It should be noted that SMRJ does its own businesses and the profit is used for SME support in addition to governmental budgets. Besides, not all services are free of charge and some services are charged to users. Such conditions should be taken into account to make budget plans.

(d) Way Forward to the Project Activities

In designing of the program for the Study Visit to Japan, we made maximum effort to obtain optimum information and experiences for the policy makers. It was fortunate that the Project could rearrange the initial setting of two separate Study Visits to be combined to one to Japan, which were originally addressed to two different destinations. Due to this combination, the focus of the program could concentrate on the entire process of SME policy and policy measures formulation and implementation with good practices for the beneficiaries or SMEs of the policy. It seemed beneficial that the members could grasp how policies are implemented step by step: national SME policies are made in accordance with overall economic policies, regional SME policies are made and implemented in accordance with national SME policies, and actions are made in accordance with measures.

Another significant outcome was derived from the composition of the participants' administrative positions. As for the high officials, positions ranged from Director General and Deputy responsible for overall SME issues to Directors of SME Affairs and Handicraft Affairs

responsible for specific issues in each SME-related areas. For the staff level, there were two Deputy Directors and two supporting staffs from each Department and one staff from NPCC, which is the implementation extension of the Ministry. Only one person from NPCC participated in the training this time, while three participants would come as planned. Two of the candidates had already been sent to Japan as participants to the Study Visit program provided in the previous phase of the Project in 2010, and the remaining one staff was selected this time. It will be contributing significantly through policy formulating process, as different perspectives from each positional level (responsibility) over same experiences would generate multifaceted discussion on policy formulation.

Various important points were identified in the concluding session with staff level participants. The most important one concerns the significance of diversification and inter-relations of SME supporting measures. The team that Project is assisting shall include these aspects in the Policy Framework. It is recognized that this opportunity has been well received by the participants in the way to substantiate their knowledge and theoretical information with the actual exercises and operations of the policy process. This has also well served as for their confidence building as well as capacity development. In order to promote institutional memories on this program, the Project activities will continuously encourage the participants to share their experience and try to coordinate feedback sessions with other members of the Departments who did not have chance to participate in this program.

2. Annex





- (a) Schedule (Achievement)**
- (b) Participants**
- (c) Members of Japanese Advisory Board**
- (d) Training Texts**
- (e) Questionnaire Result**

(a) Schedule (Achievement)






Date	Time			Agenda
		~		
Tue, Nov 4	14:00	~	15:00	The Ministry of Economy, Trade and Industry
	16:15	~	17:30	Japan International Cooperation Agency
Wed, Nov 5	10:00	~	12:00	Orientation (JICA)
	14:00	~	15:30	The Japan Chamber of Commerce and Industry The Tokyo Chamber of Commerce and Industry
	15:45	~	17:00	Japan Federation of Credit Guarantee Corporations
Thu, Nov 6	10:00	~	12:00	Organization for Small & Medium Enterprises and Regional Innovation, JAPAN
	13:30	~	15:30	The Small and Medium Enterprise Agency
	15:45	~	17:00	Japan Small and Medium Enterprise Management Consultant Association
Fri, Nov 7	9:00	~	10:30	Company Visit 1: Material Co., Ltd. (Ota-ku, Tokyo)
	11:00	~	12:00	Japan External Trade Organization
	14:00	~	15:30	Tokyo Metropolitan Small and Medium Enterprise Support Center
	15:30	~	17:00	Market Inspection Tour 1 (Tokyo)
Sat, Nov 8	10:00	~	12:00	Discussion on policies with the Advisory Board Members
	13:00	~	18:00	Market Inspection Tour 2 (Tokyo)
Sun, Nov 9		~		Off
Mon, Nov 10	9:30	~	10:30	Tama Branch, Tokyo Metropolitan Small and Medium Enterprise Support Center (Akishima-shi, Tokyo)
	10:30	~	11:30	TAMA Techno Plaza (Akishima-shi, Tokyo)
	13:30	~	15:30	Tokyo SME University (Higashiyamato-shi, Tokyo)
Tue, Nov 11	AM	~		Travel (Tokyo to Nagoya)
	13:00	~	15:00	Toyota Commemorative Museum of Industry and Technology (Nagoya-shi)
	15:00	~	17:00	Chubu Division, Organization for Small & Medium Enterprises and Regional Innovation, JAPAN (Nagoya-shi)
Wed, Nov 12	9:00	~	12:00	Company Visit 2: Ito Precise Tools Factory Co., Ltd.
	13:30	~	17:00	Company Visit 3: TEKNIA Co., Ltd.
Thu, Nov 13	9:00	~	10:30	Aichi Prefectural Government (Nagoya-shi)
	11:00	~	12:00	Aichi Prefectural Federation of Small Business Associations (Nagoya-shi)
	14:00	~	17:30	Company Visit 4: Osakaya K.K. (Handa-shi)
Fri, Nov 14	AM	~		Travel (Nagoya to Tokyo)
	10:30	~	11:30	Debrief Meeting
Sat, Nov 15	11:00	~	16:00	Chiba Minami Boso Co., Ltd., Roadside Station Tomiura (Minamiboso-shi)

(b) The Study Tour members

■2014/11/3～2014/11/11 Course title :SME policy and its formulation process (J14-22004)

		Name	Title	Office	Department	General Department	Ministry
1		H.E. PEOU Vorleaks	Director General			General Department of SME & Handicraft(GD-SMEH)	Ministry of Industry & Handicraft (MIH)
2		Mr. HENG Sophoan	Deputy Director General			GD-SMEH	MIH
3		Mr. LOR Sathya	Director		Handicraft Affairs Department	GD-SMEH	MIH
4		Mr. REAM Chanvanna	Director		SMEs Department	GD-SMEH	MIH

■2014/11/3～2014/11/16 Course title :SME policy, its formulation process and implementation(J14-22058)

		Name	Title	Office	Department	General Department	Ministry
1		Mr. KONG Pagnarith	Deputy Director		Handicraft Affairs Department	GD-SMEH	MIH
2		Mr. CHHEA Layhy	Deputy Director		SMEs Department	GD-SMEH	MIH
3		Mr. BUN Kim Ngun	Officer		SMEs Department	GD-SMEH	MIH
4		Ms. SANG Sokunthy	Officer		SMEs Department	GD-SMEH	MIH
5		Mr. TEM Rithy	Officer	Product Coordination Office	National Productivity Center of Cambodia	General Department of Industry	MIH

(c) Members of the Japanese Advisory Board

Participants of the meeting held on November 8

	Name	Title
1	Naohiro KUROSE	Professor and Head of Business Creation Department of Kaetsu University
2	Hisayoshi HASHIMOTO	Professor of National Graduate Institute for Policy Studies
3	Yoko YOSHIMOTO	Chief Researcher of Economy and Social Policy Department, Mitsubishi UFJ Research and Consulting Co., Ltd.
4	Noriyuki YONEMURA	Board Chairperson of Myanmar Economy and Investment Center Former Chairman of Japan Small and Medium Enterprise Management Consulting Association (J-SMECA)

Members absent from the meeting held on November 8

	Name	Title
1	Kiyosi AJIMA	Manager of Service/Communication Department, Chamber of Commerce of Tokyo
2	Kenji KAKIMOTO	CPA, Head of IPP, Partner of Woori Accounting (Phnom Penh)
3	Shoichi KOBAYASHI	Director of Japan Development Institute Ltd.
4	Testsuo NAKATA	Former Director-general of Small and Medium Enterprise Agency, Former Professor of Doshisha University
5	Itsutomo MITSUI	Professor of Business Creation Department of Kaetsu University
6	Hiroyuki YONEDA	Board Member of the Overseas Human Resources and Industry Development Association (HIDA)

(d) Training Texts

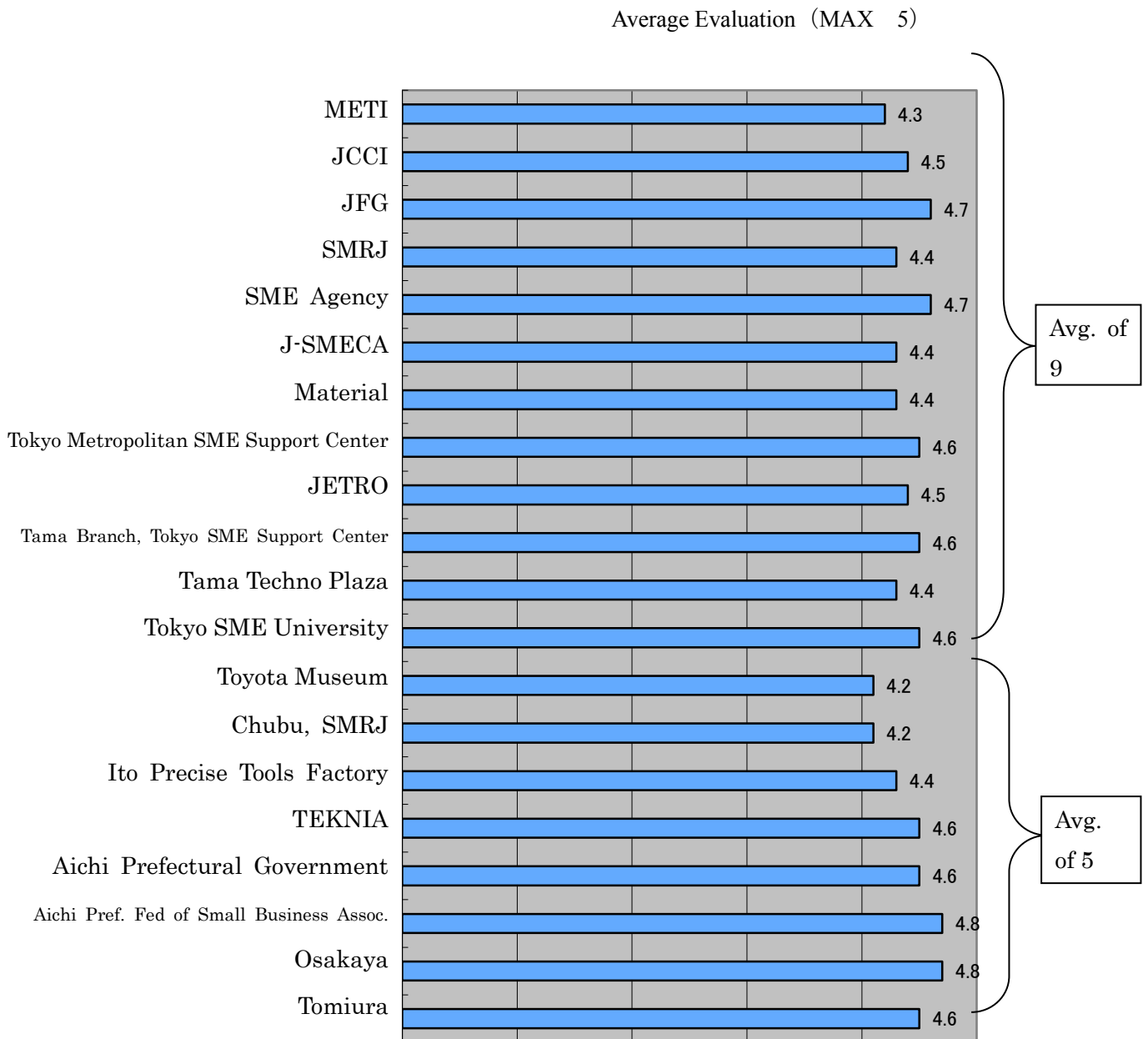
Location	Training Text
Government and Local Public Body (Policy Making)	
The Ministry of Economy, Trade and Industry (METI)	Highlights of the Growth Strategy to date and measures for accelerating reforms
The Small and Medium Enterprise Agency	Japan's policy for small and medium-sized companies
Aichi Prefectural Government	Aichi Prefecture's action plans for small and medium-sized companies
Institutes implementing policies	
Organization for Small & Medium Enterprises and Regional Innovation, JAPAN (SME Support, JAPAN)	SME Support, Japan
Chubu Division, Organization for Small & Medium Enterprises and Regional Innovation, JAPAN	The industry structure and SMEs in three prefectures of Tokai Region
Tokyo SME University	An overview of training in Tokyo SME University
Japan External Trade Organization (JETRO)	JETRO reports on individual countries and regions
Japan Federation of Credit Guarantee Corporations (JFG)	Current status and future prospects of Japan's credit guarantee system
Tokyo Metropolitan Small and Medium Enterprise Support Center	An overview of businesses of Tokyo Metropolitan Small and Medium Enterprise Support Center
Tama Branch, Tokyo Metropolitan Small and Medium Enterprise Support Center	Major businesses of Tama Branch
TAMA Techno Plaza	Major businesses of TAMA Techno Plaza
Aichi Prefectural Federation of Small Business Associations	Aichi Prefectural Federation of Small Business Associations and Small Business Association System
Support Institutes (Policy Promotion and Support)	
The Japan Chamber of Commerce and Industry	The organization, role, and activities of Japan's Chamber of Commerce and Industry
Japan Small and Medium Enterprise Management Consultant Association (J-SMECA)	Guide to Japan Small and Medium Enterprise Management Consultant Association
SMEs (Making use of measures)	
Company Visit: Material Co., Ltd.	Company brochure
Company Visit: Ito Precise Tools Factory Co., Ltd.	Greetings Company brochure
Company Visit: TEKNIA Co., Ltd.	TEKNIA Vision
Company Visit: Osakaya K.K.	Company brochure Guide to Ikuji Kobo
Chiba Minami Boso Co., Ltd., Roadside Station Tomiura	Increasing Roadside Stations in depopulated areas of Japan
Inspection Tours	
Toyota Commemorative Museum of Industry and Technology	Brochure

Market Inspection Tour 1	Akihabara Guided Tour
Market Inspection Tour 2	Asakusa, Tokyo Tower, and Omotesando Guided Tour

(e) Questionnaire Result

1. The Content of the Training

The following figure shows the result of questionnaire on the content of lectures and inspection tours held in the training. The full marks are 5 and it shows a favorable reception on the whole. Nine participants answered from METI to Tokyo SME University and five participants answered from Toyota Commemorative Museum of Industry and Technology to Roadside Station Tomiura.



2. The Overall Training

Typical opinions shown below illustrate that the training was beneficial.

- i. You studied various institutions and action plans. What kind of institutions and action plans do you think are effective in Cambodia?
All the institutions would be quite useful for Cambodia.
The Small and Medium Enterprise Agency, Japan Federation of Credit Guarantee Corporations, TAMA Techno Plaza, and SME University would be useful to support SMEs in Cambodia.
Japan Federation of Credit Guarantee Corporations and Japan Small and Medium Enterprise Management Consultant Association impressed me.
Visit to local public bodies and SMEs were beneficial.
- ii. How do you want to make use of knowledge and insight acquired through this training in Cambodia and for policy making?
Cambodia needs laws for SMEs.
I would like to share lessons learned with relevant divisions in Cambodia.
I would like to adopt good points of Japanese policies in making policies for SMEs.
I would like to consider consulting services, financial supports, providing useful information, and so forth.
What do you think is the difference between SMEs in Japan and those in Cambodia through your visit to SMEs in Japan?
- iii. What do you think the difference between Japanese SMEs and Cambodian ones through your visit to SMEs in Japan?
Japan's government provides strong support for SMEs; on the other hand, Cambodia's does not.
They are different in management systems and policies.
They are different in that Japan's government provides diverse support for SMEs.
They are difference in that Japanese managers have knowledge and their own vision.

3. Training Management

The members gave us 4.75 out of 5 in average regarding training management and their said that staff responsible for this training was quite excellent.

4. The Impression on the Training

One said that the schedule was tight but this training was quite excellent and useful and that it was good experience. Another said that he/she wanted to study further.

Appendix (7) Project Activities

(7)-1 Policy formulation component

(7)-1-1 SME Promotion Policy Framework:



KINGDOM OF CAMBODIA
NATION RELIGION KING

Cambodia's Small and Medium Enterprise Promotion Policy Framework

- Initiative for SME Promotion to
Quality Cambodia Brand -

(Draft version 1.1)

Royal Government of Cambodia

Ministry of Industry and Handicraft / Japan International Cooperation Agency (JICA)
SME Promotion Policy Formulation Project

April, 2015

Foreword

Senior Minister,
Ministry of Industry and Handicraft

Dr. Cham Prasidh



List of Abbreviation

ABC	Association of Banks in Cambodia
ADB	Asian Development Bank
AEC	ASEAN Economic Community
APO	Asian Productivity Organization
ASEAN	Association of South-East Asian Nations
AusAID	Australian Agency for International Development
BACK	Bar Association of the Kingdom of Cambodia
BDS	Business Development Services
BEE	Business Enabling Environment
BOI	Board of Investment
BRN	Brunei
CAM	Cambodia
CAMCONTROL	The Cambodia Import-Export Inspection and Fraud Repression Directorate-General
CAS	Cambodian Accounting Standard
CAVAC	Cambodia Agriculture Value Chain Program
CBC	Credit Bureau Cambodia
CGF	Credit Guarantee Fund
CIC	Cambodia Investor Club
CIC	Cambodia Information Center
CIFRS	Cambodia International Financial Reporting Standards
CIFRS for SMEs	Cambodia International Financial Reporting Standards for SMEs
CJCC	Cambodia-Japan Cooperation Center
CNCW	Cambodian National Council for Women
C/P	Counterpart
CWEA	Cambodia Women Entrepreneurs Association
DAI	Department of Agro-Industry
DIA	Department of Industrial Affairs
DIT	Department of Industrial Techniques
DSIH	Department of Small Industry and Handicraft
DTIS	Diagnostic Trade Integration Study
EBRD	European Bank for Reconstruction and Development
EMCS	Electric Marketing Communication System
ERP	Enterprise Resource Planning
EU	European Union
FASMEC	Federation of Associations for SME of Cambodia
FDI	Foreign Direct Investment
FRT	Financial Reporting Template
FTA	Free Trade Agreement
GDI	General Department of Industry
GDP	gross domestic product
GD-SMEH	General Department of SME and Handicraft
GDT	General Department of Taxation

GHP	Good Hygiene Practice
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH (German Federal Enterprise for International Cooperation)
GMP	Good Manufacturing Practice
GMS	Great Mekong Sub-region
G-PSF	Government-Private Sector Forum
GSC	Global Supply Chain
HACCP	Hazard Analysis and Critical Control Point
HRM	Human Resource Management
IDN	Indonesia
IDP	Industry Development Policy
IEC	International Electro-technical Commission
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
ILCC	Industrial Laboratory Center of Cambodia
ILO	International Labour Organization
IPA	Investment Promotion Agency
IPR	Intellectual Property Right
ISC	Institute of Standard of Cambodia
ISO	International Organization for Standardization
ITA	Investment Tax Allowance
JBAC	Japanese Business Association of Cambodia
JCC	Joint Coordination Committee
JD	Job Description
JETRO	Japan External Trade Organization
JICA	Japan International Cooperation Agency
JPN	Japan
JPY	Japanese Yen
KFW	Kreditanstalt für Wiederaufbau
KHR	Khmer Riels
KICPAA	Kampuchea Institute of Certified Public Accountants
KOICA	Korea International Cooperation Agency
KOR	Korea
KOTRA	Korea Trade Promotion Corporation
KPI	Key Performance Indicators
LAAP	Law on Corporate Accounts, their Audit, and the Accounting Profession
LAO	Laos
MAFF	Ministry of Agriculture Forestry and Fisheries
MCFA	Ministry of Culture and Fine Arts
MEF	Ministry of Economy and Finance
MFIs	Microfinance Institutions
MI	Mekong Institute
MIH	Ministry of Industry and Handicraft
MIME	Ministry of Industry Mines and Energy

M/M	Minutes of Meeting
MMR	Myanmar
MNE	Multi-National Enterprise
MOC	Ministry of Commerce
MOP	Ministry of Planning
MOT	Ministry of Tourism
MOU	Minutes of Understanding
MOWA	Ministry of Women's Affairs
MOYP	Ministry of Education, Youth and Sport
MWEP	Ministry of Public Works and Transport
MYS	Malaysia
NAC	National Accounting Council
NCOST	National Committee on Science and Technology
NIS	National Institute of Statistics
NMC	National Metrology Center
NPCC	National Productivity Center of Cambodia
NSDP	National Strategic Development Plan
NSTMP	Cambodia's National Science and Technology Master Plan
ODA	Official Development Assistance
OJT	On the Job Training
OSOS	One Start One Stop
OSS	One Stop Service
ORS	One Roof Service
PDM	Project Design Matrix
PHL	The Philippines
PO	Plan of Operation
PPSEZ	Phnom Penh Special Economic Zone
PSMIA	Phnom Penh Small & Medium Industry Association
QCD	Quality Cost and Delivery
QIP	Qualified Investment Project
R/D	Record of Discussions
R&D	Research and Development
RGC	Royal Government of Cambodia
RS III	Rectangular Strategy Phase III
SEZ	Special Economic Zone
SGP	Singapore
SME(s)	Small and Medium Enterprise(s)
SNEC	Supreme National Economic Council of Cambodia
TDF	Technology Development Fund
TDP	Trade Promotion Department
TOT	Training of Trainers
THA	Thailand
UN	United Nations
UNIDO	United Nations Industrial Development Organization

US	United States
USAID	United States Agency for International Development
VAT	Value Added Tax
VNM	Vietnam
WIPO	World Intellectual Property Organization
WTO	World Trade Organization
YEAC	Young Entrepreneurs Association of Cambodia

Cambodia's SME Promotion
= SME's Initiative for Cambodia Brand of Quality =
Policy Framework (Draft Version 1)

SMEPP/FWK/D01
April, 2015

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Introduction

Cambodia's economy has been demonstrating steady growth in 2000s. Even after the global financial crisis in 2007-8, it recovered swiftly and recorded constant economic growth rates of 6-7%. The booming investment continues since the new investment law was introduced in 2003 to attract FDI (Foreign Direct Investment) which resulted in approx. US\$42.3 billion of accumulated QIP (Qualified Investment Project) on an approval base during the period of 1994 and Sept.2012. The figure of 2011 to industry, QIP to industry, jumped up to US\$2.9 billion from US\$0.95 billion in 2010.

Among others, SME is playing a significance role in its contribution to Cambodia's economy and its development. The SME accounts for 73% and 58% of national employment and production¹ respectively. The importance of SME has been stressed out in major key policies such as the "Rectangular Strategy, Phase III" (RS-III)², the initial industrial policy draft "Industry Development Policy - Diversification of Cambodia's Economy, 2010 (IDP)³", and "GDI Strategy 2015"⁴.

However, there is structural vulnerabilities in the current development of Cambodia's industries especially among SMEs such as i) considerable dependency on import of goods and services as well as their inputs, ii) narrow-based structure of industry with relatively weak foundation of domestic manufacturing sector (dependency on garment/footwear and food processing sector), iii) limitation of value-added in domestic production, iv) weakness in economic comparative advantages (competitiveness), v) widening the regional gaps in employment and human resource development.

Since the SME plays a significant role in the Cambodia's economy, it has to be promoted to serve as a key driving force. Therefore, the government must prepare more favorable business enabling environment and assistances to break loose from its structural constrains. A variety of structural constraints of SME has been pointed out such as i) access to finance, ii) access to technology, iii) access to information, iv) linkage (vertical & horizontal), v) BDS⁵ assistance. There are also structural capacity issues to be addressed such as weakness in a) productivity, b) scale of economy, and c) competitiveness.

In order to achieve the sustainable economic and social growth in Cambodia, especially to cope with the dynamic changes in regional and global economic environments including ASEAN's economic integration, particularly "AEC (ASEAN Economic Community) 2015, economic emergence of neighboring countries, and diversification of portfolio of global supply chains (GSCs) of the leading multi-national enterprises(MNEs).

As an overall national development policy, the "Rectangular Strategy Phase III (RS-III)", launched in 2013 provides the direction for national development for the period of 5 years from 2014. The "National Strategic Development Plan (NSDP)"⁶ is formulated to implement the RS-III. It stresses significance of SME

¹ Sales value base in the Economic Census 2011.

² Royal Government of Cambodia, "Rectangular Strategy" for Growth, Employment, Equity and Efficiency Phase III of the Royal Government of Cambodia of the Fifth Legislature of the national Assembly, Phnom Penh, September 2013.

³ Royal Government of Cambodia, Draft Industrial Development Policy 2014-2018,

⁴ General Department of Industry, Ministry of Industry, Mines and Energy, Concept Paper for Strategy 2015, The Strategic Framework of the General Department of Industry 2010-2015, May 2010.

⁵ Business Development Services: services to assist business development such as legal and business consulting, accounting, IT assistance, etc.

⁶ Royal Government of Cambodia "National Strategic Development Plan 2014-2018 – for Growth, Employment, Equity and Efficiency to Reach the Status of an Upper-Middle Income Country" 17, July 2014.

development as one major focus of four sides of the third Rectangle, “Private Sector Development and Employment.” In correspondence to the RS-III and NSDP, the “Industrial Development Policy (IDP)” was adopted in March 2015. The SME modernization is one of the key pillars in the IDP.

With regard to the SME development policy, the framework of strategies was once captured and elaborated into further implementation directions in 2005 as in the “SME Development Framework 2005⁷ (SME D/F)”. The “GDI Strategy 2015” by GDI of MIME (Ministry of Industry, Mines and Energy: the former Ministry of MIH) took over the SME D/F, and made various achievement based on the initial implementation directions. During this period, the draft policies were discussed including “Strategic Options for Improving Business Development Services for SMEs in Cambodia, 2011, (GDI/BDS/SO/001)” in collaboration with JICA, and “Strategic Framework for Technology and Innovation in Industry Sector (2010-2015)” with Asian Development Bank (ADB). The outputs from these technical assistance projects were all integrated to the “GDI Strategy 2015” as part of core pillars, but did not materialize as the comprehensive SME promotion policy to succeed the SME D/F. Given the current status of SME development, there is a pressing need for the new comprehensive SME Promotion Policy, as clearly mandated by RS-III for the update of SME D/F while keeping consistency with the related policies including IDP and strategies/policies by respective.

The initiative taken for SME promotion is timely and significant. Establishment of solid foundation to support SME promotion is vital for both Cambodia’s future and regional prosperity. This “SME Promotion Policy Framework⁸” is designed to provide a comprehensive scope and issues & directions to be tackled in SME promotion policy, and, at the same time, anticipates the formulation of a SME basic legal framework in the near future to embrace all the issues related to SME promotion for Cambodia.

⁷ Royal Government of Cambodia, Sub-committee on Small & Medium Enterprises, Small and Medium Enterprise Development Framework, July 29, 2005.

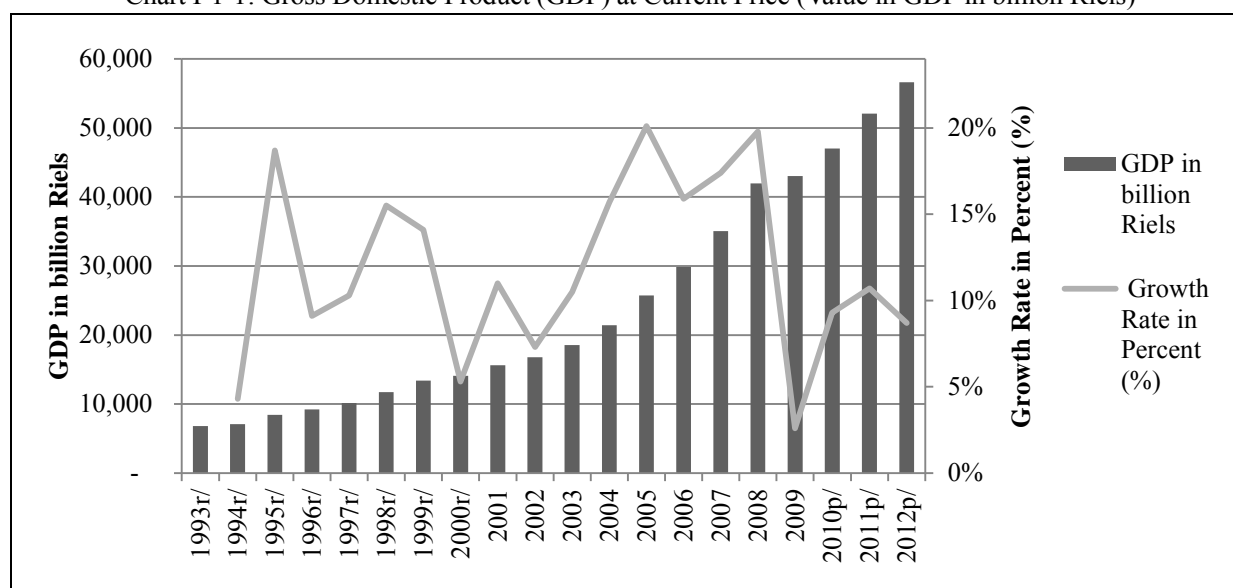
⁸ This “SME Promotion Policy Framework” is one of the outcomes of collaborative work with MIH on the project, “Strategic Strengthening of SME Support System 2013-2015”, assisted by JICA (Japan International Cooperation Agency).

I. Issues and Challenges

1. Current Status of Cambodia's Economy

With regard to overall economy of Cambodia, the growth rate was 8.3% and GDP reached KMR 56,617 billion (USD 14,038 mil.) in 2012. Since the beginning of 2000s, the economy mounted on steady growth and 2-digit growth rates were recorded since 2004. Cambodia was not exception to the impact of global financial crisis in 2008. The economic growth rate in 2009 declined below 5%. However, it recovered quickly staying in the range of 8.3% to 10.7% in recent years – which is above the targeted range of economic growth in Rectangular Strategy Phase III (RS III), the average annual growth of 7%.

Chart I-1-1: Gross Domestic Product (GDP) at Current Price (Value in GDP in billion Riels)



Source: "National Accounts 2012", National Institute of Statistics, Ministry of Planning, Cambodia
<http://www.nis.gov.kh/nis/NA/NA2012.html>

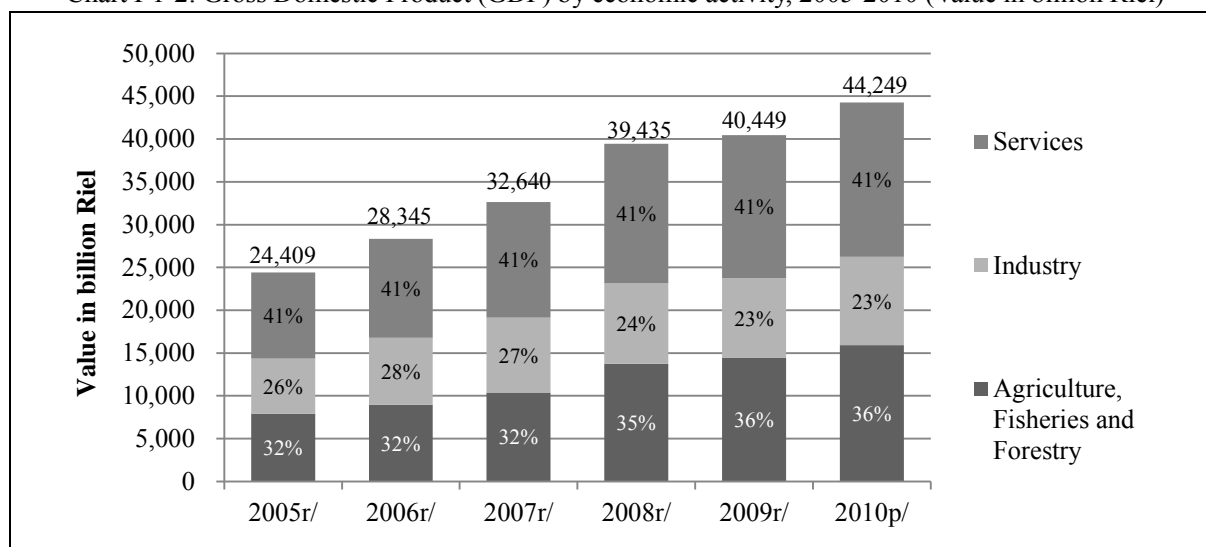
* r/ - revised estimates, p/ - preliminary estimates

(1) Industry

For the recent 6 years, from 2005 – 2010, agriculture, fisheries and forestry sector has expanded double-fold its production value from KMR 7,909 billion (approx. USD 1,977 million⁹) to KMR 15,938 billion (approx. USD 3,985 million), while service sector 1.8 times from KMR 10,064 billion (approx. USD 2,516 mil.) to KMR 18,022 billion (approx. USD 4,506 million) and industry sector 1.6 times from KMR 6,436 billion (approx. USD 1,609 million) to KMR 10,289 billion (approx. USD 2,572 million). The share of industry has shown moderate decrease at 23.3% in 2010 from 26.4% in 2005.

⁹ A tentative exchange rate of USD 1.00 = KMR 4,000.00 is applied to have a rough idea on approximate amount in USD in this section.

Chart I-1-2: Gross Domestic Product (GDP) by economic activity, 2005-2010 (Value in billion Riel)



Source: "Statistical Yearbook of Cambodia", National Institute of Statistics, Ministry of Planning, Cambodia

* r/ - revised estimates, p/ - preliminary estimates

The Cambodia's industrial share to GDP counts lowest among ASEAN member countries. To compare with other ASEAN states, the ratio of industry sector in GDP is 24% in Cambodia and this is the lowest place. Among CLMV countries, other countries of Industry share are more than 30%; Lao in 33.1%, Myanmar in 41% and Vietnam in 38.6%. As observed, the Cambodia's industrial foundation is relatively weak in its economy.

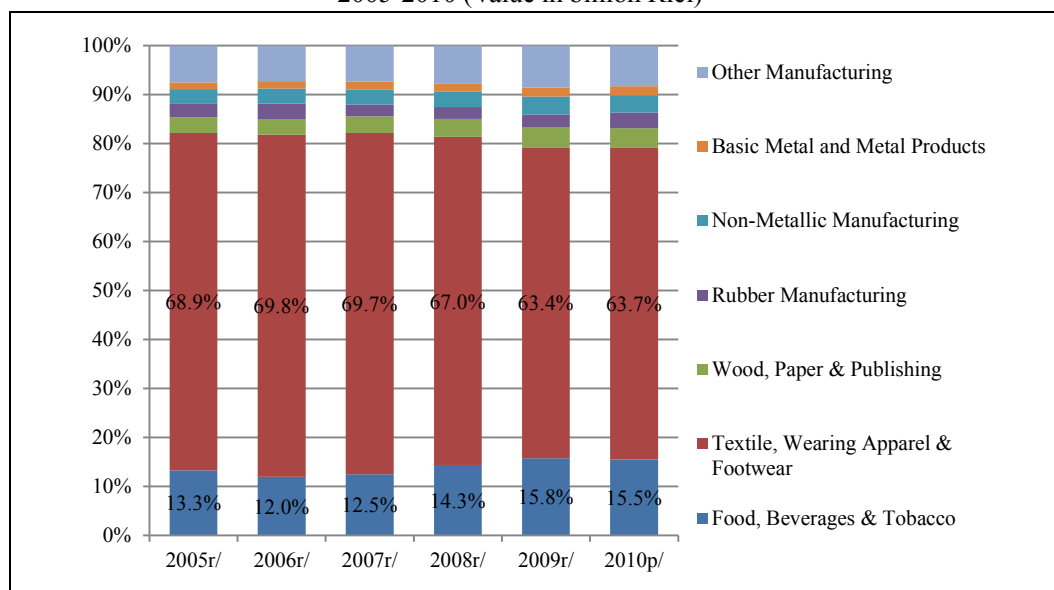
Table I-1-1: Structure of Output of ASEAN States (Percent of GDP at current basic prices, 2012)

	BRN	CAM	IDN	LAO	MMR	MYS	PHL	SGP	THA	VNM
Agriculture	0.7	35.6	14.4	27.6	30.5	10.2	11.8	0.0	11.1	19.7
Industry	71.1	24.3	46.9	33.1	32.0	41.3	31.2	26.7	38.2	38.6
Services	28.2	40.1	38.6	39.3	37.5	48.5	56.9	73.3	50.7	41.7

Source: "Key Indicators for Asia and the Pacific 2013", ADB

Within the industry, manufacturing is the major driver which counts 67% of industry (16% of GDP). The manufacturing sector remains in vulnerable nature. The share of 63.7% in manufacturing sector is dominated by Wearing Apparel & Footwear sector industry followed by Food, Beverages & Tobacco sector with 15.5%. These only two sectors contributed almost 80% of total share of Manufacturing. This narrow-based and lopsided structure of industry shows vulnerability of industrial structure.

Chart I-1-3: Share of Gross Domestic Product (GDP) by economic activity in manufacturing, 2005-2010 (Value in billion Riel)

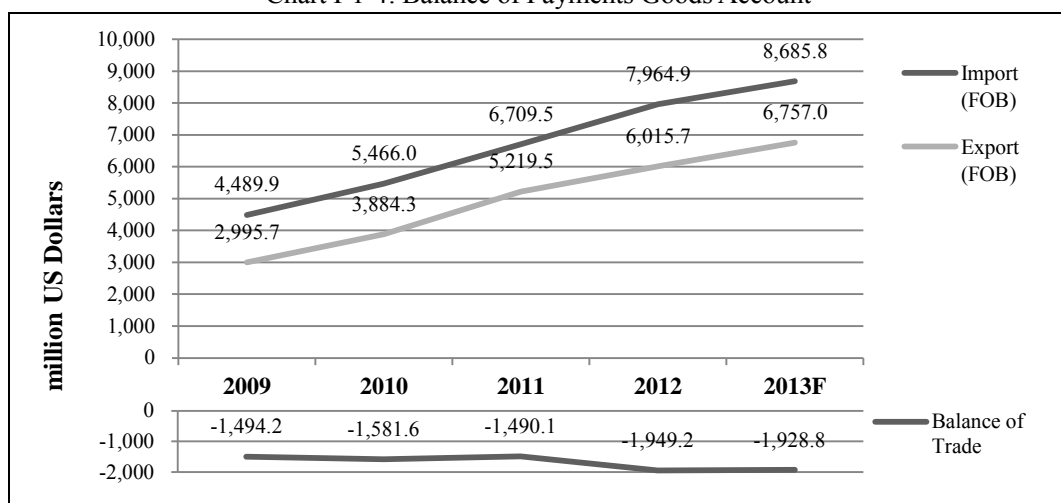


Source: “Statistical Yearbook of Cambodia”, National Institute of Statistics, Ministry of Planning, Cambodia
 * r/ - revised estimates, p/ - preliminary estimates

(2) Trade (Export and Import)

Cambodia’s export and imports has been expanding steadily. The total export value in 2013 reached US\$6,757 million. However, imports remain exceeding over exports and this situation of trade imbalance does not demonstrate notable improvement even in recent years. The value of the trade imbalance in 2012 counts US\$1,929 which is approx. 14% of GDP. The weak foundation of domestic manufacturing still requires domestic industries to import their raw materials, parts, or fertilizer as well as finished goods.

Chart I-1-4: Balance of Payments Goods Account



Source: 2009-2010 data “Statistical Yearbook of Cambodia”, National Institute of Statistics, Ministry of Planning, Cambodia
 2011-2013 data “National Bank of Cambodia Annual year book 2013”, National Bank of Cambodia

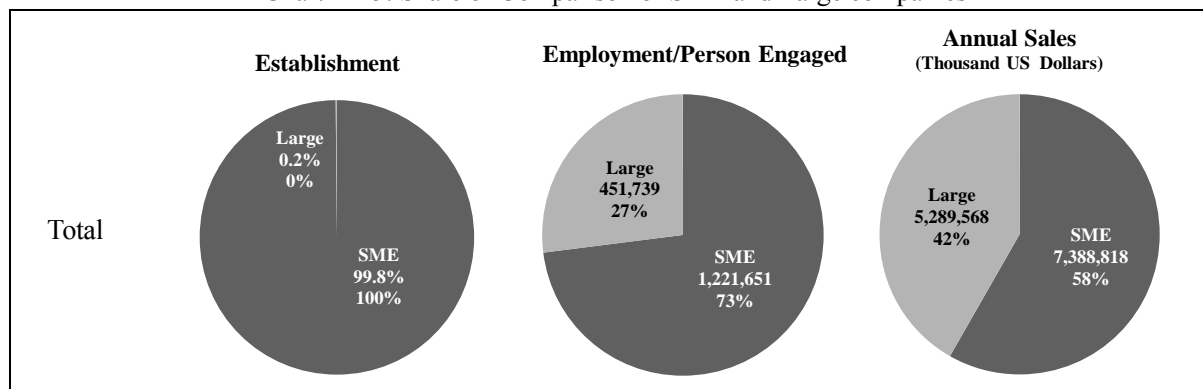
* Provision Data for 2010-2013 (Subject to change)

* F: Data Forecasted for 2013

(3) Significance of SMEs in the Industry

SMEs in Cambodia¹⁰ play a very important roll. SME is holding shares at 99.8% of establishment, 72.9% of employment, and 58.3% of sales value in the industry.

Chart I-1-5: Share of Comparison of SME and Large companies



Source: “Cambodian 2011 Economic Census”, National Institute of Statistics, Ministry of Planning, Cambodia

The industrial structure on the base of scale of company, SMEs are more concentrated in the service sector. For the annual sales value base, share of 89% is services whereas 11% is industry. With regard to the structure of industry among SMEs, 37% is dominated by food processing¹¹ followed by 21% of garment. In comparison with large scale companies’ figures where the concentration on garment¹² sector is extreme, SMEs are observed more centered in food processing sector. Provided that the garment sector of SME is more or less related to the large scale company business, the food processing is recognized as the actual driving force in manufacturing sector in SMEs. There is again the vulnerability in narrow-sided structure of industry exists in SMEs.

(4) Sectoral Characteristics of SMEs by Size

The following chart shows the current situation of distribution and share of the major sectors in total sales value in SME manufacturing. Although the number of companies is far dominated in micro scale company category (with number of employees less than 10), the chart gives an idea on the over-all picture for the possible policy measures’ coverage options.

It is appeared that there are sectoral characteristics in the structure of manufacturing sector by the scale of company. Regarding to the comparison of sales volume by the number of employees scale, “food processing”, “wearing apparel”, and “other non-metallic mineral products” in sales value have relatively large in the small and micro scale company. In each sector, the small scale has larger sales as a whole. “other non-metallic mineral products” is also marked relative volumes in all scale. This sector includes “Glass, refractory products”, “Clay building materials”, “Other porcelain and ceramic product”.

¹⁰ In this Policy Framework, the statistical definition of SME is applied indicated in the SME Development Framework 2005;
 Micro and under 10 employees
 Small Between 11-50 employees
 Medium Between 51-100 employees
 Large Over 100 employees

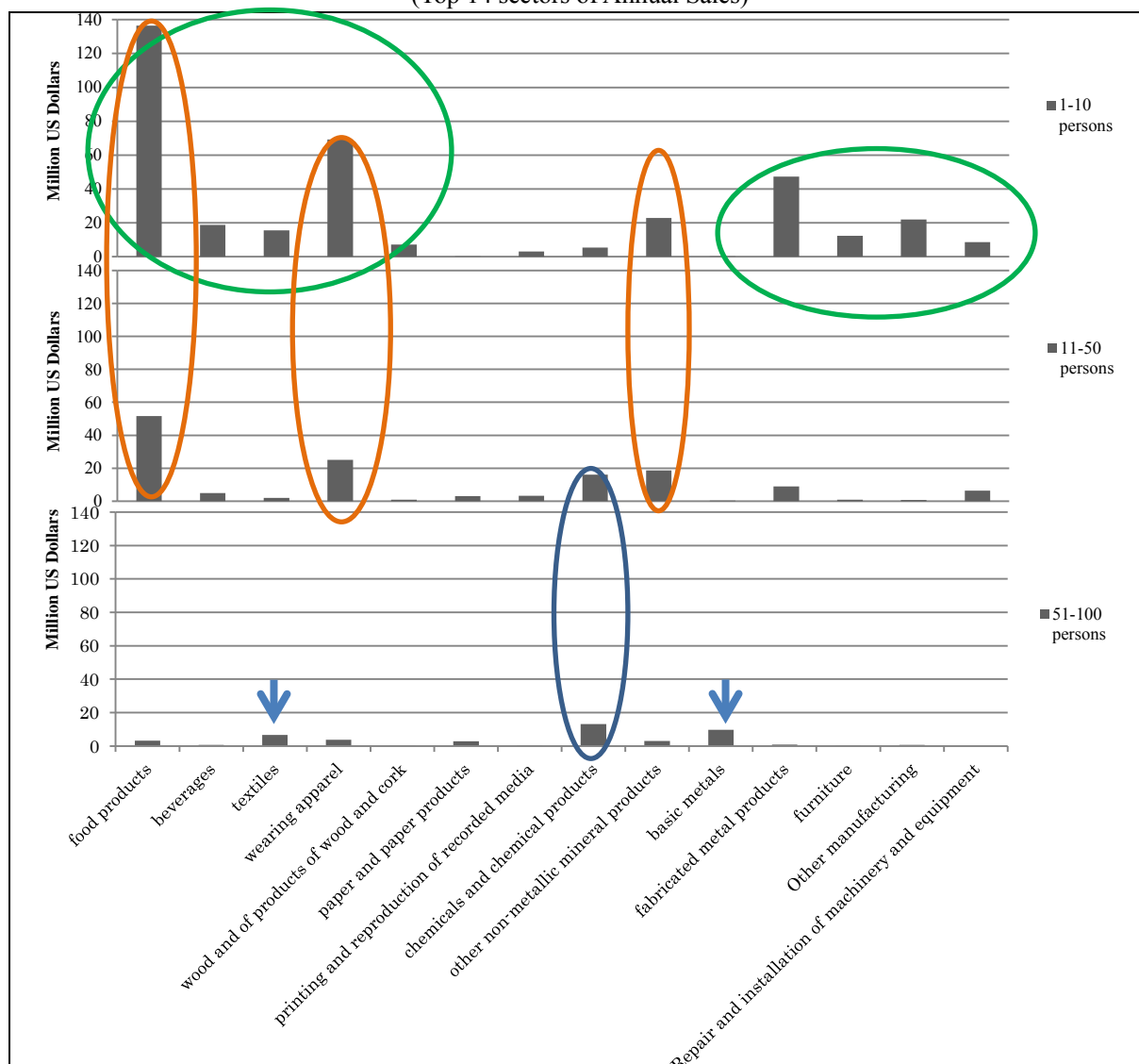
¹¹ food processing sector includes 10 - Manufacture of food products and 11 - Manufacture of beverages

¹² garment sector includes 13 - Manufacture of textiles and 14 - Manufacture of wearing apparel

Besides the sectors above, “fabricated metal products”, “furniture”, and “repair and installation of machinery and equipment” are relatively large in the micro scale. The “fabricated metal products, except machinery and equipment” includes “structural metal products”, “forging”, “pressing”, “stamping and roll-forming of metal”, “powder metallurgy”. Those products are, for both finished products and parts, manufactured basically in “Cottage Industry” with limited value-added.

The sales value in “chemicals and chemical products” sector is observed large in the small and medium scale company. This category includes “plastics and synthetic rubber in primary forms” among “basic chemicals”, “fertilizers and nitrogen compounds”, and “man-made fibers”. As for the medium scale, “basic metals” and “textiles” have certain share in the sales value in the scale category.

Chart I-1-6: Comparison sectoral sales values of SME in Manufacturing sector by the scale of company (Top 14 sectors of Annual Sales)



Source: Additional Table 1 Number of Entities and Entire Persons Engaged, Amount of Annual Sales, Annual Expenses and Annual Profit and Loss by ISIC (Class) and Sex of Representative “Cambodian 2011 Economic Census”, National Institute of Statistics, Ministry of Planning, Cambodia

2. Challenges and Needs of SMEs

The Royal Government of Cambodia, with support from the development partners, has been introducing several programs and measures for supporting SMEs for more than 10 years. However, previous and existing support programs still could not sufficiently address the challenges SMEs are facing.

Since early stage of SME promotion in early 2000s, the major difficulties to SME development have been identified by international organizations such as the World Bank and ADB, specifically, weak legal framework and bureaucracy, limited access to finance and insufficient SME supports. These factors were also noted during the first National Financial Forum for SME in mid-2010 by the General Department of Industry of the former Ministry of Industry, Mines and Energy (GDI/MIME) to forge close dialogues between SMEs and financial sectors. Another major issue cited by the forum participants was a low level of working skills and productivity of SMEs, with high administrative costs that undermine their competitiveness to the imports.

The “SME Development Framework” introduced in 2005 by SME Sub-Committee through assistance of ADB provided the very foundation for SME promotion and tackled the strengthening and improvement of the SMEs’ business enabling environment in i) regulatory and legal framework, ii) access to finance, iii) SME support activities. The Framework was designed for 5 years, 2005-2009. The GDI Strategy 2015 succeeded the major scope of the Framework. The achievement of the Framework and the subsequent strategy brought the significant improvements especially for regulatory framework and access to finance for SMEs. After all the achievements, there are still remaining and emerging issues to be tackled for the further promotion of SMEs, especially where the clear direction has not been manifested for years to come and in order to secure alignment with the Cambodia’s first Industrial Development Policy.

JICA implemented a technical assistance project with MIH, the “Strategic Strengthening of Small and Medium Enterprise (SME) Support System¹³”. As part of the study, the project undertook the “SME Promotion Survey” as well as various ad hoc interviews with various interviews with SMEs. These activities identified current needs and challenges in terms of business environment, SMEs’ capacity, and supporting measures at various levels and scale of businesses.

(i) Challenges

As the result of the Survey, the major challenges that SMEs face are summarized and further detailed below in the five areas of; i) governance, ii) customer/market, iii) human resources, iv) product/services, and v) access to formal finance.

Governance: Difficulties related to governance are mostly external to firms, making them unable to control but having considerable effects on the business operations of the firms. Two governance-related issues critically affecting SMEs (especially those in Phnom Penh) are *electric power issues (high cost of power, power supply shortages, power outages)*, and *unofficial payment*. The other specific issues such as *poor public infrastructure, high tax rates/complicated tax procedures, lack of sufficient SME support policies and political deadlock* are also disclosed.

Customer/Market: Difficulties related to customer/market SMEs as for three main challenges top the list

¹³ This Survey, undertaken during November 2013 – July 2014, interviewed 500 SMEs (200 in Phnom Penh area and 300 in provinces (Siem Reap, Battambang, Sihanoukville, Kampong Cham, Kampong Speu, Svay Rieng) in manufacturing sectors as well as service sectors).

including *difficulty in collecting sales from customers, rising competition, and unfair competition*. Other specific issues in this category are identified including *monopoly of supplier*. The first issue comes from the vulnerable contract practices in business among SMEs activities that the most of payment agreements are made in verbal rather than written form. The competition itself is business challenges to SMEs which is exposed to both with international and domestic competitors. The issue of “unfair competition” involves variety of aspects; the competitors escaping from taxation illegally not equal footing on access to technology, finance, information, etc.

Human Resources: Human resource is the most pressing challenge facing many SMEs in the provinces. Two major difficulties related to human resources on top of the list are 1) shortages of workers; and 2) poor staff commitment and disciplines. In the area of the shortage of workers, needs for the skilled workers were observed more, and *high staff turnover* was also pointed out as one of the major difficulties. For the second category, related issues, such as *low productivity, skills mismatch and rising wages*, are raised by a few SMEs.

Products and Services: *rising cost of raw materials* is the most difficult challenge SMEs are facing at present. It is mainly caused by heavy reliance on imports. Due to the fact that the government levy import duties on those raw materials, a recent government’s measure to strengthen tax collection has inadvertently exacerbated the price hikes. The *high electricity cost* is also the heavy constraint in terms of the rising cost to be input on the final products/services.

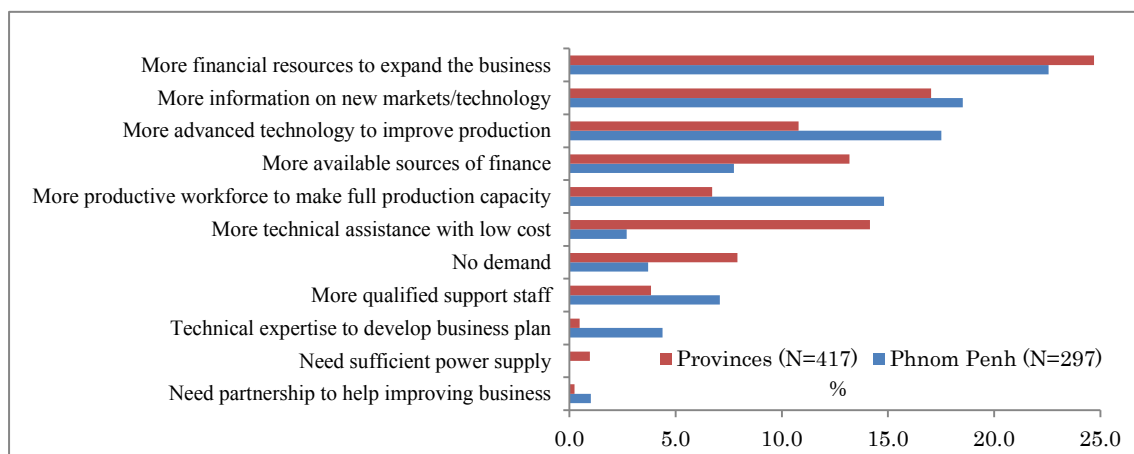
Access to Formal Finance: Although objective of finance is being shifted from covering operational cost to investment for business development (capital investment), many of SMEs still face the conventional difficulties in access to finance. There are reported cases of SMEs, mostly in provinces in need of finance to expand their business and support their current business operations. Lack of collateral is the primary reason barring SMEs from having access to formal finance. The second reason is poor cash flow of SMEs themselves, making the banks have less confidence on the financial health of the firms. High interest rates charged by commercial banks often constrain those firms’ ability to borrow. Commercial banks have borrowing cap which limits the amount of loan based on the firm’s asset valuations which automatically limit the loan amounts.

(ii) Needs

Whereas the above analysis of the current difficulties of SMEs formulated an overall understanding of the current status of SME, the investigation of SMEs’ business needs directly leads to more specific SME promotion targets.

As the result of MIH/JICA Survey, the SME owners/managers perceive crucial to enhance growth and competitiveness. 23% of the responses are to have more *financial resources* to expand the business. Other major needs include more *information on markets, technologies and laws* (17%), the need for the adoption of *new technology to improve productivity and reduce costs* (13%) and more *available sources of finance* (11%). Interestingly, while many firms in Phnom Penh are in need for advanced technology, those in provinces are more interested in finance as well as more *technical assistance with low cost* either from the government or development partners. The demand for more productive workforce (10%) is another common need raised. Such demand seems to be more prevalent among medium-sized firms in Phnom Penh. (Chart I-2-1)

Chart I-2-1: Current Business Needs



Source: MIH/JICA Survey 2014

The demand for more financial resource is common among micro enterprises (38% and 40% for micro manufacturing and services, respectively). Although access to available and affordable finance is still a constraint, access to finance has improved and largely not the biggest concern among surveyed firms for medium sized in Phnom Penh. The increased availability of financial resources is evident by rises in total liquidity averaging 13% per annual growth between 2010 and 2012. Credit to private sector also increased by 23% annually in the same period (NBC 2010, 2011, 2012).

The two major needs for medium manufacturing enterprises are *more information about markets, technology, laws and regulation* (21%) and *the adoption of advanced technology to improve productivity and cost reduction* (28%). It is clear from both the qualitative interviews and the survey that the majority of manufacturing SMEs still lack access to more modern technologies and management systems. Most are still using conventional production technologies employing more labor and investing insufficient resources in research and developments (R&D). Their products largely lack in competitive advantage over imported goods in terms of quality, product design, package, and branding. A few reasons explain the status quo. The first factor is a low level of awareness of the owner. The owners lack in access to information and simply utilize his self-learnt knowledge to keep his production running. Second, there seems to be a common notion among SMEs’ owners/managers that investing in R&D is counter-productive to company’s expansion and survival. They express that R&D to improve the product design is just costly and time-consuming and only adds to the cost of production thereby making the products less competitive.

II. Vision and Strategic Direction

1. Vision and Key Targeted Goals

By the year of 2030¹⁴, the target year set out in “Vision 2030”, the Cambodia SME is to be recognized as the significant and integral part of Cambodia’s economy, while contributing Cambodia’s economy of which target is set for the annual growth rate of 7% by 2018 in the “Rectangular Strategy Phase III¹⁵”. SMEs promotion has to be implemented to enhance the sector growth to contribute the policy target;

- contributing Cambodia’s sustainable economic and social development as one of major driving forces with noticeable “national champions” in key sectors;
- enjoying its unique comparative advantages as a core of its competitiveness (ex. “Cambodia’s Quality”¹⁶) in global market as well as AEC;
- performing innovative business development;
- creating greater employment opportunities and assisting the living standard upgrading nation-wide;

The SME policy should be aligned in preparing policy directions with the targets set out in the Industrial Development Policy. The main targets of the IDP are as follows;

- Promoting industrial growth by increasing the share of industrial sector to GDP to 30% by 2025 (24.1% of GDP in 2013) with the share of manufacturing rising from 15.5% of GDP in 2013 to 20% in 2025,
- Diversifying export products by increasing export of manufacturing products (other than garment export) to 15% of total export by 2025, and export of semi and final agro-products to 12% of total export by 2025 while promoting export of other new products, and
- Promoting formalization of SMEs and big enterprises by strengthening their legal statuses through registration, and holding proper accounting records as required by laws. By 2025, 80% and 95% of small and medium enterprises respectively operating in Cambodia should be officially registered while 50% and 70% of small and medium enterprises respectively should have accurate accounting records and balance sheets.

2. Strategic Directions

In order to achieve the goals set out in the previous section, the following strategic directions including national level policies will create foundations to the further industrial development to sustain economic growth in Cambodia. Although SME promotion policy is fundamentally focusing on economic growth through industrial development, the social development aspects, however, should be closely monitored as the healthy economic development can be realized by balancing both industrial and social developments. Accordingly, the SME promotion policy needs to aim at SME industrial development as well as living standard upgrading in terms of social development context.

¹⁴ The year of goal is as of the time of this draft and has to be reviewed in alignment with the finalized over-all policy.

¹⁵ Paragraph 12, “Rectangular Strategy” for Growth, Employment, Equity and Efficiency Phase III, Of the Royal Government of Cambodia of the Fifth Legislature of the National Assembly, September 2013,.

¹⁶ Instead of challenging the price-competitiveness with other countries’ industries already performing efficiency, the quality oriented development can be pursued for the Cambodia branding in good and unique quality.

(1) Rectangular Strategy Phase III 2014 – 2018

Rectangular Strategy Phase III 2014 – 2018 (RS III) states that “The four strategic rectangles of the Strategy (succeeded from the previous Phases) will be maintained with expanded scope, refined and reprioritized sides, and improved and more effective policies and mechanisms.” There is a focus on SMEs particularly in the “Side 2 Development of Industry and SMEs” of “Rectangle III: Private Sector Development and Employment”. There are following priorities in Rectangular Strategy Phase III;

- a) Formulation of industrial development policy,
- b) Preparation of science and technology policy,
- c) Upgrading of SMEs Development Framework 2005,
- d) Making alignment of overall policies with SMEs development related policies,
- e) Promotion of industrial corridor development (connectivity),
- f) Strengthening of development process of extract industry, and
- g) Human resource development especially in the skill training for industry.

(2) National Strategic Development of Plan 2014 - 2018

Upon the guidance of the RS III, the National Strategic Development of Plan 2014 - 2018 was formulated. Responding to the RS III, its section “II Development of Industry and Small and Medium Enterprises (SMEs)” elaborates more specific policy implementation directions for the Ministry of Industry and Handicraft (MIH);

- a) Improving the investment environment for both large industries and SMEs, and establishes links and chains between large industries and SMEs.
- b) Strengthening good governance for SMEs through transparent law enforcement:
 - Continuing to implement programs promoting good governance and law enforcement, strengthening professional ethics, social responsibility, and monitoring mechanisms,
 - Continuing to review regulations and assess the impact on business by the new regulations, to ensure that regulation promotes business within the domain of desirability,
 - Continuing to support industry through inter-ministerial facilitation mechanisms and through eliminating overlapped duties,
 - Continuing to promote the Public-Private Forum Mechanism for enhancing the reforms programs and promoting the private sector, and
 - Continuing to build the capacity of sub-national institutions and delegate authority to them for a closer access to the clients.
- c) Promoting competitiveness in the SMEs:
 - Offer business development and supporting services through institutions like Cambodia Industrial Laboratory Center, National Productivity Center, Hatching Technology Center, Industrial Training Center, Cambodia Standard Center, National Metrological Center, etc.,
 - Supporting SMEs through imparting technical and business skills to them,
 - Disseminating knowledge through the National Production Movement, Entrepreneurship Movement, Business Potential Movement and the like, and
 - Continuing to build institutional capacities in enforcing property rights, promoting research and creativity, and establishing support mechanisms.
- d) Setting up a financial service system for SMEs:
 - Promote financing options for the SMEs as a part of total finance package aligned with the Industrial

- Development Strategy, to encourage SMEs becoming a part of the value chain with larger companies,
 - Continuing to implement the national settlement system and promoting financial product development,
 - Continuing to improve the financial environment for attracting private investment and establishing a domestic capital market, and
 - Providing technical assistance to build SME's capacities in formulating business plans, developing accounting systems, and generating information necessary to raise finances.
- e) Enhancing Cambodia's productivity aligned with national, regions, and international standards:
- Developing Cambodian Standards for products and systems based on the demand in the national, regions, and international markets,
 - Formulating legal documents to enforce Law on Cambodia Standards, enhancing inspections and take up other tasks,
 - Increasing promotional campaigns to raise awareness on standardization, compliance assessment, and technical barriers on trade,
 - Promoting the issuance of Product and System Certificate,
 - Seeking concurrence from international institutions for Cambodia to issue Product and System Certification Unit and building the capacity of the National Recognition Assessment Unit of the Cambodia Standard Institute, and
 - Becoming a full member in the International Standard Organization (ISO) and in International Electronic Committee (IEC).
- f) Creating enterprise clusters for SMEs.
- g) Improving the effectiveness of metrological development, which is the main basis to support the operation of production chains of industries and handicrafts to obtain finished products complied with the set standards and to ensure the quantity, quality, security and environment through National Center of Metrology:
- Supporting and promoting the activities of the metrological legalization and metrological science through strengthening the management of the metrological standards, verification of metrological devices, produced items and packed items, calibration, type approval, testing, analysis to protect the benefits of the suppliers and consumers and ensure the fairness in commercial activities.
 - Promoting the activities of metrological registration, issuance of metrological trademark use license, issuance of license for producing and repairing metrological devices to contribute to market expansion and make the Cambodian products more credible.
- h) Supporting and increasing the promotion of the metrology and its benefits to contribute to promoting the development of all sectors as well as poverty alleviation of Cambodian people.

(3) Industrial Development Policy (2015-2025)

Formulation of the Industrial Development Policy (IDP) is the first priority issue in the RS III in the area of "Side 2 Development of Industry and SMEs". The IDP was adopted by the Council of Ministers in March, 2015. . There are four pillars in IDP – which are;

- i) attraction of FDIs and mobilization of domestic investment for industrial development, developing and expanding the market and developing/transferring technology,
- ii) developing and upgrading SME for the expanding and strengthening foundation of manufacturing industry, modernizing and registering the company, developing and transferring technology and industrial linkages between local enterprises with foreign enterprises, particularly in the agro-industry sector,
- iii) improving the regulatory environment to strengthen competition through improving the investment climate, trade facilitation, provision of market information and reduction of red-tape, and

- iv) coordination of supporting policies including human resources development, skills training and the improvement of industrial relations, the implementation of land planning, urbanization and land exploitation plan as well as the development of supporting infrastructure such as transport system / logistics and ITC, power supply / clean water and support services such as public services / social services / financial services.

As stated, the SME promotion is one of the keys in IDP. The measures put forth in the area of SME are as follows;

a) Institutional Arrangement and Incentives

- Promoting medium term planning for SME development by identifying potential companies for export, developing new product and linkage with multinational corporate (MNCs) to connect to value chains and regional production networks, and preparing necessary and practical action frameworks to develop those enterprises,
- Reviewing and enhancing framework and mechanism for SMEs development focusing on improving registration, management and monitoring processes that encourage industries/ enterprises in Cambodia to officially register their business with relevant authorities especially with real tax regime.
- Facilitating technology transfer through study tour and training to other countries or any other supports.
- Establishing R&D funds managed by a highly professional and independent organization, whereas the RGC provides proper funding based on actual demand and availability of national budget, -
Developing human resources to promote strong and dynamic industrial development by providing technical training to address skills shortage in priority sectors through an increase of scholarships for training of engineers and technicians,
- Seeking the possibility of supporting SMEs for training and investment on machinery or manufacturing facilities and other incentives on condition of using local raw material, leading to an improvement of product quality and modernization of production chains to link to multinational corporations (MNCs),
- Promoting the capacity of higher education institutions to absorb science knowledge, increasing training/practices, innovation and new technology based on market demand,
- Creating awards for any technical competition of all priority aspects,
- Promoting the establishment of associations in each sub-sector to share knowledge, advocacy and rights protection, as well as strengthening relationships with the government to get financial and technical support,
- Enhancing the capacity and entrepreneurship of local enterprises to link and benefit from potential and large foreign investment in Special Economic Zones (SEZ).

b) Registration and Accounting

- Amending Law on Enterprise Accounting, Enterprise Audit and Accounting Professions by developing a simple accounting standard for Special Economic Zones,
- Strengthening the “One Roof Service” mechanism for registration of SMEs using registration and accounting as the foundation for evaluation and criteria for gaining incentives and support from the government,
- Encouraging large enterprises and SME to withhold bookkeeping and real tax regime,
- Strengthening business governance to strengthen and expand the private sector to enhance the culture of social accountability and access to finance in the financial market through training on general management, production system management and technology management for SMEs,
- Disseminating broadly quick access to registration and the benefits of being registered, and
- Providing training on bookkeeping for SMEs.

c) Promoting Development of the Agro-industry Sector

- Seeking the possibility of establishing the processing zones of agricultural products, such as the processing zone for furniture, rubber-product processing zone, seafood-processing zone, and a food-processing zone for local market and export using a public-private partnership mechanism,
- Providing incentive to any companies located in those zones,
- Creating funds for promoting product development, techniques for processing agricultural products and technical development with potential exports,
- Creating mechanisms to facilitate export of agro-processing products by addressing logistics issues, removing unofficial payments and improving trade facilitation, and
- Studying and setting priority processing products for export and developing a comprehensive action plans based on a value chain to set specific foundations for the development of this sector.

(4) Strategic Direction of SME Promotion Policy

In order to respond all the directions and diversified requirements that the National policies suggest, it is essential to prepare the SME base policy uniformly agreed among all the authorities and stakeholders with basic principles that all the policy measures can comply with. The more industrial development enhanced and the more global economy sophisticated, the more complex nature of SME promotion shall be expected. It is the very significance stage for Cambodia SMEs and the RGC to foresee the future by preparing a basic framework or law of base principles to which all the diversified SME related policies and measures can stand for.

The “SME Development Framework (2005)” has provided various successful achievements in the areas of “Regulatory and Legal Framework”, “Access to Finance” and “SME Support Activities”. Especially in the “Access to Finance”, many improvement has been in place and remaining over-all issues have been already included and taken over in the “Financial Sector Development Strategy 2011-2020”. Concerning to the economic and industrial situation at that stage, as the industry itself almost consisted of SME in early 2000’s, it is natural that the focus of direction the Framework suggested included or was likely to be put on the foundation of business enabling environment for industry as a whole rather than SME specific. In updating the Framework, it is necessary that more specific focus on SME should be brought in with the basic principles of SME promotion. The remaining issues raised in the Framework should be tackled reflecting on the basic principles.

In order to pursue for the major objectives of SME Promotion Policy, the priority should be put on SME specific issues. Taking a full account into the current situation, difficulties and needs of SMEs, and making alignment with the instructions of National policies and IDP, the SME Promotion Policy should cover and focus on following aspects in consideration of initial structure of the basic framework (or possibly a law in the future) of base principles to which all the diversified SME related policies and measures can stand for.

The RGC will seek for this task through following three approaches;

i) Set out the concrete foundation of business enabling environment for SME

Formulate a clear policy outline (Prakas, Charter, and/or Law) with relevant (law-) enforcement mechanism covering the following 13 issues;

- Definition of SME and eligibility criteria for accessing the incentives schemes or supports under the policy
 - Codes of Good Practice in regulating SMEs and Reduction of Red-Tape including improvement on duplication in practices among authorities and simplification of regulatory procedures
 - Incentive Schemes to be provided for initial Start-Up
 - Incentive Schemes to be provided for promoting R&D, Technology Adoption & Innovation, and Work Skill Qualification Development
 - Incentive Schemes to be provided and simplified pro-SME tax regime
 - Schemes for Applying Law on Investment in SMEs investment promotion
 - Schemes for supporting SME Access to Finance
 - Schemes for building SME Clustering and linkages with FDI large Industries
 - Schemes for promoting SME internationalization
 - Schemes for promoting SME BDS markets
 - Schemes for facilitate gender issues in SME promotion
 - Arrangement for SME employment and labor conditions
 - Scheme for SME access to information
- opening systems for widening networks (ex. system for dialogs with global/public sector counterparts, etc.)

ii) Facilitate SME to develop its capacity in;

- technical guidance for efficient and/or effective business operation (ex. through encouraging innovation for the “Cambodia’s Quality” as a core of competitiveness, etc.);
- linking to global market (especially links to global supply chain to increase domestic value-added through being a part of GSC in terms of in-flow of inputs and out-flow of goods as well as technology transfer);
- accessing to technology (technique);
- accessing to finance;
- human resource development.

iii) Promote private/public Business Development Services (BDS) for SME in;

- public BDS facilitation promotion (“bridging” for private BDS, incubator/testing),
- private BDS promotion (scheme building and delivering the SME’s interests and requirement) and capacity development

As the coverage of “SME” to the policy can be wide and inter-Ministerial, thus, the implementing function of policy is to be discussed thoroughly and well-designed. The existing base of implementation function, such as SME Sub-Committee, is to be strengthened for this objective. The time-frame should also be considered for the firm implementation, such as short-term (1-2 years), mid-term (3-5 years) and long-term (-10 years).

III. SME Promotion Policy Framework

As described in the previous section, “(4) Strategic Direction of SME Promotion Policy”, the following chapter elaborates each point for the three pillars in the policy framework; i) business enabling environment, ii) capacity development of SME, and iii) business development services (BDS).

1. Business Enabling Environment (BEE)

1-1. Basic SME Promotion Policy:

Formulating a clear policy outline (Prakas, Charter, and/or Law) with relevant (law-) enforcement mechanism covering the “13 issues”

Although the “SME Development Framework 2005” provided the foundation, there is not yet the National level SME specific policy based on the full coordination and consensus among related authorities in Cambodia. There are significant principles and provisions projected for SMEs promotion in national level policies such as “Rectangular Strategy”, and in the specific strategies and policies of sectoral level by Ministries of authorities. However, they are not yet fully integrated into the national level SME promotion policy comparable to the Industrial Development Policy.

Considering the SMEs’ significance and magnitude to the Cambodia’s economy as well as social foundation, the RGC is to formulate a concrete SME promotion policy. This basic policy should form the common foundation clearly elaborating relevant direction of SME development in Cambodia, and take appropriate policy measures to identified issues in various dimensions of SMEs’ economic activities in comprehensive manner. In the context of SME promotion, the synergistically effective and complementary approaches are essential to be aligned with all the strategies by the relevant authorities under the principles of the Rectangular Strategy Phase III. The basic policy should be pursued for the legitimate form in the near future, when relevant, such as a SME Basic Law and/or a SME Charter.

1-1-1 Definition of SME:

(Eligibility criteria for accessing the incentives schemes or supports under the policy)

(i) Issues

There has not been a uniformly adopted base definition of SME commonly applicable to all the SME related policies in Cambodia. The long recognized definitions were in the “SME Development Framework 2005”, which was suggested for statistics purpose and financial purpose. As to the recent development of One Roof Service (ORS) of SME registration at MIH, a set of new definitions has been announced by the Notification. The new definition is mainly for the ORS registration purpose. In addition, besides these definitions, the statistics classification by National Institute of Statistics (NIS) and GDT/MEF definition for tax collection purpose exist.

Without a base definition(s) of SME to be complied with, it is difficult to formulate promotion policy measures to specific scopes of SMEs on specific promotion objectives. The measures could not stand on the concrete legal foundation to comply with.

Another fundamental issue of definition is the requirement for the registration of SME. The formalization of SMEs and its promotion is very essential to make all the policy measures applicable and to take advantage of various incentive measures and for SMEs. The Industrial Development Policy sets a target by stating “By 2025, 80% and 95% of small and medium enterprises respectively will register officially and 50% and 70% of small and medium enterprises respectively will have accurate accounting records and balance sheet.”

<Current Recognized Definition of SME>

= SME Development Framework 2005=

Statistical

Determined number of employee	
Micro	and under 10 employees
Small	Between 11-50 employees
Medium	Between 51-100 employees
Large	Over 100 employees

Financial

Determined by Assets, excluding land	
Micro	Less than USD 50,000
Small	Between USD 50,000-250,000
Medium	Between USD 250,000-500,000
Large	Over USD 500,000

= Notification on the registration of SME and services at One Stop/Window Service (OSS) of Ministry of Industry and Handicraft, No. ...951 MIH/2014, March 31, 2014 =

Determined Capital (excluding land)	
Micro	less than USD 50,000
Small	between USD 50,000-250,000
Medium	between USD 250,000-500,000
Large	Over USD 500,000

and

Determined number of employee	
Micro	less than 10 employees
Small	between 10-50 employees
Medium	between 51-100 employees
Large	Over 100 employees

= Official letter, to Samdech Akka Moha Sena Padei Techo Hun Sen, Prime Minister of the Kingdom of Cambodia, Ministry of Economy and Finance, No. ...5278 MEF, July 22, 2014, Chairman of Economic and Financial Policy Committee =

(“One Roof Services” to coordinate with MIH shall be implemented to SME) employed;
less than 100 employees and estimated annual turnover less than USD 500 000

(ii) Principles/ Objectives

The objective of introducing the base definition(s) of SMEs is to secure the legality of targeted SMEs' access to the incentives schemes by clarifying eligibility criteria. The secondary objectives are to enable consistent and synergistic policies in different government agencies, and to accumulate the statistical data for future policy development.

(iii) Directions for Measures and Actions

For future discussion on definitions following aspects may be considered, in addition to definition for statistics purpose in the SME Development Framework;

- i) definitions based on the characteristics of industries (manufacturing, processing, and services),
- ii) definition for micro-enterprise to be covered for the SME promotion policy measures

● Short-term Scope

Utilizing a new definition currently announced by the Notification (No.951 MIH/2014) for the purpose of One Roof Service (ORS) of SME registration at MIH, registration data should be adequately kept as important statistical resources.

In order to consider developing the base definition as well as definitions for specific measures, sectoral focus must be considered for priority sectors. The discussion on strategic sectors should make full alignment with definition formulation. Current focused sectors could include **garment/footwear, food processing, construction, repair, rice milling**. Strategically important sectors could include **materials such as polymer, including plastics and rubber, ceramic and metal, automobile spare-parts, electronic-electrical equipment, IT, agro-industry, rubber processing**, etc.

The initial approach should be launched to **identify current explicit and implicit definitions (eligibilities)** for SME to apply for any policy measures under all Ministries. This can be conducted besides and/or with coordination of the discussion on the SME definition in the ORS activities. (As the ORS is set out for the SME registration issues, the initial consideration on SME definition(s) can be concentrated for the objectives of registration procedures.) The SME base definition(s) should be captured based on this initial approach embracing all the policy objectives for over-all promotion of SME. Each Ministry has already introduced and been implementing a variety of policies, laws, and regulations. They could often include SME promotion aspects; thus, there has to have alignment between SME related definitions (eligibilities) in existing policy measures and prospective SME base definition(s) to be formulated.

One of the options is that each relevant Ministry will identify and report the SME definition applied in the current policy, laws and regulation under the authority of Ministry concerned. Then, all the definitions reported should be consulted with the over-all objectives of promotion in particular issues, sectors, and/or areas. The concept of common denominators should also be examined among each definition reported in this process, and categorization should be organized to form relevant definition(s) as to objectives of policies (laws & regulations) and characteristics of sectors and issues.

- Mid- to long-term Scope

Given the importance of statistics for future policy development, MIH should work to coordinate different statistics under relevant Ministries and agencies. These include NIS Statistics, tax-related statistics by GDT/MEF, other Ministries' SME statistics in particular sectors such as tourism, commerce, agro-industry, etc.

Through the statistical data and information, the base definition should be reviewed and modified, when necessary, in order to keep consistency with economic reality, the objectives of promotion, and the characteristics of sectors/industries (and/or regions) for the effective implementation of policy measures.

(iv) Referential Schemes and Cases

With regard to the SMEs definitions of major countries, the criteria are categorized by “number of employee”, “amount of capital”, “total asset” and “sales turnover”. Each country adopts one or two of these criteria for definition (Appendix)

**1-1-2 Code of Good Practice in Regulating SMEs and Reduction of Red-Tape:
simplification of administrative procedures**

Penetration of good practices and reduction of red-tapes in governments have been long-standing challenges not only in Cambodia but also in many countries regardless of their development stages. Especially for the regulation, registration and licensing for SME, the issues become serious since the most of SMEs do not have means and/or information to countervail inappropriate behaviors of individual officials and/or governmental organization. Lack of good practices and transparency/efficiency in administrative procedures impede healthy development of trusting relationship between government and private sector, and under such condition, effective implementation of policy measures would be difficult. From a SMEs point of view, in particular, inappropriate and/or inefficient governmental practices would serve as disincentive for official registration of business or entrepreneurship as well as other official procedures.

(i) Issues

In Cambodia, certain steps have been taken including the adoption of the Law on Anti-Corruption in March 2010¹⁷, under which the National Council Against Corruption and the Anti-Corruption Unit have been established to combat corruption in all sections and at all levels in this country.

However, the administrative procedures are not simplified enough so that there are rooms for abuse of discretion. Because of the existing red-tapes in different levels of government and in different Ministries and agencies, inappropriate behaviors including the requirement of unofficial payment still continue widely, and administrative procedures are still inefficient and non-transparent in some cases. This situation, in turn, fosters distrust toward the government and reluctance of SME to take due process. As a result, alliance between government and SMEs remain fragile, and formalization of business by proper registration continues to be by-passed by many potential registrations by SMEs.

¹⁷ Predecessor legislation was Sub degree N° 84 (OR NOR KROR BOR KOR) issued on 22 August 2006.

(ii) Principles/ Objectives

The administrative procedures should be efficient, transparent to and reliable from private sector so that vital and sound economic activities by private sector can be encouraged through effective policy implementation. The existing red-tapes and non-transparency are well exemplified in complex administrative procedures and fee structures in registration/licensing for business, licensing for import/export, conformity assessment to industrial standards, and tax collection etc.

Objectives relating to code of good practice in regulating SMEs and reduction of red-tape are;

- i) to preserve transparency in administrative procedures,
- ii) to realize efficiency in simplified administrative procedures, and
- iii) to conduct effective law enforcement, including anti-corruption provisions.

With regard to the stage of registration of SMEs, it is to contribute further promotion of formalization of SMEs.

(iii) Directions for Measures and Actions

● Short-term Scope

The ORS for SME registration has been launched in May 2014 in Ministry of Industry and Handicraft with cooperation with other Ministries. It should be set forth initially for the one stop registration point. The coordination among Ministries should be made to contribute to simplification and transparency on administrative procedures. Also, manuals and other tools to encourage prompt administrative works shall be developed and shared among officials. Once fees and necessary time frame for procedure have set or specified, it shall be publicly announced to the users (SMEs) preserving full transparency. The provisions of Law on Anti-Corruption and the spirits thereof shall be inherited to all the undertakings of this.

The ORS function, then, be pursued to be a focal point for all the information on governmental measures for SME not only for registration but for all the incentive measures and opportunities including information on trade fair, training programs, technical assistance programs. The government should further strengthen the coordination function among authorities for this prospective function.

In addition to the ORS development process, the roots of “unofficial payment” should be clearly identified in each Ministry and authority. The review mechanism should be introduced on procedural efficiency including duplication with other procedures, and fee structure and settlement system related to the procedures concerned. In this regards, the on-line fee settlement system may well be considered such as systematic remittance through banks and MFI.

● Mid- to long-term Scope

In mid- to long-term, inter-governmental coordination among registration systems should be reviewed for integration. MIH has introduced new registration system for manufacturing sector in 2014, which system development has been supported by International Finance Corporation (IFC). It realizes the centralized on-line registration data management including keep tracking and updating data among all the registration points, central office in Phnom Penh and regional extensions of MIH. As line-Ministries have or are developing similar system of their own for business license registration, enterprise registration and other

business related registration, the initial coordination should be considered in data exchange and the next step should include integration of relevant part of each system for efficient and effective conduct of registration related issues.

Not limited to the procedure of registration and information for measures, the One Roof Service for SME should function as a focal point and/or a gateway to the (governmental) consultation for legitimate business practices for SME such as consultation on import-export procedures, taxation, government approval requirements for safety standards and/or these combination, information center for linking SMEs with technical assistant from line-ministries' institutions and public-private BDS on SME capacity development.

The RGC will refine and strengthen its mechanism in more efficient and effective way in public services provision including upgrading fee settlement system in order to secure thorough transparency in its responsibilities among authorities and should simplify their policy implementation procedures for SMEs.

(iv) Referential Schemes and Cases

“One Start One Stop (OSOS) Investment Center”: The Board of Investment of Thailand (BOI)¹⁸ has introduced one stop services for the registration procedures of investors based on “Investment Promotion Act” and established OSOS in 2009. The delegates from line ministries or government agencies stay in the OSOS and provide efficient one stop services for registration as well as information of starting business, investment promotion incentives, and bridging SME with business partners, etc. (THA)

“g4b” (government for business) services: This is Korean on-line registration service provided by Ministry of Trade, Industry and Energy with Ministry of Science, ICT & Future Planning started in 2010. This system is a government representative portal “g4b” (government for business) to realized efficient network links to 15 governmental organizations. A lead-time of registration shortened to 3 days from 7 days, and the number of company establishment has increased. (KOR)

1-1-3 Incentive Schemes for Initial Start-Up¹⁹

At the point of start-up, a company is usually very fragile with limited resources, including human, financial, material and technical resources, while it is essential for economic development to encourage new entry of business. There have been international development partners' promotion programs and projects such as agro-industry support by Cambodia Agriculture Value Chain Program (CAVAC), female entrepreneurship development by Ministry of Women's Affairs, ILO and JICA, and KOTRA's latest support project for young entrepreneurs' promotion. For example, Korea Trade Promotion Corporation (KOTRA) initiated an incubation project in March 2013, in which business and technology matching between Korean companies and Cambodian entrepreneurs are also promoted in sectors of IT/software, agriculture, green energy, health, climate change, fashion/handicraft, culture/art, franchise and general business. CAVAC is also supporting agribusiness development, in which food processing is also covered.

¹⁸ BOI is the government agency responsible for providing incentives to attract investment, based on “Investment Promotion Act” (1977, 1991, 2001).

¹⁹ “Start-up” includes new business by not only newly establishment of business entity but also by existing entity.

(i) Issues

Under current situation, start-up SMEs often face constraints in human resource, financial resource, material resource, technology, market access and information, social insurance and other resources. There is practically no official supporting system specifically focusing on SMEs' start-up. There have been supporting arrangements and services introduced in the areas of access to technology [see following section 1-1-4], finance [1-1-7] and other services for business development [1-1-10]. They can be useful to assist SMEs start-up, but not yet function well as the incentives particularly for SMEs' start-up.

Many pilot incentive schemes for initial start-up have been introduced for SMEs mainly through collaboration with international development partners, but the policy level effective scheme is still considered to be limited. In the investment framework, under the Investment Law, a series of preferential treatment²⁰ is provided for start-up of large scale investment²¹, through Qualified Investment Project (QIP) scheme, but the QIP investment incentive does not yet cover the smaller scale investment likely to be by SME.

(ii) Principles/ Objectives

Objectives of introducing incentive scheme to be provided for initial start-up are to encourage and promote SMEs' entrepreneurship for strategic sectors to contribute directly to economic growth, and for diversification of industry to form the foundation of sustainable industrial development.

(iii) Directions for Measures and Actions

- Short-term Scope

Information of all the relevant programs and projects of incentive schemes for initial start-up shall be collected by MIH, and shall be put publicly available for several channels including One Roof Service for SMEs registration. Currently, programs and projects have often been undertaken on pilot basis, and information is not shared among them because of the limited network for coordination horizontally covering relevant Ministries, organizations and international development partners.

The strategic sectors should be identified for both strengthening current major engines of economy and the potentials for development in the future. **Garment, food processing, construction, trade, agro-industries, creative sectors** are the former sectors and **plastic including packaging, metal fabrication, off-shore IT services, logistics, repair service, rubber processing** are the latter.

Some private business associations established recent years are launching entrepreneur funding schemes made available to the association members. The RGC shall take necessary effort to support or coordinate with these movements. Where relevant, the governmental assisting measures should be considered for start-up period including tax exemption, assistance for introduction of technology, incubators, preferential financial arrangement, and assistance for office & communication facilities.

Not limited to the fiscal incentives, the RGC should provide necessary technical assistances extending the

²⁰ As stipulated in Chapter 5 of Amended Law on Investment, QIPs may elect to receive a profit tax exemption or use special depreciation. Profit tax exemption is selective, and consists of 9-year period in maximum.

²¹ The lowest condition for investment scale is over USD100,000 in case of investment by supporting industry providing 100% of products to exporting sector. Over US\$300,000 for manufacturing sector in leather products, electric appliances. Over USD500,000 for manufacturing sector in food & beverage, garment, etc.

current functions such as NPCC, ILCC, and ISC. The major focus should be put on the SMEs' mid- to long-term business planning. This type of business development services (BDS) should be handed over to the private initiatives when the private sector BDS developed. Thus, the RGC should also take necessary steps to promote private sector BDS while providing governmental services.

- Mid- to long-term Scope

The strategic sectors should be focused and continuously reviewed. The incentives are to be designed based on the characteristics of the strategic sectors and requirements of SMEs for initial start-up in the sectors concerned.

Extension of the coverage of incentive scheme under investment law, or other sets of laws to promote start-up of SMEs and venture business shall be considered.

(iv) Referential Schemes and Cases

Support for incubation facilities: The Organization for Small & Medium Enterprises and Regional Innovation (SME support, Japan) provides technical support and facilities for start-up stage entrepreneurs with small fee. The available period is set up to 5 years and tenant companies can receive hands-on support for developing business by specialists during their stay. (JPN)

“Cradle Fund Sdn Bhd (Cradle)”: The “Cradle” is the incubation fund for technology related entrepreneurs, in particular in obtaining pre-seeds and/or seeds of technology. The fund is operated by NPO agency under the Ministry of Finance of Malaysia. Entrepreneurs are provided consultation of product conceptualization to commercialization as well. (MYS)

1-1-4 Incentive Schemes for Promoting Technology Adoption, Innovation & R&D, and Work Skill Qualification Development

In the area of SME promotion, along with the academic factors, the “Technology Adoption & Innovation” is essential and to be considered as the potential resources of competitiveness and comparative advantages of business development. The quality “work skill” is also inseparable to the technology, as the “technology” SMEs are interested in often requires capable personnel to assist its effective adoption at the initial stage. The direction of the policy, thus, should include aspect of related work skills of the personnel.

Ensuring preservation and transaction of the intellectual property rights (IPR) is another important aspect for the technology adoption. Although high-end technology may not be the immediate requirement for SME to adopt, there are practical strategic elements in the area of IPR for the SME's resources for competition, such as “trademark”, “design”, and “copyright”. For the adopting technology by SME, competitive technology will hardly introduced where the IPR system does not exist or is not duly preserved. As a member of WTO, Cambodia has already introduced legal framework on IPR, while implementation thereof needs to be further strengthened.

(i) Issues

In 2010, a draft policy paper was discussed in the former Ministry of Industry Mines and Energy for SME

access to technology tentatively named “Strategic Framework for Technology and Innovation in Industry Sector (2010 - 2015)”. Some parts of the Framework have been followed in the “Corporate Strategic Framework 2011-2015” mainly for rice, food manufacturing, and the core export industry, and technology related projects.

The Framework suggests, in order to make improvement in technology performance by SME, i) further overall economic restructuring, ii) government support for customized industry initiatives, tax benefits for investment in skills and innovation, and iii) further investment on the skills and creative potential of workers. The Framework has been implemented and demonstrated some of major progress including establishment of technology incubation center at ILCC to assist SME, implement pilot SME business diagnostic and support for productivity improvement, develop and assess strategic options for promoting BDS development, piloting implementation of Technology Matching Grant, and other food safety issues including adopting Prakas.

In the policy level, the Framework tasks pursued for i) developing National Technology Policy, ii) promoting continuing education and training, and iii) capacity building and institutional strengthening of intellectual & industrial property.

In pursuant for the first task above, in 2013, the “National Policy of Science, Technology and Innovation” was discussed with National Committee on Science and Technology (NCOST), the Ministry of Planning (MOP), the Ministry of Education, Youth and Sport (MEYP), the Ministry of Public Works and Transport (MPWT) and the Korea International Cooperation Agency (KOICA). It came up with “Cambodia’s National Science and Technology Master Plan (2014 - 2020)” (NSTMP) formulated late in 2013 – which becomes the first Cambodia’s comprehensive science & technology development policy.

The NSTMP is designed more on overall science and technology development but one section, “Improvement of Core Industrial Capacity”, is relating to SME access to technology. Its focuses are, i) enhancement of agricultural productivity, ii) promotion of self-supporting industry, and iii) securement of ICT-based technologies.

The technology related institutions are developing along with all the policy strategies. For the public institution, Institute of Standards of Cambodia (ISC) is the authority of national standard for implementation and coordination including certification and testing. Industrial Laboratory Centre of Cambodia (ILCC), got autonomous from the former MIME with assistance from Norwegian Agency for Development Cooperation (NORAD) and UNIDO in 2011, is playing a role as a testing institution for microbiological and chemical examination on food products including incubation and technical assistance function. In the management area, National Productivity Center of Cambodia (NPCC) of MIH is a center authority pursuing for the national center of business excellence providing consultancy to SME on company diagnosis as well as on 5S/KAIZEN, GMP, GHP, and HACCP. National Metrology Center (NMC) was established under MIME with support from UNIDO in 2011 to enhance quality of measurement in industry. In the academic side, Royal Academy of Cambodia (RAC) and Institute of Technology Cambodia (ITC) are providing foundation for technological development. Although these technology bases are being prepared, the availability and capacity is still found to be limited to meet the actual SMEs’ needs.

In spite of all the progress and coming challenges to tackle, the SME access to technology is still yet in its initial developing stage. The recent observation over access to technology is revealing even adverse trend. The

over-all trend of index²² representing access to technology indicates peaked out in 2012 and declining recently. The country-ranking for “Availability of latest technologies” started from 103 in 2010 and improve to 79 but dropped 87 in 2014. Same trend is observed for “Firm level technology absorption” and “Company spending on R&D” (93 > 61 > 97, 82 > 52 > 79, accordingly). (Table III-1-1)

Table III-1-1: Trend of Access to Technology related Index by Ranking in the Global Competitiveness Report

	2010/11 (139)	2011/12 (142)	2012/13 (144)	2013/14 (143)	2014/15 (144)
Global Competitiveness Index	109	142	85	94	95
Availability of latest technologies	103	98	79	82	87
Firm level technology absorption	93	77	61	82	97
FDI and technology transfer	38	34	33	44	51
Quality of science research institutions	106	88	68	101	118
Company spending on R&D	82	64	52	57	79
University-Industry Collaboration in R&D	115	88	71	105	115

Source: “The Global Competitiveness Report”, WEF

* A figure in () is a total number of countries.

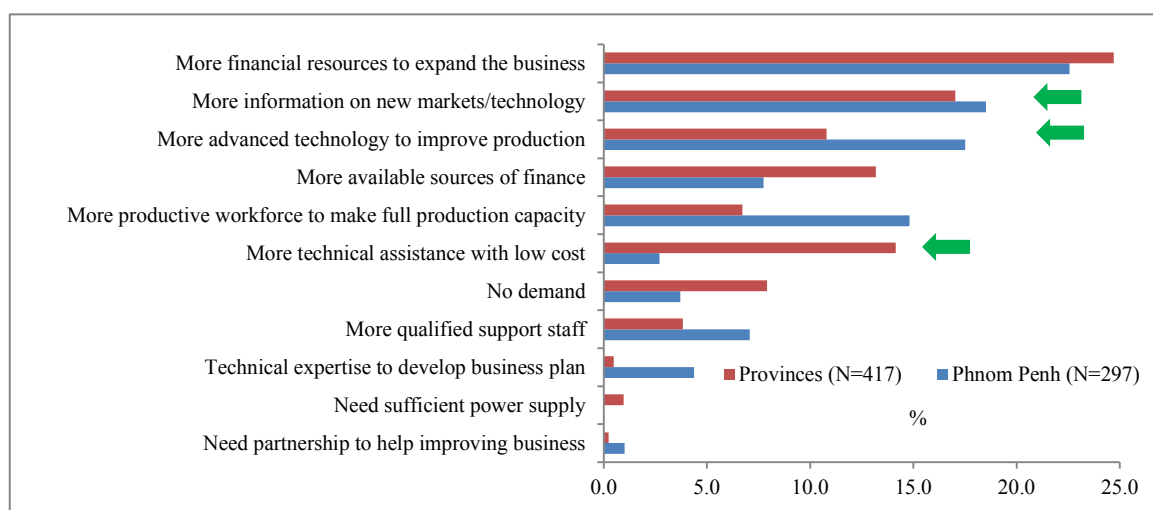
In the MIH/JICA Survey, important factors are identified as the difficulties SME are facing. The over-all difficulty SMEs are facing is **lack of information or lack of access to information to technology**. It is identified through interviews, SMEs find difficult to find information on appropriate technology (or skills) how to comply with the standard requirements, and to increase productivity or to upgrade quality.

In the area of actual access to technology, SMEs’ initial interest is often found in introduction of technology for increasing productivity which is revealed to be **access to better production machine**. The special personnel for its operation and maintenance, a technician, is the next step for a part of further technology upgrading. The technology for further value-added besides productivity (such as customization of machine for better products and R&D/innovation for improvement of products) is to be considered afterward they clear the initial access to technology.

The **cost and availability of skilled work force** in this area is also a constraint for SME. The introduction of a new machine (new technology/know how) often needs to accompany with technical personnel for operation, maintenance and customization. SMEs often require hiring those supporting staff which increases the cost of introduction of machine onto the cost of machine by adding the cost of staff. It is also their constraints that those staffs are not often easily available. This tendency is notable especially for SMEs in Phnom Penh area. (Table III-1-1)

²² “The Global Competitiveness Report”, WEF 2011-2014

Table III-1-1: Current SME Business Needs



Source: MIH/JICA Survey 2014

As for **intellectual property rights**, the RGC has introduced main laws such as Law on Patents, Utility Models and Industrial Designs 2003, Law on Copyright and Related Rights 2003, Law concerning Marks, Trade Names and Acts of Unfair Competition of the Kingdom of Cambodia 2002 and Law of January 25, 1996 on the Protection of Cultural Heritage, as well as regulations (Prakas) for implementation. Several authorities including MIH, MOC and Ministry of Culture and Fine Arts (MCFA) so that coordination among them as well as with judiciary authority has to be improved, whereas the enforcement of laws and regulations, including control over counterfeit products, is facing challenges. There is certain limitation of the capacity necessary for adequate examinations and registrations for different rights, e.g. patent examination relies heavy on WIPO currently. Lack of awareness on intellectual property is still the issues to be improved in central and provincial governments, business community and consumers.

(ii) Principles/ Objectives

The over-all objective is to further facilitate SMEs' access to technology to improve productivity and competitiveness realizing better access to information on technology and reducing constraints of SME to adopt technology. The work skill upgrading is also to be included for the support of adopting technology.

(iii) Directions for Measures and Actions

The basic direction as follows should be aligned with the other relevant policies including draft of "Strategic Framework for Technology and Innovation in Industry Sector (2010 - 2015)" and "Cambodia's National Science and Technology Master Plan (2014 - 2020)"

● Short-term Scope

The focal point of information on technology should be promoted. As it is aimed for the SME access to technology, the initiative should be taken by MIH. At the initial stage, priority should be put on technology to increase and/or improve productivity. The technology at this stage will include information on know-how, explanation, machine specification, opportunities to adopt technical solution and patent. The technical information may well be organized to correlated with business development and legal requirements; such as

how to utilize or how effective the technology to improve productivity or quality control, and how to apply technical measures to comply with, regulations or standard requirements. It may be easier for SME to establish the focal point at more social science oriented institutes or business incubators with support of natural science ones, as related business information could be provided at the same time.

To back up the information focal point, it is also important to **further strengthen and increase number of government-run technology related institutions**. Not only coverage of technology type but capability of testing and technological consultancy function has to be strengthened to meet the needs of SME.

It is another aspect of access to finance but it is necessary to consider **new modalities to improve SME access to finance for technology adoption**. A range of projects, such as pilot technology matching grant (such as Technology Development Fund (TDF) Project by ADB) and a public-private facility for partial loan guarantees (such as Guarantee Project for Rice Milling Machine by IFC), has been provided with projects by international development partners. The outcomes and achievements should be carefully examined and the feasible mechanism should be structured to make it institutionalized as policy measures. The financial assistance for the technology adoption is also considered including introduction of favorable tax/import tax scheme for SME in case of their adopting new machines.

The mechanism for technology sharing is also to be considered for institutionalization. It can be realized in the process of clustering approach and promotion of cooperative business associations, such as purchasing and sharing one new machine by a group of SMEs which serves for cost sharing and efficient use of machine.

It is also essential to facilitate **coordination among academia, technology related institutions including research and testing institutions, public authorities and SME business community**. The MIH should take initiative and set a mechanism to mobilize funding supports for the coordination with cooperation of SME associations.

Upon the needs of SME for technology adoption, the required work skills are to be identified by the technology related institutions. This information should be duly conveyed to educational and vocational/training institutions for further practical industrial human resource development. At the same time, the related authorities should consider to set a new **work skill qualification or guidelines** to serve as benchmarks to scale quality standard levels of skills.

Information on registered IPR should be also made available as a part of information of technology at the focal point or in separate measures.

- Mid- to long-term Scope

Each authority should **establish and institutionalize** the above mentioned institutions and mechanisms.

The incentive schemes, not only fiscal but non-fiscal, are to be considered and introduced for further promotion on **technology adoption and SME internal R&D and innovation for quality upgrading** beyond productivity more onto value-added and quality upgrading. The incentive schemes should be extended to **the employment of Qualified Work Force or internal training** to comply with the qualification and guidelines. The favorable tax regime & related financial assistance and non-fiscal assistance including consultancy should be considered to back up the incentive scheme.

In a long-run, agglomeration of technology resources to link with SME should be promoted such as establishment of **Technology Park for SME**. The more and more interactive communication among technology specialized entities, academia, public testing institutions and SME should be promoted in such environment. (This can be considered based on the clustering approach at the initial stage.)

Strengthening the implementation and enforcement of IPR system should be further conducted which includes strengthening examination process and quality examiners, strengthening enforcement of IPR preservation, consideration of accessing to the Patent Cooperation Treaty.

(iv) Referential Schemes and Cases

“Public Experimental and Research Institutes”: The regional government-run institutions are set and made available for regional SMEs for testing of their products and technical, technological assistance. The institutes provide functions such as consulting service, experimental services, equipment rental, research, human resource development and information dissemination. (JPN)

“Research and Development Assistance Scheme”: A grant scheme in Singapore aimed at stimulating Research and Development in the form of University-Industry collaboration, introduced in 1991 by the National Science and Technology Board. (SGP)

“SME Modernization Promotion Act (1963-1999)”: The Act designates specific sectors (63 sectors) and sets eligibility conditions for the incentive scheme for tax benefits and low interest loan programs for SME in purchasing machineries and/or receiving technical consultancy services. (JPN)

1-1-5 Incentive Schemes and Simplified Pro-SME Tax Regime

In current taxation scheme, Tax on Profit is assessed in accordance with systems of the real regime, the simplified regime or the estimated regime, and application for each company is decided by type of business activities and level of turnover (Art. 4, 2003 Law on Taxation). In reality, the simplified regime is not activated, and the estimated regime is applied for small scale enterprises, while the real regime is applied for large and medium scale enterprises. Since Cambodia became a member of WTO, and ASEAN Economic Community (AEC) is going to be fully implemented for Cambodia, tax revenue from custom and import tariffs is expected to decline, so that it is essential for the RGC for its fiscal management to assure healthy revenue from other types of tax including tax on profit. Under national taxation plan, it is encouraged to enlarge use of the real regime rather than the estimated regime.

(i) Issues

The real regime, including financial reporting for taxation, seems too complicated for SMEs which do not have the proper accounting record. Under the estimated regime, tax payers do not need to prepare the financial statements. This means that most of tax payers under this regime do not maintain the proper accounting record which is essential to prepare the financial statements. Therefore the Simplified system on financial reporting based on the basic record of sales and purchase transactions for taxation purpose for SME is under development and process of promotion; however, sometimes difficult to be understood and fully implemented by SMEs. Through the SME Promotion Survey and a series of dialogue between government and private sector, difficulties of tax regime have been pointed out from many SMEs.

SMEs are, in general, reluctant to apply the real regime because the merit of using the regime is not well understood; some of SMEs have no ability to prepare the financial statements required under the real regime; and no common practice among SMEs to use the real regime.

There are no incentive schemes or preferential taxation system for SMEs in general, or SMEs focusing on particular sector or region, while some of the FDIs enjoy tax exemption under QIP in accordance with Investment Law and relevant regulations.

As for the framework of business accounting, which is critical for taxation as well as for improvement access to finance [1-1-7], Cambodian International Financial Reporting Standards (CIFRS) based on International Financial Reporting Standards have been published. In addition, particularly for SMEs, Cambodian International Financial Reporting Standards for SMEs (CIFRS for SME) have been developed, while not yet utilized among many SMEs.

(ii) Principles/ Objectives

In order to promote SMEs' formalization and sound development, which contribute to Cambodia's economic development, tax system should be not only focused to efficiency of tax collection, but should provide certain benefit to the taxpayers side, as well as avoid unnecessary burden, and should contribute to SME promotion.

Following aspects should be taken into consideration:

- transparent and simple tax regime;
- avoiding complication in procedures, in order to realize healthy financial management based on the proper bookkeeping among SME through raising potential fund for further SME promotion; and

(iii) Directions for Measures and Actions

● Short-term Scope

Keeping alignment with over-all policy by GDT, MIH, NBC, GDT and NAC should cooperate to provide and promote regularly awareness on the proper bookkeeping to SMEs. There have been several projects by GDT under cooperation with international development partners to strengthen taxation system and capacity of government relating to the system. These pilot projects should be utilized and continues support to assist SMEs to adopt taxation system, including how to make bookkeeping on the sales and purchase transactions for the further preparation of the simplified financial statements, should be implemented.

Promotion of transparent tax payment and refund system as well as fair tax audit should be further conducted. Especially, tax payment and refund through banks and/or MFI should be further promoted. This transparent tax payment and refund system itself could serve incentive for SMEs to follow the due process and to consider applying relevant tax regime.

● Mid- to long-term Scope

On-going promotions on introduction of simplified financial statement for SME and micro-enterprises should be assisted by the special incentive schemes. The tax incentives such as exemption should then be considered for the limited period when SME shifts from the estimated regime to the real regime after their adoption of the simplified financial statements or the complete set of financial statements.

The estimated regime is recommended to terminate through the amendment of Law of Taxation when the shift from the estimated regime to the real regime does not work smoothly which can be resulted by the light tax burden and exemption of VAT declaration of the estimated regime. However the simplified system to calculate Tax on Profit and VAT for the micro and small enterprises shall be considered to reduce their administration work.

Also, infrastructure of taxation, including internet filing and bank transfer payment shall be developed to reduce the taxpayers' burden of tax filing and payment.

Once a firm taxation system is realized, preferential taxation scheme would be helpful for strategic or safety-net reasons, e.g. promotion for certain sectors/areas, protection from disasters or other unexpected situations.

(iv) Referential Schemes and Cases

“Blue Return System”: The system is a tax incentive scheme for SMEs in Japan started in 1950 by National Tax Agency (NTA). The system provides SMEs with a range of benefits²³ when SMEs spontaneously prepare the financial statement(s) with the proper bookkeeping by itself, and report them on due process for tax settlement such as. This scheme is supported with the consulting assistance from the “Certified Public Tax Accountant Associations”, “the Japanese Chamber of Commerce, the Corporation Association (JCCI)” and the “Associations of Blue Return Taxpayers”. (JPN)

“Blue Return System”: The micro Blue Return taxpayers can apply Cash Basis not Accrual Basis for bookkeeping. The Simplified income statement can also be accepted without the Balance Sheet by the tax authority under “Blue Return System” based on preparation of 5 simplified accounting books such as Cash book, Accounts Receivable book, Accounts Payable book, Expense book and Fixed Assets Register. The eligible taxpayers are able to enjoy the benefit without the knowledge of double-entry bookkeeping system but maintain the entries on 5 simplified accounting books only. (JPN)

Special SME tax arrangement; In Thailand SMEs of which paid-up capital is less than 5 million Baht at the end of each accounting period can enjoy 15% of the preferential rate on Corporate Income Tax for the net profit which is not exceeding 1 million Baht instead of 20% of the normal rate. (THA)

Special SME tax arrangement; The Board of Investment (BOI) grants the privileges for promotional activities operated by SMEs which majority shares are owned by the Thai citizen. One of privileges is the exemption of Corporate Income Tax for 1 to 8 years depending on the activities to satisfy the certain conditions. (THA)

1-1-6 Schemes for Applying Law on Investment in SMEs Investment Promotion

Cambodia's investment framework is stipulated by Law on Investment 1994 and Law on the Amendment to the Law on Investment 2003 and related sub-decrees. The framework realizes open market to in-bound investment from foreign capital in Cambodia; because there is no restriction of foreign shares so that 100% foreign ownership is encouraged in almost all sectors.

²³ Benefits include; special deduction from net profit, expense deduction for allowance of bad debts and deduction from net profit for the carried forward loss on Corporate tax calculation.

As a part of the investment framework, Sub-Decree No. 147 on the Organization and Function of the CDC and Sub-decree No. 148 (2005) on the Establishment and management of the Special Economic Zone (2005) provide legal basis for SEZ, while Law on SEZ has not been entered into force yet. The purpose of SEZ is to promote agglomeration of industry through investment by providing infrastructures and services.

(i) Issues

Cambodia's investment promotion framework is designed basically to encourage large scale investments, and investments by SMEs, which are often small scale, are basically out of scope. Investment approval is issued to a project called a Qualified Investment Project (QIP). A QIP may be in form of joint venture between Cambodian entities, between Cambodian entities and foreign entities, as well as between foreign entities, and QIP projects can enjoy investment incentives including of profit tax exemption and import tax exemption as well as investment guarantee. The minimum requirement for investment is set as; USD100,000 for supporting industry with entire production supplying export industry; USD300,000 for metal production of leather, metal, electrical and electronic production, etc.; USD500,000 for food products and beverages, textile, garments, textile, etc. The level of minimum requirement of QIP scheme is applicable mainly for the investment cases of large scale companies. Hence, there is no legal framework in Cambodia to provide investment promotion preferential treatment specifically aimed for SMEs.

At the same time, since most of the existing SEZs are designed for FDI related business and/or large scale manufacturers, in a sense of the start-up payment, monthly rent and size of the sites, it is also difficult for Cambodian SMEs to develop their business in SEZs to enjoy their advantages.

(ii) Principles/ Objectives

A wider and diversified range of options for investment opportunities should be provided for SMEs as well as large scaled investment projects and relevant incentives should be considered to encourage them to take the opportunities in order to activate potential economic foundation for industrial development and dynamic economy.

(iii) Directions for Measures and Actions

● Short-term Scope

The RGC, CDC, will review and update the criteria for the investment promotion to SMEs initially through extending the QIP and SEZ scheme effectively available to SMEs' business/investment scale. Minimum requirement for investment could be reviewed and lowered for some of the sectors, or special preferential program to encourage SMEs' participation to the joint ventures with larger companies should be considered.

The non-fiscal incentives should be discussed as well as fiscal incentives such as favorable facilitation and simplification on administrative procedures, preferential consulting, and other technical assistances.

● Mid- to long-term Scope

The RGC is also to set forth an over-all national investment promotion policy covering SMEs' roles with direction and incentives for the priority business areas for its further investment. **A set of investment**

framework specifically targeted for SMEs, including QIP for SME, could be also developed where necessary and relevant within or in addition to the current scheme of the Law on Investment, especially for the prioritized industrial sectors. The priority sectors should be identified for both strengthening current major engines of economy and the potentials for development in the future through encouraging SMEs' investment.

In order to promote scale of economy and technology development, a set of preferential measures should be considered for introduction as a part of the investment framework to encourage alliance and joint ventures. The alliance and joint ventures can be any combinations, including domestic-domestic, foreign-domestic and foreign-foreign companies in any scales. Through this set of measures, technology transfer and linkage to GSC are also encouraged.

Provided that current SEZ scheme may not be applicable to the scale of SME business/investment, the special provisions may well be included when the investment framework specifically for SMEs is set up. Further consideration should be taken for the possible establishment of special zone, such as "SME Zone", to promote agglomeration of SME through providing preferable electricity tariff and basic infrastructure with further potential non-fiscal assistances including facilitation for collaborative purchase, and sharing facilities. The notion of the processing zone indicated in IDP should also be elaborated in this context of SME promotion.

(iv) Referential Schemes and Cases

"Promotions of Investments Act" (1986): The Malaysian Industrial Development Authority (MIDA) aims to invite new investment for the government promoted industries. On this purpose, two statuses for tax reduction were set, "Pioneer Status" and "Investment Tax Allowance". The eligibility condition allows small scale manufacturing companies for these statuses when they are incorporated in Malaysia with shareholders' funds not exceeding RM 500,000 and having at least 60% Malaysian equity are also eligible for above two incentives. (MYS)

1-1-7 Scheme for Supporting Access to finance for SME

Cambodia's financial sector has been developing steadily along with the Financial Sector Development Strategy 2011-2020 succeeded from the former strategy, Financial Blueprint for 2001- 2010 . The number of commercial bank, specialized banks, and microfinance institutions (MFI) increased from 27, 6, and 20 in 2009 to 35, 8, and 36 in 2013 accordingly. The total asset of commercial banks and specialized banks increased more than doubled in 5 years from KHR 20,830 billion (approx. USD 5.2 billion) to KHR 50,929 billion. (approx. USD 12.7 billion). That of MFI demonstrates from KHR 1,525 billion (approx. USD 0.4 billion.) to KHR 6,381 billion (approx. USD1.6 billion) - which is more than fourfold in 5 years.

The climate for SME access to finance has also been improved steadily. As the more competition is increasing among banks in loan activities, there is decline in commercial loan interest rate and related service fees – which were one of the major difficulties of SME in access to finance. Longer term credits for SME are now offered among Banks. With certain limitation in conditions for loans, the microfinance has been well-received and developed getting popularity among SME as well as individuals.

In spite of the steadily development of financial sector and its lending trends, it is recognized that there are still issues remain and kept raised from SME in the area of access to finance.

(1) Credit (Collateral, Credit Guarantee)

(i) Issues

The outstanding of total lending by banks increased almost tripled from KHR 10,467 billion (approx. USD 2.6 billion) in 2009 to KHR 29,370 billion (approx. USD 7.3 billion) in 2013. The growth of microfinance (MFI) lending is even notable, more than quadruple in same period from KHR 1,245 billion (approx. USD 0.3 billion) to KHR 5,262 billion (approx. USD 1.3 billion). The bank's total loan share in total asset extended from 50.2% to 57.7% in the same period which is a big increase from the figure 37% highlighted in the SME Development Framework 2005 (MFI: from 81.6% to 82.5%). The loan share in GDP increased from 24.3% to 47.8% for banks and 2.9% to 8.6% for MFI. The banks' financial intermediation function is growing.

As seen this recent steadily growth of financial sector and improvement of loan environment as above, among the commercial and specialized banks, there has been extensive development in a range and variation of loan products provided. Many banks are offering special loans for SME and/or micro firms and some has a loan product even for informal sector. As far as the provisions of the laws concerned, collateral on land property is not always required and can be substituted by other forms of asset. In reality of the actual banks operation, however, the collateral on property is still most reliable in assessing borrowers' financial status. As SMEs often stand with limited assets, the land properties are often recognized as major objectives for collaterals. The further consideration should be taken for the actual improvement in this area corresponding to improvement of legal framework including strengthening the Credit Guarantee system and introduction of Risk Capitals.

The loan interest rate ranges approx. 10 - 12% p.a. or negotiable with certain conditions which used be around 16% p.a. 3 to 4 years ago and banks' handling fee also decreased from 1% to less than 1% to 0%. The term of loans could be extended to 5 or longer. In May 2014, ACLEDA Bank has signed a 2-step loan agreement with Asian Development Bank for the amount of USD 75 million for SME loan. In April and May 2014, 2 MFIs (PRASAC, AMRET) have signed loan agreements with Kreditanstalt fur Wiederaufbau (KfW), a State owned financial institution in Germany, for USD 20 million and USD 10 million accordingly for SME loan. These funds are considered contributing to the longer term loans at current situation.

It has been pointed out in general that "lack of loans designed for SME", "collaterals requirement on immovable (property)", "high interest rate", and "limitation of short loan terms" are often considered constraints for SME to access to finance. Although the most of constraints raised conventionally is considered being moved toward improvement in terms of regulatory legal framework, the SME's access to finance is still a significant issue to be addressed.

The MIH/JICA survey²⁴ has identified the following characteristics in the current difficulties raised from SME for their access to finance;

- a) High interest rate,
- b) Complication on loan procedures,
- c) Difficulties to obtain hard title deeds on collaterals,
- d) Difficulties to prepare a standard financial statement required for loans,

²⁴ Questionnaire and interview survey conducted on 200 samples in Phnom Penh area for third quarter in 2013, 300 samples in 6 regional locations for the first quarter in 2014.

- e) Loan amount limitation set by banks' borrowing cap on the borrower's asset
(The level of borrowing cap depends on the scale of borrowers' asset scale),
- f) A short-term repayment schedule, and
- d) Lack of information on loan products and their improvement.

(ii) Principles/ Objectives

Objectives of improvement and promotion of access to finance in the area of loan are to; i) introduce a specifically designed SME public loan scheme complementary and synergistically effective to existing SME loans provided by private commercial banks and MFI, and ii) promote capacity development of SME (modernizing its management) to facilitate its access to finance including technical guidance to and promotion of financial products and services available for SME.

(iii) Directions for Measures and Actions

In the area of SME access to finance, the issues related to regulatory framework have been tackled and progressing. Further continuation and completion of on-going undertakings for improvement is essential. In addition, it is considered significant to initiate discussion for relevancy on SME specific arrangements for further access to finance along with over-all development strategy for financial sector and Industrial Development Policy. The SMEs' limitation of assets for collateral is structural; thus, certain alternative options should be considered such as strengthening guarantee system for SMEs. The preferential loan rates should also be considered as for the policy interest rate for SMEs in the specific promotion objectives. The Rectangular Strategy Phase III instructs supporting measures in increasing access to finance for SME, and the National Strategic Development Plan (NSDP) clearly states the RGC's focus on "Setting up a financial service system for SME" in promoting financing options for SME.

● Short-term Scope

The Credit Guarantee Fund (CGF) scheme should be considered to extend to meet the financial requirement of SMEs' specific business activities which include a) business start-up (capital formation), and b) capital investment for facilities/equipment for strategic areas (such as "becoming a part of the value chain with larger companies"). The current CGF has been established in 2011 and governed by the Ministry of Economy and Finance. The current CGF scheme has been contributed to promotion of rice and paddy production and their export under the Rice Policy. As SME is often in short of asset for the required secured transaction for banks loan, provided the CGF scheme is extended and designed for SME promotion along with the SME Promotion Policy, it will provide broader opportunities for SMEs for bank loans, the formal finance, for their business development.

Policy interest rates and/or loan interest subsidizing scheme could also be discussed for SMEs in the specific business development requirement align with the Industrial Development Policy which can include promoting SMEs for start-ups, develop their business, and challenges to be auxiliary industrial function to the larger firms or FDI companies.

Establishment of a focal point should be considered for over-all information and consultation on SME access to finance among financial authorities and related stakeholders including MOEF, GDT, NBC, NAC, Association of Banks in Cambodia (ABC), CMA, and KICPAA. The consultation function should include further promotion of the proper bookkeeping as well as promotion of financial products for SME. The

technical assistance to build SMEs' capacities in modern business management formulating business plans in relation to the promotion of the proper bookkeeping.

- Mid- to long-term Scope

Establishment of government-run SME financial institution should be considered by integrating the loan interest supporting/subsidizing schemes and the focal point of information and consultation. The financial services offered by this institution should be complementary and synergistically effective to those offered by the private sectors.

(iv) Referential Schemes and Cases

“Japan Federation of Credit Guarantee Corporations (JFG)”: The Credit Guarantee organization firstly started in 1937 and the federation established in 1955 whose fund for credit guarantee is supported by the Japanese government. It provides credit guarantee up to 100% for small scale business. (JPN)

* Comparable institutions are found in ASEAN member and neighboring countries and region including Thailand (Thai Credit Guarantee Corporation), Malaysia (Credit Guarantee Corporation Malaysia Berhad) and Indonesia (PT. Asuransi Kredit Indonesia, PT.Askrindo, etc), Korea (Korea Credit Guarantee Fund, etc) and Taiwan (Small and Medium Enterprise Credit Guarantee Fund of Taiwan).

“Japan Finance Corporation (JFC)”: A public corporation wholly owned by the Japanese government, established on October 1, 2008. (The four policy-based financing institutions were merged). (JPN)

(2) Leasing, Risk Capital, and Other Options

(i) Issues

Another aspect of access to finance is diversification of financial products – which could provide wider options for finance through differentiation of the characteristics of type of financial products. The diversification of financial products for SME is still under development stage.

Lease: The Law on Financial Lease has been introduced in 2009 for “lease” as another option of financial resources. In reality, the current actual services provided in the market are still more or less limited to the operational lease rather than financial lease. The lease has not yet widely recognized among SME as one of financial options comparable to loans but used as another form of equipment “rental” services. There are 6 leasing companies licensed by NBC and ACLEDA Bank start offering operational and financial lease at present.

Comparing with bank loans, SME could enjoy lower transaction costs with a financial lease. The bank loans often involve very complicated procedures and examination of the borrower's assets & liabilities, income, and other requirements such as collaterals. However, in case of the financial lease, the borrower could escape from this process. For starting up SME, the advantage is to secure credit line with bank loans untouched. The lease is providing new financial options to SME.

There are still some technical improvements required for interpretation on provisions of the Law on Banking and Financial Institutions 1999, the Law on Financial Leasing 2009, and the Civil Law 2011 including cases

such as:

- The Law on Banking and Financial Institutions identifies leasing as a banking operation, but in reality leasing should not be limited to banks,
- The Law on Financial Leasing stipulates that the lessee has the right to select the equipment and its vendor which creates a question if a lessor has no right to qualify the vendor,
- The Civil Law stipulates that the lessor (not the vendor) has responsibilities to maintain the leased equipment even where the lessor may not have knowledge on the equipment, while no clear provisions are set for responsibilities of the lessee and the vendor”, does not clearly stipulates their responsibilities.

In relations with the tax regulations, application of withholding tax on lease is an obstacle to promote lease transactions. Because if the lessee is a real regime taxpayer, the lessee shall pay 10% of withholding tax to the General Department of Taxation. Although payment of withholding tax is done on behalf of the lessor, in practice the lessor will increase the lease fee to absorb withholding tax and maintain stable cash in flow. Therefore, this tax treatment on lease leads higher lease fee for the lessee and diminishes benefit of lease transactions. As for the reference, in the case of Thailand, the lease transactions are also subject to withholding tax however the rate of withholding tax is 5%. The exemption for withholding tax is applied in the case that the lease period is not less than 3 years and the leasing company has paid-up capital not less than 60 million Baht.

Risk Capital (Venture Capital): There is not yet a legal framework for Risk Capital, such as venture capital. Some of the private firms are offering venture capital services, such as DEVENCO, but these privately operated venture capitals are still at limited stage for SME to take advantage easily.

Other Options: Further financial options are still on-going stage for introduction and development. The wider options such as factoring, equity fund, private placement bond, and Claud funding, etc. are still not yet widely available in general not limited to SMEs and legal framework is not adequately set for them.

(ii) Objectives

It is significant to widen the options of financial products to facilitate SME access to finance. The major objective of the actions to be taken is to preserve sound legal foundation for each of different financial product and provide a range of services through diversification.

(iii) Directions for Measures and Actions

● Short-term Scope

NBC and relevant Authorities should keep its effective governance on the development of potential financial options for SMEs and introduce appropriate regulatory and legal frameworks to newly developing financial products without delay. To this end, NBC or relevant Authorities should prepare to introduce a set of regulatory and legal framework for emerging Risk Capitals such as capital venture. It is also urgent task for NBC to make clear interpretation on conflicts among existing provisions of laws related to a newly introduced financial system such as lease.

In order to avoid conflict in regulations, as stated in the Financial Sector Development Strategy 2011-2020, it is NBC's task to clarify in the provisions of the Law on Banking and Financial Institutions 1999 among

leasing for banks, license leasing companies, and supervise leasing and leasing companies. The responsible authorities should clarify and coordinate interpretation of provisions of other related policy, laws and regulations indicated the previous section.

GDT shall review the current practical issues of withholding tax system on lease and consider reducing or exempting it in order to promotion of lease transactions to reduce the burden of payment of lease.

- Mid- to long-term Scope

Introduce relevant legal framework for the new modalities of financial services, such as risk capital, Cloud funding, etc.

(iv) Referential Schemes and Cases

“Accounting Standards for Lease Transactions (Corporate Accounting Standards No. 13)”: The standard was introduced in 1994. SMEs as a lessee can also apply account for the lease based on "the General Accounting Standard for SMEs" in Japan, in accordance with the method pertaining to rental transactions or finance/purchase transactions. The method for rental transaction is widely applied by SMEs in Japan as recognized simpler whereas the method for finance/purchase transactions is more complicated. (JPN)

(3) Credit Information

(i) Issues

In 2011, upon the Prakas on Credit Information, the Credit Bureau Cambodia (CBC) has established. CBC is consolidating all the credit information from banks and MFIs, and running the Credit Reporting System. CBC started to accumulate data since 2010 before its official establishment and its system launched from 2012. The record of credit information accumulated 3 million as par number of borrowers since the system started, of which 2 million are active.

The credit information data on the current system is all on individual borrowers. However, a certain number of credit accounts can be considered loans to SME under the name of individual, such as president of SME. CBC estimates 1.1 million loan accounts (approx. 988,000 borrowers) are considered to be SME. CBC categorizes the raw data by its original classification based on product types that could assume actual borrowers are business related SME.

The CBC's credit information has been utilized by banks, MFI and related financial entities for credit assessment. It has been over 1.67 million enquiries since the start of the system (as of Dec. 2014). Within 2015, CBC is going to consolidate credit information of firms and put on its system. CBC is still considering how the firms' information be updated, as once borrower's firm information is registered on the system for ID code, following credit information will be reported on ID and firm information then will remain as it is registered. CBC is under consideration of procedure for this in order to provide updated information.

(ii) Principles/ Objectives

The sound operation of credit information sharing scheme is essential to sustain healthy credit climate among

financial sector. Maintaining the scheme running appropriately, the easier and more efficient credit decisions could be made, thereby increasing financial supply to SME with good credit history.

(iii) Directions for Measures and Actions

- Short-term Scope

CBC and NBC will set and introduce an updating scheme and procedure for borrowers' information.

Cooperating with banks and MFIs, CBC will verify comparability of the product type classification to category of assumed SME as borrowers. The comparability should be substantiated with the firms' credit information data on system when it is extended. Based on the data verification and substantiation, CBC, NBC and relevant authorities will work with MIH to contribute to formulation of relevant definition(s) for SME.

In addition to the data sophistication process, a certain arrangement should be discussed in reporting procedures from banks/MFI to CBC for the updating firms' information.

- Mid- to long-term Scope

Establishment of the Credit Guarantee Fund (CGF) guarantee system for SMEs should be considered among CBC, NBC and relevant authorities integrating the discussion projected in the section (1) above.

(iv) Referential Schemes and Cases

“National Credit Bureau Co., Ltd.”: A credit information company established in 2005, originally formed on “Credit Information Business Act” in 2002 and partly funded by Thai government. The credit information is provided for both individual and commercial (company). (THA)

(4) Simplified Accounting

(i) Issues

In June 2006 MEF introduced Financial Reporting Templates (FRT) for SME by Prakas No.431 MEF/BK. FRT is a tool to apply for financing from banks and financial institutions. Scope to apply FRT is any enterprise carrying on business activities, which are not subject to obligation of preparing financial statements in accordance with Cambodian Accounting Standards, and based on its declaration data or examination; meet two of the three following criteria:

- i) Total maximum workers-employee : from 11 to 100.
- ii) Annual Turnover : from KMR 100 million to less than KMR 250 million.
- iii) Total assets : from KMR 100 million to KMR 250 million.

NAC in conjunction with ADB and KICPAA designed the FRT as part of ADB's SME Development Program technical assistance to better manage the business, better access to finance and cost savings. In addition to the templates, the explanatory booklet was published. The booklet included an explanation of the technical terms in plain language and the importance for enterprises to maintain accounting records, and produce financial

statements.

FRT includes the following components:

- i) Corporate information / enterprise information
- ii) Statement by Directors / Statement by Owner
- iii) Balance Sheet (Statement of Financial Position)
- iv) Income Statement
- v) Notes to the financial statements

It is mentioned that the FRT is still effective until now even after new adoption of the new Cambodia International Financial Reporting Standards (CIFRS) in 2012 and the Cambodia International Financial Reporting Standards for Small and Medium Entities (CIFRS for SME) in 2010 compliant with International Financial Reporting Standards (IFRS) and International Financial reporting Standards for Small and Medium-sized Entities (IFRS for SMEs) according to NAC, since there is no regulation to cancel its validity. NAC has also prepared even simpler templates for micro firms in 2014.

IFRS for SMEs was published by the International Accounting Standards Board in 2009 and is now required or permitted by 63 jurisdictions (as of August 2014) but mainly developing countries where never have own SME accounting standard like Cambodia.

Furthermore CIFRS for SME may not be applied to SMEs which have no public accountability and have no obligation to submit the financial statements for the statutory audit. Therefore there is no Accounting Standard mandatory applied for those SMEs in Cambodia.

Despite the effort of NAC with cooperation of GDT, adoption of FRT and CIFRS for SME is not yet broadly observed among SME and micro firms because there are the following obstacles for SMEs to prepare the financial statements.

- 1) No information to prepare the financial statements
Most of SMEs under the estimated regime do not maintain the proper bookkeeping which is the basic information to prepare the financial statements.
- 2) No requirement to submit the financial statements
Under the estimated regime SMEs have no obligation to submit the financial statements to any authorities. Moreover when SMEs apply loan to the banks/MFIs, they may not request the financial statements from SMEs but the banks/MFIs may prepare the financial statements by themselves.
- 3) No review/audit system to examine the financial statements
There is no legal requirement of the statutory review/audit for SMEs to examine the financial statements.
- 4) No modern management system to utilize the financial statements
SMEs have no idea to utilize the financial data for their own business development.

Therefore SMEs have no motivation to prepare the financial statements even though FRT is more simplified format of the financial statements than the format based on CIFRS for SMEs.

(ii) Principles/ Objectives

In the context of SME Development Framework 2005, it is recognized by NCA that the simplified financial reporting standards (ex. FRT and Templates for Micro Firms) was necessary, in order to: (i) improve SME access to finance; (ii) improve financial management of their business; and in the longer-term (iii) to improve tax collection. This recognition is still shared at present condition.

The Industrial Development Policy sets target “By 20245, 80% and 95% of small and medium enterprises respectively operating in Cambodia should be officially registered while 50% and 70% of small and medium enterprises respectively of micro enterprises should have accurate accounting records and keep proper balance sheets.”

(iii) Directions for Measures and Actions

- Short-term Scope

NAC and GDT should review the relevancy on current FRT and Templates for Micro Firms with CIFRS. The amendment should be prepared when necessary but the Templates should remain in simple nature designed for SME. Along with the strategic goal projected in the Industrial Development Policy, NAC in cooperation with GDT, then, should promote the proper bookkeeping in order to further adoption of FRT and Templates for Micro Firms is essential.

The promotion activities should be aligned with capacity development assistance for SMEs’ business management modernization. The significance of introduction of financial statement should be well-delivered to SMEs not only for the tax authority’s objectives but for the SMEs’ advantages for access to finance, registration, and better business management which lead SMEs to business development.

- Mid- to long-term Scope

The authority should review the utilization of the existing CIFRS and CIFRS for SME and consider to introduce the new Accounting Standard for SMEs and micro firms which eliminates the complicated treatment and enables the proper bookkeeping by SMEs themselves in order to enhancement of preparation of the financial statements and utilization of the financial information for business development..

(iv) Referential Schemes and Cases

Recent development of SME Accounting in Japan, U.S. and Europe is different from development of IFRS for SMEs to reduce the burden to prepare the financial statements for SMEs which cover most of companies in each area.

In February 2012 General Accounting Standard for Small- and Medium-sized Entities was published by the Review Group on SME Accounting as an optional framework for SMEs in Japan. General Accounting Standard for Small- and Medium-sized Entities is suited to the reality of SMEs because this Accounting Standard emphasizes the importance of bookkeeping (input) while IFRS emphasizes the purpose of the financial reporting (output) given to the stakeholders. (JAP)

In June 2013 American Institute of Certified Public Accountants (AICPA) released Financial Reporting Framework for Small- and Medium- Sized Entities (FRF for SMEs) as an optional framework for SMEs in U.S. This framework avoids needless complexity and cost in order to privately held owner-managed businesses that are not required to use GAAP. (US)

Also in June 2013 Europe Union (EU) released the Financial reporting obligations for limited liability companies (Directive 2013/34/EU) in order to simplifying the preparation of financial statements for small companies by reducing and limiting the amount of information to be provided in the notes to the financial statements.(EU)

As summarized above, 3 frameworks have the common features below:

- 1) Use the historical cost as principal measurement basis and do not require complicated accounting treatment such as hedge accounting system
- 2) Simplify the format of the financial statements which may omit Cash Flow Statement and limit the notes to the financial statements
- 3) Maintain the harmony with the taxation system

1-1-8 Schemes for SME Clustering and Linkages with FDI large Industries:

- Access to Global Supply Chain and Technology Transfer -

SME Clustering and FDI linkage has been long discussed. It is often dealt in the context of transfer of technology. It is also to be considered in the context of competitiveness and access to global supply chain (GSC). Without having certain level of economic scale, an individual SME can hardly compete with advanced competitor in the global market. Among other requirements, minimum level of economic scale is also essential for FDI to cooperate with. The scale of economy is also the essential element for enhancement of efficiency (productivity) and foundation of constructing value-added. This will open the potentials to realize the linkage with FDI and, through this linkage, to access to GSC.

Being a member of WTO, ASEAN Economic Community (AEC) and other free trade agreements (FTAs) as a member of ASEAN, it is essential for industry of Cambodia to get access and to be embedded in GSC in order to be benefited from growing global market.

Industrial cluster bears significant impact on Cambodia's economy, not only for linkage with FDI and access to GSC, but also industrial development with the regional economy, increasing access to finance, labor specialization and improving the flow and allocation of technology, talents and capital.

(1) Scale of Economy; SME Clustering and Cooperatives

(i) Issues

As the scale of economy in important sectors are not yet developed among SMEs in Cambodia, individual SMEs often remain in the position to abide inefficiency in production, limited access to technology/finance/market or information in general as well as limited bargaining power or simply loss of opportunities for linkage with large-scale enterprises and access to larger market. Associations and business

organizations have been established²⁵ recently, and some of them are becoming active while coverage and beneficiaries from these activities are rather limited.

Clustering approaches are developing with activities of NGO and international development partners as well as governmental activities. For example, under SME Clustering Development Project²⁶ by Mekong Institute (MI), a workshop to promote SME clustering was provided to province Kampot Department of Industry and Handicrafts, Kampot Chamber of Commerce, and entrepreneurs in pepper, salt, and fish sauce²⁷. The activities by UNIDO have been assisting clusters and networks development with the long-term objectives of strengthening industrial competitiveness and reducing poverty²⁸. These activities are good opportunities to raise awareness and understanding of advantage of clustering; however, it is often pointed out that the fruits of those activities are not necessarily sustainable because of the weakness of institutional backup. Clustering approach in Cambodia still remains a target of study or evaluation in many cases.

Project basis activities are not yet thoroughly coordinated with SME promotion but more associated with the rural development and/or poverty reductions objectives. Some of the recent developments are recognized in the areas of silk and handicrafts products including the projects related to the projects of Artisan d'Angkor, Senteur d'Angkor, and Wat Than. Their production efficiency and business management were improved as well as design and quality. Some of the products are recognized as the level of international standard quality or even better. The recognitions of products and bargaining power of them are gaining better opportunities because of successful agglomeration of micro production sites and increase in efficiency on marketing to become a certain scale of economy.

The scheme for cooperative formulation is another way to pursue for promoting of scale of economy. Legislation to cover cooperatives in general is not yet in place especially in terms of SME promotion, while there have been cooperative scheme for farmers since 2003, and Law on Agricultural Cooperatives has adopted by National Assembly in May 2013.

(ii) Principles/ Objectives

To encourage scale of economy to achieve competitiveness, through promoting SME clustering and cooperative. To promote further diversification of the industrial base and realize more efficient and high-qualified industries.

SME clustering development shall be focused on target-priority areas which align to Rectangular Strategy Phase III and all line ministries' promotion programs such as development assisting activities for agro-industry through corporative by MAFF, association formulation promotion in export promotion policy and TradeSWAp by MOC, SEZ to promote FDI contributing industrial agglomeration by CDC, etc. Promotion on SME clustering should be focused on both quantity/efficiency and quality/value-added.

²⁵ FASMEC, CIC, CWEA, YEAC, Rice Miller Association, etc.

²⁶ Mekong Institute is an intergovernmental organization, which provides, implements, and facilitates integrated human resource development and capacity building programs and development projects related to regional cooperation and integration issues in the Greater Mekong Sub-region (GMS). During the Project period of 2012-2014, SME have got an opportunity of capacity building activities implemented by MI. To further enhance and sustain the business growth of the SME clusters, MI is organizing a one-week regional training program on Promoting.

²⁷ Website of Mekong Institute.

²⁸ For example, Garment Manufacture Association in Cambodia (GMAC) is viewed as one of the success model of "responsible competitiveness" by introducing labor standards, Account Ability with UNIDO, SME Clusters and Responsible Competitiveness in Developing Countries, January 2006.

(iii) Directions for Measures and Actions

● Short-term Scope

The initial approach for the clustering is to be designed on where the seeds are already recognized and the efficiency of coordination of the programs (policies) is expected. In Cambodia, government should establish a transparent support system to assist the cluster in both technical and non-technical for SME's improvement and sustainable development.

The SME clustering development should put more focus on SME support in short- to medium-term. Examples can be identified in variety of sectors such as bellow. It has to be focused as to the development potentials and requirement of economic development (ex. diversification of industry, etc.). The SEZ and other activities of industrial parks and processing zones are also to be reviewed to identify their needs of supply for industrial parts or services to be utilized for their production. They can be the initial magnetic cores to form industrial clusters.

- Garment industry: target on contracting firm for trimming, cutting, designing, packaging etc.,
- Automobile spare-parts and electronic-electrical equipment should promote on development to supply in the local and regional market,
- Agro-industry: food processing, agro-products processing (ex. rubber), and
- Well known and potential Cambodia quality products (ex. creative products).

As clustering approach may involve cross sectoral agglomeration, strengthening of close collaboration among line-Ministries are necessary. The mechanism to share the information related development of SEZ, industrial parks, and processing zones should be systematically developed for the possible clustering linkages of SME located and/or related close by.

● Mid- to long-term Scope

For the longer term, the more function of SME support to garment industry, automobile spare-parts, electronic-electrical equipment, agro-industry, and creative products should be diversified in such supply and processing local raw materials. Government should consider providing preferential treatment and special assistance to promote strategic clustering to encourage not only realizing scale of economy, but also promoting accumulation of technology and human resources development including consulting services, and research and technology development supports.

Forming cooperatives on similar product characteristics of SME and micro enterprises shall be also helpful for access to finance, technology and governmental support thereof. It should be encouraged to develop wider networks, for example, to form federations of cooperatives in specific sector or regions for promotion of cooperatives' activities including coordination with potential business partners, ensuring transparent operations, and sharing necessary information. Development of legislative basis should be discussed for this sake.

Development of SEZ for SME or so to call "SME Zone" should be taken into consideration as one of the options to promote agglomeration of SMEs in specialized area for scale of economy. Within a SEZ, infrastructure including electricity and transportation, as well as services could be shared by SMEs in the zones so that same merit of clustering and cooperatives could be gained among them consists of same

industrial sectors as well as different sectors. This scheme should make full coordination and alignment with Investment Policy.

(iv) Referential Schemes and Cases

“Hsinchu Science Park (HSP)”: The Ministry of Science and Technology (MOST) of Taiwan directly set up its first Science Park in 1980 and it became one of the most successful cluster cases. Through agglomeration of IT related industries, surrounding area of HSP has grown as a cluster of PC or integrated circuit (IC) related industries which are mainly composed by local SMEs. (TWN)

“SME Cooperatives Association Act”: In Japan, the act was enforced in 1949 and established “Small Business Associations” in each prefecture to support with SMEs to build up cooperatives. (JPN)

(2) Linkage:

- Linkage with FDI to Access to GSC and Technology Transfer -

(i) Issues

Not effective linkages are in place between FDI related companies and domestic SMEs, as majority of SMEs do not have capacity and quality of supply that FDI requires, though FDI companies are in search of Cambodian business partners to provide materials and parts. Formality of SMEs is also the issue of concern to the FDI companies when they try to make partnership with them, as the contractual relationship cannot be realized unless the counterpart is recognized as a legal person, a formal company. The recent development of FDI is observed as a part of investment portfolio of risk management as well as dispersion of global manufacturing sites. It is a keen issue for FDI related companies to secure comparable quality, production capacity, stability and legally secured partnership to other production/service providing bases in other invested destinations.

There have been pilot trials initiated by international development partners and NGOs to encourage cooperation and alliance between Cambodian companies and foreign companies for technology transfer and/or formation of win-win business. As examples of initiatives by international development partners, KOTRA initiated an incubation project in which linkage to GSC is also supported through matching with Korean business as explained in 1-1-3. JETRO has launched SME Overseas Expansion Platform Phnom Penh in April 2014, which offers one stop consulting services to SMEs from Japan, and expands opportunities for local SMEs to be linked with Japanese SMEs²⁹.

In business basis, even joint ventures between forging-domestic companies in manufacturing sectors have not fully initiated between FDI related large scale enterprises and SMEs, there are many cases of transferring of skill, know-how and techniques been generated in several aspects. In the precision equipment, wire harness and automobile-related industries, for example, technical transfer in metal processing and machine maintenance through systematic training and technical skill competition have been developed in each company. Machinery equipment in sectors of sewing and designing of clothes from Europe, as well as rice-milling machines from Japan, to provinces also encourages skill transfer. These initiatives, however, are not thoroughly encouraged, since permanent measures by Cambodian Government are not yet in place other

²⁹ JETRO website (http://www.jetro.go.jp/en/jetro/topics/1404_topics5.html)

than Article 18 of Law on Investment that stipulates the investors' obligations to provide "adequate and consistent training to Cambodian staff" and "promotion of Cambodian staff to senior positions will be made over time". In current situation, as far as a legal framework is concerned, technology is not easily outflow from FDI to SMEs.

In the regional and global aspect of development, the issue of "Connectivity" and the AEC development is indispensable factor to the SME's development and increasing access to global supply chain (GSC) not only for the internationalization but expanding business opportunities. The linkage with FDI related companies will provide possible initial access to GSC for SME's. The linkage, thus, is also important in this respect.

(ii) Principles/ Objectives

Policy should be set on for the improvement of competitiveness by quality and value-added through certain quantitative scale of economy enabled by clustering and cooperative formation so that Cambodian SME can effectively connect to, and recognized as a part of GSC preserving alignment with the development policies of "Connectivity". Given that many multinational corporations have been considering their portfolio for risk management and dispersion of global manufacturing sites, the measures for continuous technology transfer from linkage with FDI and access to GSC should be assured on the win-win base with Cambodian SMEs.

(iii) Directions for Measures and Actions

- Short-term Scope

Government should encourage SMEs to build linkages to FDI and access to GSC through enhancing their quality by incentive schemes for promoting R&D, technology adoption and innovation, and work skill qualification development [1-1-4], and encouraging SME's investment by setting a set of legal and policy framework for it [1-1-6].

- Mid- to long-term Scope

In mid- and long- term, programs focusing to support international linkage shall be introduced. Concrete support to accumulate actual cases of linkage with FDI and access to GSC, such as matching scheme should be designed and effective measures to be implemented to link Cambodian SME with FDI companies through information dissemination and technical assistance as well as introducing relevant legal framework. Existing matching system by international partners should be reviewed, and fully utilized and developed.

(iv) Referential Schemes and Cases

"Industrial Linkage Program (ILP)": Aims to linkage between FDIs or the large companies and SMEs, and was introduced in 1995 by Small and Medium Industries Development Corporation (SMIDEC) which was later developed to SME Corp in Malaysia. Under this program, FDIs are encouraged to procure inputs by local SMEs (including foreign affiliates) with subsidies. (MYS)

1-1-9 Schemes for Promoting SME Internationalization

Cambodia is experiencing rapid trade and investment liberalization as a member of WTO, ASEAN Economic Community (AEC) and other free trade agreements (FTAs) as a member of ASEAN. It is essential to promote internationalization of Cambodia's SMEs. The gateway for the internationalization is the access to the global supply chain which can be realized initially through linkage with FDIs or large-scaled enterprises that have already developed networks and experiences in international market. The actual internationalization will be followed through experience sharing in the international market. Another way for the assistance of SMEs' internationalization is to promote their interests on the global market and to assist them to conduct business there efficiently which include provision of information on international market, facilitation of trade procedures/financing, organization of business matching opportunities, and assistances for out bound foreign direct investment by SMEs'.

(i) Issues

SMEs face difficulties in opportunities arising from trade liberalization by multi and regional trade agreements despite of tariff reduction. It is because that not many individual SMEs are involved in and benefited from export directly. Increasing competition is more serious concern for them as in-bound trade and investment are increasing more freely. Tariff reduction itself, thus, may not be a direct benefit to SMEs while there remain non-tariff barriers such as customs procedures and quarantine (or other obstacles in the other administrative procedures and even private business practices). It is pointed out in a report by ASEAN SME Agencies Working Group³⁰ that cost of custom clearance for export remains high in Cambodia comparing to the neighboring countries.

While governmental promotion activities, such as export promotion and trade fair, are already in place mainly by Ministry of Commerce, and some companies have expanded their business in foreign market, there seem penetration to SMEs in especially provincial areas is yet to be developed. At the same time, SMEs find difficulties to get information of international market, are lack of capacity necessary for catching up with the level of international business standard especially in the business management areas and quality control. There are practically quite limited manufactured products by SMEs competitive in the global market.

Although improvement has been brought through the effort of CAMCONTROL and MOC, complexity of trade procedures including financial settlement is still raised as constraints to SMEs for their internationalization.

In sectors of many products by Cambodia, international standards for sanitary and quality (e.g. CODEX, ISO, etc.) are required. While international standards have been introduced mainly by Institute of Standard in Cambodia (ISC), Industrial Laboratory Center of Cambodia (ILCC) has been active in testing and National Metrology Center (NMC) in measurement, introduction and penetration to SMEs in country are not adequately undertaken and therefore causing difficulties of export of certain product areas.

(ii) Principles/ Objectives

To have Cambodia's SMEs and their products recognized in global market as well as domestic market.

³⁰ Economic Research Institute for ASEAN and East Asia (ERIA) SME Research Working Group (ed.), ASEAN SME Policy Index 2014 – Towards Competitive and Innovative ASEAN SMEs, ERIA Research Project Report No, 8, June 2014.

Cambodia's SMEs are to gain competitiveness in the global business communities and their products shall enjoy their unique comparative advantages in AEC as well as in global market. Cambodia's SMEs shall have free access to international market and necessary information thereof.

(iii) Directions for Measures and Actions

● Short-term Scope

In a short term, existing export promotion programs should be utilized for much extent as possible. For this sake, not only information dissemination from government side, but also active and direct involvement of SMEs and their associations should be encouraged to make maximum performance of the programs. The RGC should encourage the programs should be developed into private initiatives namely through associations and clusters [1-1-8(1)]. Whole activities should be organized and coordinated to form an institutional or structural system to be sustainable.

As a part of activities relating to reduction of red-tape [1-1-2], custom clearance cost for exports should be reduced. The relating procedures should be simplified and laws/regulations should be reviewed for further preservation of transparency.

Making alignment with the measures for BDS development, strengthening of effective function of focal point of information and technical assistance, establishment of "SME Center" or strengthening IPA (Investment Promotion Agency) should be considered. As for the starting cores, MIH has been providing technical assistance to SMEs, CDC and MOC have provided a variety of investment related information. The further function should be strengthened to collect and disseminate information on market opportunities and laws and regulations on trade and investment in both domestic and international level.

● Mid- to long-term Scope

In a mid- and long term, Government should strengthen and maintain the institutions;

- to facilitate trade including procedures, finance, information and business matching with the global network extensions (ex. CAMCONTROL, CDC and/or new IPA (Investment Promotion Agency) function).
- to instruct comprehensive necessary international standards and encourage dissemination thereof to SMEs (ex. ISC, ILCC and NMC).

Government should by itself and encourage private BDS to provide advice and consultation to enhance export capacities of SMEs.

(iv) Referential Schemes and Cases

"SME Overseas Expansion Platform": One stop service provided by "Japan External Trade Organization (JETRO)" introduced in 2014. Platforms are set in emerging countries and provide SMEs wishing to expand their business overseas with a variety of information, along with the corresponding further enhancements to individual consultation, to take advantage of the network of local public and private sectors' organizations. (JPN)

1-1-10 Schemes for Promoting SME BDS Markets

The BDS market promotion is also considered essential for the sustainable foundation for SME promotion. It is because that the business support is continuously important for the SMEs business promotion after the Government provides the fair and transparent business enabling environment. The steady development of “private sector BDS” is observed although the statistic data is not available to substantiate the trends. The certain BDS by consulting firms and accounting firms are getting available to domestic SMEs which used to be limited to the large-scale and/or foreign affiliated enterprises.

(i) Issues

The demand for BDS, especially paid services, by SMEs is still limited, while there has been emerging needs from large and medium enterprises or FDI related companies. Lack of understanding of the usefulness of BDS to SME business is one of the reasons of low demand. In 2013, MIME (the former Ministry of Industry, Mines, and Energy) provided one seminar on BDS focusing on production management improvement. After the seminar, over 80% of the participated SMEs responded positive answer to the questionnaire on “Willing to pay for the fee based services”. There should be more opportunities for dissemination of information and promotion of understanding for the benefit of the BDS.

Although steady development of “private sector BDS” is observed, actual BDS opportunities in Cambodia are still limited and uneven in geographical coverage and quality. Availability of BDS in provincial areas is quite limited. Several types of providers of BDS have been in place including government, international development partners, business associations, NGOs, private sectors, or combination thereof. A range of provided services could include management, information/IT, technology development, marketing, human resource development and financial support [financial support is discussed in 1-1-7]. Beneficiary of governmental or public BDS without charge are rather limited among SMEs mainly in the Phnom Penh area. Also there is not yet a dynamic market of paid BDS because the demand for BDS among SMEs is still limited.

SME-related associations and business organizations are not fully utilized as a demander and provider of BDS. Some business organizations are involved in BDS related activities by government and international development partners (ex. ad-hoc base training programs, or consulting programs), while their potentiality of facilitation and coordination is not fully understood by organizations themselves or member companies. While some of the projects that provide support service to SMEs have been sometime successful, it should be pointed out that direct intervention by government and international development partners is costly, unsustainable and supply driven, and sometimes distort markets³¹.

(ii) Principles/ Objectives

Access to public/ private BDS is essential for promoting SME, and variety of BDS to cover needs of SME should be provided so that SMEs would develop and contribute to Cambodia’s economy. To make an environment that SMEs, both in cities and provinces, shall have choices and access to BDS to get adequate types of business services when necessary. For this sake a dynamic market for BDS shall be developed.

³¹ Sub-committee on Small & Medium Enterprises, Royal Government of Cambodia “Small and Medium Enterprise Development Framework”, July 29, 2005, p33.

(iii) Directions for Measures and Actions

Although the Government role is to provide the fair and transparent business enabling environment, it may need to provide SME business support activities at the initial stage where the private sector BDS is not widely available. In order to trigger to widening the market of private sector, the Government's initiative should first be taken for demonstrating best practices and successful cases of BDS. Through TOT and transfer of know-how, it should shift its role from the BDS provider to facilitator so that the private sector can take over.

The Government also has to consider the fair and transparent business enabling environment for the private sector BDS including preparation of qualification and criteria for quality of services, model tools to assist BDS such as model contracts, guidelines and standards, so that the private sector BDS could comply with.

Another important point is the integration of information sources for all the aspects of SME promotion as the base of the all the BDS activities. It should be taken initiatives and/or prepared by Government in the manner to facilitate BDS, securing the access to all the basic information including definition, governmental procedures and fees, technology, finance, etc.

- Short-term Scope

Government should promote consultant firm, private sector by providing the guidelines and standards (on fees, quality of services, etc.) for private BDS sector to comply with primarily in the areas of assisting its business enabling environment, its capacity development, and financial services to back them up. In this regards, to maintain the sustainable scheme, the private BDS is the major element for providing the service on technical, capacity development, to support SME activities by complying with the government standard and guideline, while the fee charge system have to be established and made publicly available.

Government should encourage and support developing regular terms and conditions for BDS provision so that provision of services by BDs could be smoother, efficient ant transparent.

In order to disseminate adequate understanding and to provide necessary information, local governments shall be focal points to introduce available BDS to SMEs.

- Mid- to long-term Scope

In a mid- and long- term, in order to establish a condition that enable a dynamic market for BDS, Government should focus on policy and strategy development for promotion of BDS sector, as well as improvement of supporting infrastructure for compliance with standards and international market requirements, including international accreditation of industrial laboratory center to support testing to product quality and certification [relating to 1-1-7 technology and 1-1-9 internationalization].

The RGC should update “*Strategic Options for Improving Business Development Services for SMEs in Cambodia*”, (GDI/BDS/SO/001), February 14, 2011, and develop further BDS strategic plan to identify which BDS functions i) should be remained in government, ii) should be handled by public organizations, and iii) should be privatized.

(iv) Referential Schemes and Cases

“The Organization for Small & Medium Enterprises and Regional Innovation (SME support, Japan)”: The organization was originally established in 1967. Under the present Ministry of Economy, Trade and Industry, “SME support, Japan” is a focal point and provides a range of consulting services for SME including direct consultancy, facilitation and bridging to private sector BDS. (JPN)

“Small and Medium Enterprise Management Consultant”: The scheme was originally started in 1963 to be certified by the Minister of Ministry of Economy, Trade and Industry originally. Under “Small and Medium Enterprise Support Act”, the skill standard and guidelines of the Consultant were defined on the level of technical guidance or diagnosis to SMEs. The official certification is issued. (JPN)

“Certified Management Consultant” and “Certified Technology Consultant”: In Korea, the business consultant systems have been established since 2009 by the Government under “the SME Promotion Act” and the government recommends utilizing those consultants. (KOR)

1-1-11 Schemes for Facilitate Gender Issues in SME Promotion

In the RGC women’s affairs as a whole, Cambodian National Council for Women (CNCW) headed by Minister of Women’s Affairs has promulgated a “Five-Year Strategic Plan of National 2010 - 2014³²” in 2010 and equality in legislative level as well as awareness rising activities have been developed. Also, Ministry of Women Affairs (MOWA) has been developing strategy and policy, and taking actions for the advancement of the status of women. One of the focuses of MOWA’s Strategic Plan is economic empowerment, and women or women's enhanced participation in economic development especially in micro and small enterprises, based on the principle of equitable distribution of economic resources including water, energy, land and information³³.

There have been many projects managed by MOWA and line ministries supported by international development partners as well as NGOs, and many of them are relating to social sectors. Among them, several projects, including Partnership for Gender Equality (PGE) by MOWA and MIH covers promotion of women entrepreneurship and SMEs.

As a recent initiative of Cambodian women involved in business, associations for business women have been formed and becoming active mainly in Phnom Penh area, and outreach to provincial areas are expected.

It is pointed out in the CNCW’s Strategy that “inequality in gender issues” in Cambodia such as social, economic, and political spheres exists, and it is remarkably is noticeable in rural area particularly in ethnic communities³⁴.

(i) Issues

In Cambodia, women's full participation in society has been hindered, and the empowerment of women has a

³² The Strategic Plan was prepared by Cambodian National Council for Women in cooperation with Inter-Ministerial Gender Working Groups, and funded by: The Royal Government of Spain through Peace and Development Organization (PyD) ([http://cncw.gov.kh/admin/leftmenu_pdf/last_final-strategic_plan_cncw_21may2010\(1\).pdf](http://cncw.gov.kh/admin/leftmenu_pdf/last_final-strategic_plan_cncw_21may2010(1).pdf))

³³ WOWA’s Second Strategic Plan (Neary Rattanak II) 2005-2009

³⁴ CNCW Strategic Plan 2010, p.8.

lot of room yet to grow. For example, gender discrimination in employment and workforce constraint have been reported³⁵. It is also heard that women entrepreneurs especially tend to face difficulties in access to finance and information, partly because of the traditional aspect of values.

While the RGC, by initiatives of MOWA, has been promoting activities covering women's economic empowerment, such as gender stream-lining activities, gender entrepreneur promotions, there is a need for further support for business by women. Representatives of business associations of women point out that capacity development of business by female and information dissemination for female business owners and entrepreneurs are especially needed in provincial areas.

(ii) Principles/ Objectives

Making alignment with strategies and policies projected by MOWA, the SME policy shall provide and secure the fair business conditions for gender issues in SME promotion. The necessary and relevant measures should be designed to facilitate SME in the subject area to take advantage of their conditions.

(iii) Directions for Measures and Actions

- Short-term Scope

Information opportunities should be secured. In close communication with MOWA and women business associations, measures and projects available for women business owners and entrepreneurs shall be adequately aggregated and information thereof shall be provided for use by female individuals and groups. This operation shall be embedded to other measures or services, such as BDS one-stop service [1-1-10]. In order to encourage participation of women in business, demonstration of **pilot best practices** and **successful cases** should be promoted.

SME promotion measures shall be provided impartially and objectively in transparent process. Any discrimination, including gender discrimination, shall be eliminated, especially in rural areas. For example, there seems a need for women to be encouraged to participant in clustering and cooperatives, and **regional resource promotion** should be implemented in this context. As a part of polices and measures to activate business organization for promoting SME, business associations for women business owners/managers and sector/trade organizations by women shall be adequately included.

- Mid- to long-term Scope

Gender mainstreaming policy has been often a part of regional development and poverty reduction, historically. Integration of its economic development aspects to the SME promotion policy should be discussed.

(iv) Referential Schemes and Cases

The reference on gender issues have been more incorporated with gender support related projects, social policy rather than legal framework. The examples are as follows;

³⁵ JICA CAMBODIA: Country Gender Profile, March 2007
(http://www.jica.go.jp/english/our_work/thematic_issues/gender/background/pdf/e07cam.pdf)

“Global Banking Alliance for Women”: The non-profit organization sponsored by international financial institutions, including International Finance Corporation, etc. It is the leading organization of private financial institutions driving women’s wealth creation worldwide. Its current 41 member banks in 135 countries provide access to capital, markets, education and training for sustainable success among women’s businesses. (UN)

“Project on Gender Mainstreaming Phase 2”: Japan International Cooperation Agency (JICA) launched this project to build framework in promoting women's economic empowerment including income generation for women householders in target districts of Kampong Cham province as a 5 year project between 2010 and 2015. (CAM/JICA)

1-1-12 Arrangement for SME Employment and Labor Conditions

Ministry of Labor and Vocational Training (MLVT) and international development partners have been active in vocational human resource development, while SMEs, especially in provincial areas, are not necessarily beneficiaries of those activities³⁶. MLVT has established consultation body consists of line ministries to develop national labor and employ strategies.

SME Development Framework in 2005 and GDI’s Strategy 2015 in 2010 have stressed importance of human resource upgrading and human development in industry growth, respectively, while any measures relating to employment and labor issues focusing to SMEs are not in place.

MLVT is under process of formulating a policy covering this section’s issues, “National Employment Policy with Focus on Young Women and Men”. It addresses the issues of i) increasing employment opportunities, ii) enhancing HRD in skills and productivity, and iii) handing over supporting functions from public to private. The prospective SME promotion policy should make full alignment with this policy in the area concerned.

(i) Issues

It has been identified through the MIH/JICA Survey and other exchanges that many SMEs, especially those in provincial areas, are facing following issues and challenges:

- Difficulty in **acquiring employees**. Compared to larger scale companies, SMEs are not able to provide good level of treatment (wages, social security and other fringe benefit).
- Difficulty in securing **stable employment**. Many SMEs’ employment is unstable, because of custom of seasonal employment, lack of employment contract and limited employees’ training and education.
- **Poor work environment**. Many SMEs have not introduced labor safety standard, kept safety of workplace or welfare program for employees.

Shortage of labors in all levels (unskilled, low-skilled and skilled labors, specialists and managers) have been reported through the Survey. It has been pointed out that many SMEs have challenges of not only shortage of labor and mismatch, but also high ratio of staffs’ job separation, low motivation and disciplines and increasing wages.

³⁶ There are certain developments in providing advantages to regional areas, such as “Voucher Skill Training Program (STVET/ADB)”, etc.

MLVT's vocational training has been useful, while geographical coverage, coverage of different skills, and coverage of participants' positions and affiliations are not yet comprehensive; especially current needs of SME as well as strategically developed sector in the future are not adequately covered.

Generally, condition of working place in safety and health is still not well kept at many SMEs, and needs to be upgraded. While some pilot projects for SME covers improvement or "KAIZEN" of workplace, overall awareness for safety and health is limited in many sectors, not only manufacturing but also construction, transportation, etc.

(ii) Principles/ Objectives

- enhancing development of a labor market from which SMEs can hire necessary human resources with technique, technology and motivation to provide wider options for SME employment.
- setting out the fair and favorable condition of employment and labor for SME to fill the gap between those of large companies so that SMEs can attract workers and enable stable employment.

(iii) Directions for Measures and Actions

Measures and Actions should meet the issues in both SMEs and (potential) employees' sides.

- Short-term Scope

As for the strengthening of (potential) employee side, the RGC will utilize existing agencies and functions to support SMEs employment. For example, National Employment Agency could enhance their services for SMEs. Vocational training provided by the RGC, especially MLVTA, will focus SMEs' current needs as well as necessary human resource with skills and knowledge to contribute strategically focused sectors.

As for the strengthening of SME side, the RGC should extend the previous and existing projects relating to upgrading **condition of working place** in safety and health. For example, pilot projects for SME covers improvement or "kaizen" of workplace, overall awareness for safety and health should be extended and considered to be introduced as a permanent work of the RGC. Likewise, some of the existing projects by the RGC and international partners cover **training of employees in SMEs**. The outcome of those projects should be disseminated so that SMEs can know a need for employee training and education.

- Mid- to long-term Scope

As for the measures for SME side, the RGC should consider specific measures for SME to meet its employment needs with the appropriate surveillance mechanism of implementation of the basic labor laws while securing the benefit of employees to SME. The measures include introduction of a **model contract**, **SME social welfare scheme**, **SME human resource development scheme**, etc.

RGC should also develop preferential scheme for **social security** in which SMEs are encourage the employees to become assured members.

As for the (potential) employee side, Existing institution, human resource related entities, universities and other facilities should be networked for efficient training for higher work-skill. Training programs for prioritized sectors and skills should be developed and introduced for SMEs.

(iv) Referential Schemes and Cases

“Employment Adjustment Subsidies”: The Ministry of Health, Labour and Welfare of Japan introduced the measures started in 1975. The subsidies are provided up to 50% of employees’ wage to support employers for suspending lay-off could be caused by keen fluctuations in the economy. (JPN)

Assistance for model contracts and guidelines: “The Organization for Small & Medium Enterprises and Regional Innovation (SME support, Japan) provides assistance for model contracts and guidelines prepared by government regarding to SME business. For labor conditions, it includes “Notice of Employment” which is the required notification of employers to prepare to identify the labor conditions to make transparent. “The Labor Standards Act” (1947) stipulates employers to submit their employees on working condition. (JPN)

1-1-13 Scheme for SME Access to Information

Access to information has long been stressed as one of the important factors for SME promotion. It is essential for them to reach the necessary information. Coordination and integration of all the necessary information described in the previous sections, and proactive awareness raising and guidance to all the SME related information is important for the capacity development of foundation of SME business community while continuous publication (information dissemination) and coordination effort among line-Ministry are required.

(i) Issues

As identified in the MIH/JICA Survey and interviews within, the accumulation and dissemination of information is not yet in adequate outreach of SME in many different aspects of SME policy measures, business opportunities as well as capacity development opportunities; of which aspects are elaborated in the previous sections, such as technology, finance, business matching, global linkage, safety standard, human resources, etc.

There is also limited focal point or “one stop service” physically or virtually on the website. The complexity of access to right information is one major issue for SMEs’ access to information.

The SMEs’ capacity to reach and apprehend the significance of information is another issue to be tackled. The MIH/JICA Survey identified that in many cases SME were having difficulties to find the right place for right information and to understand the actual schemes and/or requirements on policy measures.

For the over-all business community, FDIs and policy makers, it is still limited information to grasp over-all picture of Cambodia’s SME and its situation.

(ii) Principles/ Objectives

Make information accessible and apprehensible necessary for SMEs business opportunities, policy measures, and capacity development.

(iii) Directions for Measures and Actions

- Short-term Scope

Government should utilize and coordinate, or integrate where relevant, existing channel to improve access to information necessary for SMEs' issues highlighted in the previous "Issues" section.

Relevant authorities should coordinate and review the statistic collection systems for its improvement. Further consideration should be taken to conduct periodical survey to update actual situation of SME.

Relevant authorities should also design continuous information promotion scheme with explanation (interpretation) and guidance to make information easily apprehended by the SMEs including seminars, workshops, training courses, Radio/TV programs as well as home page on the web-site.

Set out one focal point of information related to all issues of SMEs. The initial undertaking can be a portal site on the web-site accompanied with the inquiry function. The navigation function should also built in to reach the necessary information for those not yet up-loaded. ("SME web information center")

- Mid- to long-term Scope

Government should consider to set up a "focal point for SME information" with an actual office space with officers in charge, such as a SME Information Centre, for providing essential and necessary information for SME, public and private BDS to access direct database, information, technology, marketing, designing, packaging, finance, program collaboration, development partners-project assistant, human resources, training, expert, incubation, local, and global as well as all the necessary information on legal requirements, procedures, and incentives.

The "focal point for SME information" should also become a hub of communication channel link to global partners, in which promote and improve the investment climate.

Nationwide information sharing can also provide communication channel link to global information on SME capacity, investment climate, incentive, technology, finance, human resources, etc. in order to promote the business matching.

"SME White Paper" should be published on annual base make available in both written form and electronic file on the website.

(iv) Referential Schemes and Cases

"The Organization for Small & Medium Enterprises and Regional Innovation (SME support, Japan)": As introduced in the previous section 1-1-10, "SME support, Japan" takes a role of focal point of information for SMEs and provides information comprehensively. (JPN)

* This type of SME supporting organizations are established in other countries such as; "Small & medium Business Corporation" in Korea, "Small and Medium Enterprise Administration, Ministry of Economic Affairs" in Taiwan, "Standards, Productivity and Innovation Board (SPRING)" in Singapore and so on.

1-2. Mechanism for Widening Network

- mechanism for dialogs among private/public sectors and global counterparts -

1-2-1 Utilizing Existing Dialogue Channels

One of the important roles of Government in SME promotion is to construct effective network for promotion strategy and policy, and facilitation of their implementation. The network should include intra-governmental cooperation in policy formulation and reviews, government-business dialogues to get constructive inputs and regional and global network to promote internationalization of SME, and mutual coordination among them.

(i) Issues

As for the intra-governmental institutional coordination system, the RGC has formed the SME Sub-Committee in 2004 to tackle the issues related to SME promotion, as well as to promote overall coordination of cross-cutting policy and strategy development relating to SME. The recent activities of the SME Sub-Committee are observed more focused on the coordination of SMEs' requests derived from the Government Private Sector Forum (G-PSF). The function of the SME Sub-Committee should be more pro-active to SME promotion, when issues are focused on SME promotion, not limited to manufacturing sectors but services and agro-industry.

The more globalization and regional integration is enhanced, the more communication and dialogues are gaining importance internationally. The G-PSF and SME Sub-Committee type dialogue mechanism has to be extended to link with the global networks of dialogues. As for the global communication, the RGC has already developed global interactive channels including ASEAN SME Agencies Working Group.

(ii) Objectives

To realize sustainable function based on concrete institutional framework of intra-governmental and private-public coordination among all SME related Ministries, Agencies, and private sector in order to realize cross-cutting development and implementation of SME strategy, policy and policy measures.

Dialogues between the Government and private sector should be more activated through stronger commitment of both sides with capacity development in order to generate constructive discussion and information sharing, and extended to link with comparable dialogue mechanisms in global level.

(iii) Actions and Measures

- Short-term Scope

The SME Sub-Committee should be further activated to cover broader range of issues and agendas, including pro-active issues including formulation of the SME basic policy/Law/Charter with stronger initiatives of line ministries. As there have been occasional coordination meetings and other interactions among SME-related line-Ministries, the systematic operation with solid secretariat function is essential. The SME Secretariat under the MIH should be further strengthened for its capacity for this sake.

The RGC should also further activate G-PSF to encourage its function of coordination and information sharing between government and business community.

In order to realize the efficient and effective network, existing tools should be fully coordinated and utilized, - which include the SME Hotline (under MIH), home pages on web-site and SNS, and the channels of SME One Roof Service registration. The mass media such as newspaper, radio and TV programs should be used periodically for the dissemination of information and advertisement.

- Mid- to long-term Scope

Extension of the coverage of participation to G-PSF may be considered. It has been providing opportunities of dialogues and information sharing among line-Ministries, private sectors, development partners. In addition, academia and regional partners (ASEAN counterparts) may be considered as the participants. It is also significant to design a scheme to promote more open communication among private sector associations. They should be considered as a part of business enabling foundation so that specific legal regimes should be prepared including incentives schemes for the setting up associations.

Upgrading of institutional set up of SME Sub-Committee and G-PSF, as well as secretariat thereof shall be considered.

1-2-2 Broadening Intra-regional and with Academia Communication Channel

(i) Issues

Existing communication channel is still limited in geographical and sectoral coverage. The activities tend to be held in Phnom Penh area, and not many opportunities are provided for provincial SMEs. The involvement of provincial governmental agencies is limited.

Contribution of academia is limited in SME strategy development in Cambodia. Except ad-hoc basis by certain projects, knowledge and experiences of University in policy development and evaluation, technology adoption, etc., are not well utilized, because there is no framework or institutional setup to continuously promote communication and coordination among central and regional government, industry and academia.

(ii) Principles/ Objectives

In order to broaden opportunity of communication with stakeholders, further involvement of provincial players (SMEs and governmental agencies), academia and regional/ global counterparts is essential.

(iii) Actions and Measures

- Short-term Scope

The framework for the intra-regional communication channels with involvement of academia should be designed.

- Mid- to long-term Scope

In a longer-term perspective, a regional “SME Center” can be considered for establishment to be a core of regional network. It can be realized on the base of existing functions such as regional offices for SME One Roof Services.

2. SME Capacity Development (C/D)

The governmental assistance (intervention) for SME capacity development is to be based on the principle that its intervention should be limited in the area of setting the relevant business enabling environment in principle; however, the necessary facilitation and assistance should be provided for the initial take-off of SME in its developing stage.

Government should promote the SME capacity development by facilitating and/or providing infrastructure and technical assistance to SME in the manner to assist its self-supported activities. These occasions include; to collect and disseminate general information relating to SME capacity development; to demonstrate pilot model activities as the best practices and to have feedbacks for improvement of them; to coordinate cooperation with private parties, such as associations; to design ways to hand them over to the private parties including BDS.

The over-all governmental facilitation of SME capacity development is to be focused on the modernization of SMEs' business management starting from promotion of formalization of SMEs. Without registration to be recognized as formal entities, SMEs cannot be subject to the provisions of promotion policy; thus, they will not take any of advantages of the provisions and not be promoted. Simplification and preservation of transparency in the registration procedure is one priority issue, which was dealt in the previous Chapter. Interpretation of the significance of registration should also be delivered properly explaining all the SME promotional incentives are received only after their formalization. Assistance for modernization of SME business management is another essential issue in order for SMEs to apply for relevant registration to be formal entities. The capacity development in this area should include for; formulation of concrete business plan based on strategies and financial analysis, designing sustainable bookkeeping system, introduction of management on production/ marketing/ technology/ finance/ and human resource development.

In pursuing for fulfillment of this over-all aspect above, following specific aspects should be discussed in terms of SMEs' capacity development. They are related to the business enabling environment discussed in the previous chapter that the Government takes effort for improvement through policy measures. It is still a matter of concern whether or not many of SMEs' capacities can reach up to the eligibility level for the incentive measures with their limited resources, knowledge and technology. The too low eligibility may bring adverse effect for SME promotion as no self-discipline should be expected at SME side. The too high eligibility should undermine the expected promotion effect having few applicants for the measures. This is the reason why certain capacity development assistances should be discussed for SME to facilitate to reach up to the minimum eligibility level for promotion measures through encouraging its self-discipline with technical assistance. Following areas are considered priorities for capacity development;

- Promoting "Quality" for facilitation of SME's efficient and effective business operation;
- Promoting linkage to global market;
- Technology assistance for promoting technology adoption, innovation, R&D and work skill qualification development;
- Technical assistance to access to finance;
- Human Resource Development at SME

2-1. Facilitation of SME's Efficient and Effective Business Operation

- Promoting "Quality" -

The government needs to elaborate and provide relevant advices on the significance of both "efficiency" and "effectiveness" for SME. SME is in need to catch up efficiency (productivity) to the level of regional and global standards. While promoting SME capacity, the Government should also promote enhancing its value-added capacity in "quality". When the relevant facilitation, SME could well enjoy Cambodia originated quality of value, the unique resources of Cambodia, which could have good reputations to Cambodia's SME and comparative advantage in the global competition.

For the SME's efficient and effective business operation, a set of schemes is to be discussed and coordinated in aspects of information dissemination, technical guidance and training.

Based on the principle of indicated at the beginning of this section, Government is to provide technical assistance in the area of capacity development. It should strengthen and refine existing schemes and institutions, and extend their functions to meet this requirement in capacity development. Coordination among them is essential to take a full advantage of synergy of the assistance. It is, then, be considered to set up further specific schemes and/or institutions where necessary and relevant to promote in specific sector of strategic priority.

(i) Issues

The efficiency (productivity) is the key factor for SME to enhance for further industrial development. Many of promotion measures should then be designed to respond to this requirement. However, it is also important to admit that quick catch up with neighboring advanced countries may be difficult as there already have been a vast amount of investment on production facilities and technology in those countries. It may require some time for Cambodian SMEs to catch up with the comparable level of investment in this area. This means that efficiency is required factor but cannot be the immediate element of competitiveness. The Cambodian SMEs have to pursue for comparative advantages while enhancing efficiency to form the concrete foundation for its industry. If they cannot compete with efficiency, another element of competitiveness is effectiveness - which should be recognized as "quality".

There are still much potential in competitiveness in the area of "quality". Uniqueness, safe and secure, preciseness, punctuality, and/or standard, these are denominators of quality which could be appeared extra value-added and form elements of competitiveness that Cambodia SMEs can start with. Unfortunately, current situation reveals that few Cambodian SMEs are aware and tackle with quality enhancement.

Through the findings from MIH/JICA Survey, pilot company diagnosis by MIH/JICA project, and other dialogues, it was found that SMEs in Cambodia have been facing difficulties in business planning, planning and operation of financial issues, management of labor, gaining necessary skills as well as production management.

As consequences, levels of quality of Cambodian products and services are inconsistent, not even standardized. There is still limited quality control and branding strategy for Cambodian products. The recent development of up-grading design and branding in the area of handicraft is gaining a good recognition. It contributes clustering the micro crafting sites with wider supply chain and proving production of quality with value-added. The movement is still not a large scale but steady development is observed and similar activities

are spreading gradually. The significance of quality building in this area should be learned and applied to larger scale economic activities among SMEs that the quality of value-added can bring deep rooted factor of competitiveness when the price competitiveness on efficiency may not be caught up in short-term.

(ii) Objectives

The objective is to provide foundation for SME to tackle for both efficiency and effectiveness in their business and sustainable operation through providing appropriate information and technical assistance, and to facilitate to strengthen SME capacity for the quality of goods and services at all levels of supply chain according to the standard and value-added as Cambodia could pursue as for competitive uniqueness.

(iii) Directions for Measures and Actions

● Short-term Scope

The Government should take effort to identify the Cambodia's potential resources of quality which could be the sources of comparative advantage to Cambodia applicable to SMEs' capacity. The initial approach can be taken comparable to the OVOP approach, the export promotion potential products approach (Trade SWAp), or a wider approach on the country diagnosis such as the "reverse approach" of Country Diagnosis Study³⁷ by ADB. Those approaches should include any potential resources Cambodia could enjoy comparative advantage in their uniqueness (ex. Social or cultural value such as "sincerity of Cambodia people" is not to be excluded for the first place.). The strategy should, then, be formulated for the direction of branding to have the resources could have economic value.

The Government should promote more information dissemination on their role, function, and capacity by set up the new communication channel through IT system, magazine, booklet, etc. and collaboration among government institutions. In this regards, the government should assign ministry in charge or extend institution's function, or establish new firm to coordinate and disseminate relevant information among national institutions to public and global partners.

Through these above, the Government is to promote and facilitate opportunities for information dissemination and training which include trade fairs, business and investment forums, portal sites on web, publicities, portal services such as One Roof Services, training programs on specific technology and skills, etc. The strategic focus should be clearly defined according to the needs and requirement of SME which include subject areas as follows (elaborated in latter part, respectively); export/border procedures; standard qualification and verification; benchmarks for SME to comply with and/or assess themselves such as standards and KPI/Guidelines; monitoring and certification on quality products and services.

Existing governmental agencies, institution and projects should be fully utilized for enhancing quality of goods and services. These include ISC, NPCC, ILCC, NMC, CAMCONTROL, and provincial government organizations, etc.

Preparation of establishing "Cambodia Brand" for SME should be launched. For the promotion of Cambodian

³⁷ The study identifies the major constraints to inclusive growth in Cambodia, using a diagnostic framework based on the key elements for inclusive growth, among them: infrastructure, especially energy and rural transport; skills and education; governance; fiscal spending; decent employment; social infrastructure and services, including education and health care; and access to public services and social protection. A reverse approach means focus on strengths instead of constraints.

products and services, it is essential to meet the level of international quality. Therefore, working group of “Cambodia Brand” for SME shall be encouraged to be established among relevant stakeholders to develop practical guideline.

- Mid- to long-term Scope

Further institutional set-up and marketing strategy should be developed to promote Cambodia Brand for SME, including Cambodia Brand Export Center, technical assisting center/techno-park, etc.

(iv) Referential Schemes and Cases

“Good Design Award”: The scheme known as “G-Mark” started in 1957 by Ministry of Economy, Trade and Industry, Japan. The government promotes the excellent designs and established selection system for superior products’ design. (JPN)

“JAPAN Brand Development Support Project”: The project was introduced in 2004 by The Small and Medium Enterprise Agency, Japan and supports to create a foreign new market for local SMEs’ products through assistance of the brand making as to global level. The agency provides subsidies for the cost of designing the branding as well as the promotion or exhibition abroad developed by collaboration of local companies and local Chamber of Commerce and Industry. (JPN)

“The National Mark of Malaysian Brand”: In Malaysia, Small and Medium Enterprises Corporation Malaysia (SME Corp.) in collaboration with SIRIM QAS International Sdn. Bhd. has developed “The National Mark of Malaysian Brand” certification scheme that promotes the development of Malaysian brands to meet global quality standards. This scheme launched in 2009 and various trade promotion activities have been undertaken to promote brands for SMEs. (MYS)

2-2. Linkage to Global Market

In order to enable Cambodian SMEs’ linkage to global market, their capacity will be developed with several different dimensions, including i) information dissemination, technical guidance and training, ii) facilitation at boarder, iii) coordination with SEZ and IV) coordination with export promotion.

(i) Issues

Through the findings from MIH/JICA Survey and other dialogues, several issues have found that; SMEs are having difficulties to access to information about global market; border procedures for export and import are complicated and difficult to understand for SMEs; no opportunities are found by SME to connect with FDI in SEZ; and not able to make use of export promotion activities.

(ii) Principles/ Objectives

The major objective is to fill the gap between on opportunities (including policy measures) and on SME capacity in the area of linkage to global market.

While encouraging to establish scale of economy in targeted sectors as discussed in 1-1-8., the RGC should

promote SMEs' linkage to global market so that SMEs can benefit as a part of GSC towards AEC 2015 and thereafter.

(iii) Directions for Measures and Actions

- Short-term Scope

As the important focus is to link to global market through developing domestic SME capacity for expand its business opportunities, for new market and technology. In this regards, the RGC will play important role in introducing opportunities for international market and to provide necessary technical assistance such as training, workshops, and technical guidance at relevant authorities.

There have been several occasions of business matching in Cambodia, including fairs in Cambodian and abroad, by the RGC and with cooperation with foreign counterparts. The RGC should further promote and assist SMEs link to new global market by using the business matching mechanism through encouraging and collaborating private sectors as a part of over-all capacity development of SME business community.

Taking advantage of the existing activities relating to border issues, including introduction of electronic procedure, the gap between complexity of the procedures and capacity of SMEs should be filled through the relevant assistance on their capacity development.

Government should promote the information sharing among line-ministries in order to facilitate the development of "right SME sector in the right market" for export promotion. At the same time, the strengthening capacity development of private BDS should link-access to the government communication channel in order to provide the BDS programs in efficient and effective way. Associations should be encouraged to provide practical techniques for linkage promotion between government and private sectors.

Regarding the access to information of BDS and awareness of BDS, there is a certain information gap among SMEs. In order to invite broader use of BDS, adequate information should be provided not only among those SMEs who have easier access to the RGC's measures and/or private BDS but also SMEs not familiar with governmental or private assistance.

- Mid- to long-term Scope

Systematic business matching should be developed through assistance of capacity development for SME. In addition to the ad-hoc events, a certain institution should develop and maintain database and professional coordinator for business matching should be set up. Strengthening the SME capacity is essential to support matching to the requirement of potential foreign investment, especially in the strategic important areas.

(iv) Referential Schemes and Cases

"Japan External Trade Organization (JETRO)": Is the Japanese government agency started in 1958 and offers services for promoting export with providing information of foreign markets and regulations, consultations, business matching, market exploring tours and so on.

* There are comparable organizations in ASEAN and other countries, such as Malaysia External Trade Development Corporation (MATRADE), International Enterprise (IE) Singapore, Directorate General for

National Export Development (DGNED), Department of International Trade Promotion (DTIP), Vietnam Trade Promotion Agency (VIETRADE), Export Marketing Bureau (EMB) in Philippines and so on. (JPN)

2-3. Technical Assistance for Promoting Technology Adoption, Innovation & R&D, and Work Skill Qualification Development

(i) Issues

Through the findings from MIH/JICA Survey, it is recognized that there is many of SMEs' conventional notion to regard the production machine as "technology". It is true the automated equipment and machines are already technology integrated and by themselves advantageous in terms of increase of productivity or operational efficiency. However, due to current SMEs scale of investment capital, they often tend to adopt (import most of time) second hand or old model machines. Those machines are obviously not competitive to brand new and latest machines. They may be able to increase their competitiveness in domestic market but will still bear to be behind of competitors in the international market if they only utilize the machines as they adopt for production efficiency.

SMEs' capacity development for better technology application is a keen issue in this area. Even though the policy measures provide assisting opportunities for SMEs, technology is not fully utilized if SMEs capacity is not developed to take full advantage of it.

The SMEs capacity development should be promoted following areas in terms of the significance of technology adoption and further R&D and innovation;

- Standardization of basic skills for production/service operation
- Production management
- Strategic planning of production/service development and marketing,
- Quality control and quality development (compliance with standards/requirement and value-added),
- Technology and its information sharing, and communication among SMEs in same business including collaboration with technology specialized entities.

With regard to work skills, in supporting the governmental assisting measures, it is important to encourage SMEs themselves to train their own employees to meet the qualifications of work skills. Capacity development scope should include this aspect.

In addition, at the initial stage, "design" should be regarded as the useful "technology" to differentiate from competitors' products adding possible value to the products/services. The promotion of "design" should be integrated into the capacity development in this context.

(ii) Objectives

The major objectives are to generate awareness on actual significance and strong point of technology and to promote potential capacity to make better use of technology along with the awareness. The shift of SMEs' notion of technology is to be encouraged from only productivity to quality. The quality generation for value-added (ex. "originality") is the key to the capacity development in this area.

(iii) Directions for Measures and Actions

● Short-term Scope

Training and mentoring programs should be designed and provided by public institutions (ex. NPCC of MIH, ILCC) and through SME associations (ex. FASMEC, YEAC, CWEA, Cambodia Investment Club (CIC)) collaborating with academia and private BDS providers;

- Organize workshops and trainings
- Publication and dissemination of applied technology toolkits for SME
- Provide technical assistance on site

● Mid- to long-term Scope

All the activities should be integrated to the comprehensive SME supporting mechanism, such as a special agency to provide and facilitate all the assisting programs for SMEs, and conveyed to private BDS providers where appropriate.

(iv) Referential Schemes and Cases

“SME Expert Advisory Panel (SEAP)”: This scheme is introduced by SME Corp in Malaysia. SMEs are provided practical advice of technologies to improve their quality by experienced consultants and their fees are borne by SME Corp up to 100%. The main content is on-site assistance utilizing retired experts from industries or governmental agencies. (MYS)

“Bureau of Supporting Industry Development”: Activities related to promote supporting industries by Ministry of Industry, Thailand (THD).

2-4. Technical Assistance to Access to Finance

(i) Issues

After the SME Development Framework 2005, foundation and regulatory/legal framework has been improved steadily for SME access to finance. Follow-ups of the SME Development Framework in the area of access to finance including remaining issues are basically integrated into the “Financial Sector Strategic Plan 2011-2020” comprehensively.

At current stage, there is a certain gap between actual financial opportunities and the level of awareness and/or capacity of SME. For those SME who are not well aware of recent development in the financial sector what services are available for SME, and who are not yet ready to prepare basic documentations required (such as financial statement), the conventional idea (such as high interest rate, strict collateral requirement on land property, and/or limited length of loan period) still seems to hamper them to access to finance. To this gap, it is necessary to put effort to improve the awareness and capacity of SME to access to finance.

Dissemination of updated information on development of financial services is the first task and promotion of available range of financial opportunities for SME is the next. However, in order to access to right finance

even at current situation, basic requirements are not bypassed although some are relaxed or modified for simpler form. Among others, the financial statement is one of the most essential requirements whereas the majority of SME still operate their business without proper bookkeeping to prepare the financial statements..

It is not a unique issue of “Access to Finance” but fundamental weakness of SME that they are still left behind of the modernization of business management. Because they are not applied the modernized business management, they have limited notion for “management” itself which requires data, plans/strategies, assessment on business activities where the financial statement is one of the basic tools.

(ii) Objectives

The capacity development in the area of SME access to finance has to be addressed primarily to narrow the gap between the awareness of SME and actual available financial opportunities provided, and to promote SME’s business-consistent (SME’s financial-requirement-consistent) opportunity to access to finance. It is also another objective to identify issues what further improvement is necessary for SME access to finance when the gap is filled.

To enhance the modernization of business management, the capacity development is also needed for sound corporate governance to raise awareness in the fields such as treatment of stakeholders, duty of the board of directors, anti-corruption ethics and compliance as well as social responsibility³⁸.

(iii) Directions for Measures and Actions

In SME access to finance, the financial statements are a core part of required documents for bank loans. At the current situation, banks often offer the services to SME how to prepare one. However, it is mostly focusing on the procedure to prepare its formality not the substantial significance of it³⁹. Thus, the fundamental solution has remained un-tackled, and many of SME has remained relying on the bank services to prepare the statement for the sake of preparation of statement.

● Short-term Scope

It is an urgent issue to approach to the fundamental area and provide guidance for SME to be aware that the financial statements based on the proper bookkeeping is important for business management itself rather than just a document required for bank loans. Adopting a financial statement should be used as one of the triggers for the “**modernization of business management**” - which is a gateway for SME access to finance. Capacity development of SME should be promoted in modernization of their business management in this sense.

The significance of process to reach the financial statement and utilization of it should be thoroughly understood by SME. The habit to maintain the proper bookkeeping and knowledge to make use of them for business development are essential factors for modernization of business management. This could lead to the adoption of financial statement to the end, but more importantly, it could realize improvement of productivity, increasing efficiency, up-grading quality, and ultimately realizing competitiveness in doing so. In the Capacity Development process, thus, promotion of adoption of the financial statement should be utilized for SME not only for the objective of facilitating access to finance but extended in long-run for up-grading their business

³⁸ Industrial Development Policy also stipulates “Enhancing SME s corporate governance including adherence/compliance with existing rules and regulations as well as nurturing a culture of social responsibility.

³⁹ In some cases, the statements are prepared only by bank side.

management capacity to be modernized in each targeted areas (such as production management, human resource management) more than access to finance.

The supporting measures can be conducted on the base of collaboration with stakeholders which includes;

- NBC and NAC will make guidance for Banks/MFIs' consultation at the time of loan assessment to up-grade their consulting in the context of SME financial management in their business activities.
- NAC together with MIH, MOC GDT and private associations (bank/MFI associations, SME associations) should provide opportunities for seminars and workshop.
- TOT (Trainings for Trainers) should be designed and coordinated with the programs above.
- Activities and projects should be thoroughly reviewed which have been provided through collaboration between authorities and the international development partners.

● Mid- to long-term Scope

Collaboration can be considered with educational and/or vocational institutions such as universities, FIC⁴⁰, and international development partner related organization such as CJCC⁴¹ so that the seminar/workshop activities can be designed and provided constantly in the programed & continuous courses to assist SME for capacity development. The lecturers can be trained by TOT above or invited from the relevant managers of successful SME.

Collaboration with private BDS providers serves to back up the programs above, and, at the same time, can be a good vehicle for BDS market development which will also lead to redistribution of advantage back to SME in many other areas for business development. When the BDS market grows, the better services are expected and opportunities for those will increase for SME which is the win-win relation.

GDT, KICPAA or the private association may develop the accounting software for SMEs and micro firms to maintain the proper bookkeeping and prepare the financial statements without the technical knowledge. This software should also help to generate the business plan based on the bookkeeping record so that SMEs can submit the financial statements to GDT and the business plan to the banks/MFIs. In cooperation with BDS providers, SMEs can utilize the information generated from the accounting software for further business development.

The authority may cooperate with the business associations to organize the committee to set the Code of Good Corporate Governance for SMEs.

(iv) Referential Schemes and Cases

In Japan the private association such as the Certified Public Tax Accountant Associations, the Japanese Chamber of Commerce (JCCI), the Corporation Association and the Association of Blue Return Taxpayers provides the free consultation services of the proper bookkeeping to public or its member. (JPN)

“Micro Business Management Improvement Loan (Maru Kei Loan)”: A loan scheme provided by Japan Finance Corporation (JFC), the Japanese government owned bank. This loan aims to modernize small scale companies by making a business plan with consultation, and provides preferential loan rate with no collateral. (JPN)

⁴⁰ Financial Institute of Cambodia

⁴¹ Cambodia Japan Cooperation Center

2-5. Assistance for Human Resource Development

(i) Issues

The development of human resources for industries has been a current much focused issue in the industrial development. Many human resource development schemes and programs have been introduced and provided by the RGC (e.g. MLVT), international development partners (e.g. CJCC), and recently developing private sector training and educational organizations. Over-all needs for the human resources for industries are still increasing not only SMEs but all the industries.

Through the findings from MIH/JICA Survey, pilot company diagnosis by MIH/ JICA and other dialogues, it was found that SMEs have been facing shortage of human resources in all levels (low-skilled and skilled workers, specialist and managers) because of i) difficulty in acquiring employees, ii) difficulty in securing stable employment, and iii) poor work environment, as discussed in 1-1-12.

Not limited to education and training before recruitment, in-house/internal education and training are also important after the employment within SMEs. The achievement of the JICA Project⁴², human resource development within SME showed effectiveness, because the training can be implemented directly related to their actual business operation. In this way, the needs of SME managers would also be directly reflected. However, the most SMEs often have to abide its limited resources and technical skills to manage in-house human resource development for its employees.

(ii) Objectives

Support scheme on capacity development to individual SME's internal human resource development complementing with training programs by relevant organizations.

(iii) Directions for Measures and Actions

- Short-term Scope

Upon the direct request of SME, through the company diagnosis services by governmental assistances such as public services on company diagnosis and consulting provided by NPCC/MIH, actual constraints of internal human resource development should be specified. With full alignment with over-all human resource development for industries, appropriate BDS should be provided or facilitated in the area of capacity development for HRD at the site of individual SME. Training courses should be organized with public sectors and coordinated with private sector BDS providers to be designed for the SME employees including management level personnel to be sent from SMEs. These courses should be designed in the manner to provide training on behalf of SMEs shouldering their constraints in lack of resources.

MLVT are primarily in charge of vocational training, which organizes coordination meetings among line ministries. In addition, collaboration with business communities, for example, SME organizations and industry associations shall be invited for opportunities to be heard.

⁴² Technical assistance was provided on Company Diagnosis and related Consulting in the JICA Project.

Including projects or programs by NPCC, MLVT, as well as other international development partners collaborated national educational institution such as CJCC, vocational training related information should be accumulated and made publicly available for potential employees as well as SME managers.

- Mid- to long-term Scope

A special institution for professional training and education for SME, such as SME training institution, could be formed and made available for SMEs' employees training. Coordination should be pursued for the establishment of the special institution among existing institutions, alliance of universities and vocational schools.

(iv) Referential Schemes and Cases

“SME University (SME Training Institution)”: The institute was established in 1962 by the Organization for Small & Medium Enterprises and Regional Innovation (SME support, Japan). They provide the courses to meet the needs of SMEs, such as modernization of business management, production, human resources development, marketing and so on. (JPN)

“The Human Resources Development Fund (HRDF)”: The fund is administered by Pembangunan Sumber Manusia Berhad (PSMB), an Agency under the Ministry of Human Resources. Certain categories of employers are liable to pay a Human Resource Development levy for each working employee at the rate of 1.0% of the monthly wages of the employee workforce are allowed by employers to receive financial assistance up to 100% to cover the training cost incurred. (MYS)

“Education and Training Benefit System”: Ministry of Health, Labour and Welfare of Japan started to provide benefit to worker up to 60% of the cost of designated lecture from the budge of Employment Security Insurance in1998. 8,541 lectures are designated in 2013, including 4,061 Transportation, machine operation related lectures. (JPN)

3. Promoting private /public BDS for SME⁴³

In the SME Development Framework 2005, the “SME Support Activities” was one of the four pillars, and “Business Development Services” is major focus for that pillar. The progress was reviewed in 2006; however, not a significant progress in this area was reported at the time of review. Major activities were basically found to be with projects and activities implemented by NGOs and international donors. The annual report (2006) concerning the progress of the SME Development Framework concluded with further suggestions in the section of Business Development Services (BDS) as follows:

It is the strategy of the donors and the government:

- i) to encourage the development of market-based services that will meet the needs of SMEs,*
- ii) (to) promote the establishment of private sector BDS providers, and*
- iii) become a financially sustainable undertaking.⁴⁴*

3-1. Public BDS Facilitation Promotion:

- “bridging” for private BDS, incubator/testing -

It is important to further strengthen and enhance the capacity of government-run (or government initiative oriented) BDS functions, such as testing/incubator institutions (ex. ILCC), national R&D laboratories (ex. RUC/ITC), direct assisting functions (ex. NPCC and DG-SME&H of MIH, Trade Promotion Dept. of MOC, Agro-industry Dept. of MAFF). In mid- to long-term perspective, their experiences achievements should be shared and handed over, where appropriate, to the private sector BDS providers or special policy implementing entities such as public enterprises independent from policy authorities. The more of the facilitation function of publicly-run BDS should be strengthened to “bridge” them with private sector BDS.

(i) Issues

The RGC has been and still is a major player of BDS provision and/or facilitation while private sector BDS providers are gaining growing recognitions among SME;

The Ministry of Industry and Handicraft (MIH) is providing “direct BDS” as a part of exercises to promote demand in the private sector. The under General Department of Industry (GDI), the National Productivity Center of Cambodia (NPCC), the Department of Techniques, Science & Technology (DTST) are conducting pilot support activities to assist model SMEs in the implementation of 5S-KAIZEN, GMP, GHP, and HACCP. NPCC start providing comprehensive Company Diagnosis Consulting with JICA’s technical assistance. The Industrial Laboratory Center of Cambodia (ILCC), independent from MIH (the former MIME) in 2011 as a testing laboratory, provides testing for standard qualification and incubator function. The National Metrology Center (NMC), also under MIH (the former MIME) was established in 2011 as a provider of measurement solution to industry. These activities have been supported by development partners such as ADB, GIZ, APO, UNIDO and JICA. Facilitation activities such as training of trainers (TOT) on GMP/GHP in food safety areas are also being conducted through technical assistance supported by IFC.

Ministry of Commerce (MOC): MOC’s focus is already shifted more to “facilitation”. The implementing authority is the Trade Promotion Department (TPD). There are some inter-departmental activities such as the

⁴³ This section is based on and updated on the policy option paper adopted by GDI, MIME (the former Ministry to MIH), “Strategic Options for Improving Business Development Services for SMEs in Cambodia”, February 14, 2011, (GDI/BDS/SO/001)

⁴⁴ “Small and Medium Enterprise Annual Report 2006”, August 31, 2006, Sub-Committee on SME, SME Secretariat

“Diagnostic Trade Integration Study (DTIS) and Sector Profile” and “Trade SWAp”. They are conducted by several departments within the MOC and BDS related activities are diversely included in these projects. TPD’s BDS activities – which are: i) facilitation of SMEs participation in international and domestic trade fairs and exhibitions ; ii) awarding for export promotion and business matching missions; iii) the provision of an Electric Marketing Communication System (EMCS); and iv) campaigning for “Buy Cambodia”. TPD also promotes the formation of “associations” to deliver BDS more effectively.

Ministry of Agriculture, Forestry and Fishery (MAFF): MAFF is providing both “direct technical assistance” and “facilitation”. The implementation authority is the Department of Agro-Industry (DAI). DAI dispatches its officials to the provinces as trainers to teach: i) contract farming, ii) fodder blending, and iii) the quality and safety of vegetables. At the same time, it facilitates linkages between provincial farming and urban agro/food-businesses through contract farming. The trainings have covered over 20 provinces and the training courses for contract farming are held ad-hoc bases.

Ministry of Economy and Finance (MEF): MEF by itself does not provide BDS to SMEs. However, it covers the areas of accounting and education for economics and finance. Under the MOEF, there are three main institutions: i) The Institute of Economics and Finance , ii) The Kampuchea Institute of Certified Public Accountants and Auditors (KICPAA), and iii) the National Accounting Council (NAC). Of these three institutions, KICPAA’s activities are related to BDS for enterprises including SMEs, the role of KICPAA is more in the nature of a facilitator with regard to BDS whose primary beneficiaries are BDS providers, accountants and auditors.

Ministry of Tourism (MOT): Major activities are provided in Department of Tourism Industry. While preparing basic statistic reporting system for regional tourism business promotion and enhancing hygiene level with a set of qualification standards, it also provides training courses to upgrade tourism related private service providers in areas of hotel, restaurant, and tour operation.

Related to these activities above, many of pilot assisting projects are conducted with Ministries of authorities by the international development partners. Some are integrated into institutionalized mechanism; some are still under-going process to be assessed for sustainable mechanism/schemes.

In the MIH/JICA Survey, the finding indicates that only a few SMEs owners/managers have received or sought outside assistance (public and private) to help them address internal constraints in production and management. The results show that only 12% of 446 surveyed firms have received or sought outside assistance from the government, development partners and private consulting firms. Recipient SMEs have received or sought helps mainly on how to improve product quality and design, safe working environment and productivity enhancement (Figure 3.3.1). 80% of such assistance comes from development partners indicating the limited and still insufficient support by the government and private consulting firms in terms of Business Development Services. SMEs in provinces (22%) seem to receive more assistance from the government compared to those in Phnom Penh (10%). Almost all surveyed firms have never sought external business support for two major reasons: (1) 70% of them say they do not know where to seek helps and (2) 21% think that they do not need any assistance. The results seem to indicate that there are demands for supports from SMEs owners/managers but the lack of information and inadequate awareness raising about the existence of the assistance are constraining their access.

Not limited to the above as indicated, the other BDS opportunities are also available from the governmental function; however, the availability is always limited due to limited capacity for implementation as the

government is not originally designed to provide BDS directly to SMEs. It is found that some of the issues are still underlies to be tackled for improvement which includes; i) coverage of services is limited (not all the interested SMEs could get access to the services), ii) quality of services is not standardized (range and/or level of services are not always based on specific qualification and/or guidelines), iii) constraints on physical infrastructure and human resources (lack of facilities and regional networks, and limited professional personnel), and iv) limited future plans to promote private sector BDS (including schedule to hand over certain range of public BDS).

(ii) Objectives

The objectives of strengthening facilitation capacity in public BDS for SMEs are; i) initially to strengthen the existing public BDS till the private sector BDS is developed, ii) to introduce new BDS and its scheme where no BDS is available, iii) to promote private BDS providers in the areas the initial actions are taken by authorities, and iv) to set and implement a relevant mechanism to bridge the tasks to private BDS providers.

Where the market for a particular BDS is not established, the government may need to take a major initiative to provide direct services to introduce BDS and generate demand for a potential market. In the area of skill development and technology adoption, for example, there is still very limited interaction between R&D institutions and SMEs. The government assistance is much needed for direct assistance. When there is private sector BDS providers developed, the government role should be shifted to the facilitation of technology adoption by bridging SMEs needs to the private sector BDS providers. The government, thus, is also in the position to promote private sector BDS providers. The government role should therefore be carefully assessed based on the situation while maintaining the overall effectiveness of SME development policies.

(iii) Directions for Measures and Actions

The following measures and actions have been raised in the Policy Option Paper⁴⁵ submitted after the SME Development Framework. The suggested recommendations are still relevant to pursue for the recent situation;

<coverage of services>

- It is still effective to continue the current BDS provided by the government where the objectives are to demonstrate benefit and to stimulate demand, and where the sign of demand increasing is observed.
- The direct activities (interventions) should be developed more as complementary services to private sector BDS activities.
- Solid planning setting and strategic areas in the policies should be focused on.
- Facilitation of access to BDS (access to information on BDS) should be more inter-linked and interactive.

<quality of services>

- The cost-sharing principle and scheme has to be introduced (or extended), together with formulation of transparent budgetary principle.
- BDS activities should focus on extending services that will ensure the quality of products/services.

<physical infrastructure & HRD>

- Solid planning setting and further allocation of budget should be necessary. Collaboration with

⁴⁵ as indicated in the footnote 1.

international development partners and private sector BDS providers are effective.

- More aspects pertaining to regional business development should be incorporated into the current BDS activities.

<limited future plans for private BDS promotion>

- The schedule of activities has to be clearly laid out for the continuation of BDS. Especially for the schedule and objectives when and to what extent the government should hand over its function to private sector BDS providers, how the government will involve in facilitation (bridging).
- The quality of BDS and fair trade in private sector BDS should be monitored.

3-2. Private BDS Promotion and Capacity Development

- scheme building and delivering the SME's interests and requirement -

The government should continuously monitor how the market develops. If systemic constraints (often caused by inadequate regulatory system) emerge that affect the stakeholders in their business opportunities, the government is to take relevant measures to remove them to recover a fair business environment. Monitoring fair competition as well as the range of fees, and fair quality of services (BDS) is also a significant task for the government. It is also the government role to monitor and promote upgrading of the quality of private sector BDS.

In the area of promotion of private sector BDS, the recent support activities by international development partners are getting more and more cautiously designed for facilitation rather than direct provision of BDS. Facilitations are gaining greater relevance as the vehicle of assistance. This is aimed to initially deliver BDS skills and know-how to governmental authorities, then to promote private sector BDS through assistance from them.

(i) Issues

As there is limited statistical data, the current situation of private sector BDS is not yet clearly identified. However, a part of the MIH/JICA Survey and related interviews have identified some of the development in this area.

Accounting and Auditing: With the cooperation from NAC and KICPAA, private accounting firms are at stage of providing services to SME. Although it is still in the very initial stage for both accounting firms and SMEs, the conventional notion of SMEs that accounting services are too expensive to SMEs has been reviewed and, in reality, some of the accounting firms are trying to set affordable fees for SMEs consulting with the range/coverage of services. The market is still small in terms of BDS for SMEs in this area, and the SME clients scope to the services are still based on rather grapevine-like limited network base; however, the changes are already observed; however, the progress is starting for the further promotion in private sector BDS in this area including consultancy on preparation of financial statement and related business advices.

Legal and Consulting: The Bar Association of the Kingdom of Cambodia (BACK) is the core association of lawyers providing a variety of facilitations for mainly member lawyers. It is still limited to assist providing legal services to SMEs directly. There is not a central association for consulting firms. Some firms related legal consulting with layers are, thus, often found to be members to the BACK. As for the legal area, there is still limited market for SMEs as ordinary SMEs' business at current stage is not always requires legal issues to

deal with for usual business practices unless they are in the court process. With regard to consulting services, the situation is similar to the area of accounting and auditing.

IT development & consulting, Research & Marketing: This is developing area with SMEs. As introduction of IT to the business is essential to the current SME business, naturally the IT development services are developing. The related consulting and extended research and marketing advices are relatively easier for SMEs to be familiarized once they make initial communication with IT development advices (often hardware (PC) and web-site introduction, but software introduction is also developing). IT Association is also taking assisting part of the over-all activities of IT sector. There are already many research and marketing services providing firms. Besides the specific research firms, there are some other forms often found to be as a part of related services which include web developing and publication/printing.

SME Association: Recent development of SME related associations are notable. FASMEC, YEA, CWEA, and CIC are often recognized as the major focal points of SMEs business activities. The BDS including consultancy, IT advices, and legal & accounting services are facilitated through the activities of members' advantages. It is often provided in the form of seminars & workshops, but members' networking is also a big part of developing communication between SMEs and BDS providers. Some of members to the association themselves are BDS providers and members' communication itself serves as introduction and access to BDS for SMEs which is functioning implicit market development of BDS.

Issues related in this area are i) limitation in the legal framework to encourage private sector BDS, ii) limitation of promotion measures including capacity development assistance. With regard to the legal framework, there are official qualifications (certifications) for accountants and lawyers but not for consultants, researchers, IT developers & consultants, or researchers and marketers, and not for their firms. It is difficult for SMEs to assess the quality of services unless they could have private reputations. For the promotion side, the information to get access and on quality to private sector BDS is limited, and quality upgrading of services are all depend on the private effort, thus, qualities of them are not standardized other than accounting and legal areas.

(ii) Objectives

The ultimate objectives in this area is i) to provide concrete business enabling environment for private sector BDS for SMEs, and ii) to promote capacity development and private initiatives in the sector. To reach this stage, it is essential to specify the policy target. The capacity development measures are to be provided in the process of public BDS activities through sharing experiences or on the job training with public activities for the related private parties to the activities.

(iii) Directions for Measures and Actions

The priority action should be put focus on formulation of the recognition of private sector BDS "market" for SMEs. Private sector BDS is still recognized as the individual firm base not the sectoral base. It is difficult for government to target policy measures to the market or sector outline is not specified. Private sector BDS market is still developing, thus, close communication with the core activities of private sector is essential as well as the requests and needs of SMEs from the demand side.

The RGC should put focus and effort on the following directions for assisting measures:

- Information gathering and identification of outline of private sector BDS is first priority.
- Encourage the information “focal points” to accumulate and disseminate information on private sector BDS such as KICPAA, BACK, and SME Associations. Communication among the “focal points” should be encouraged for user SMEs to be connected to different types of BDS.
- Set the qualification criteria and/or standards for BDS so that private sector BDS could apply with, and set guidelines for fair and proper business transaction for private sector BDS including model fee ranges and model contract so that transparency of fair transaction can be secured.
- Capacity development assistance is considered through public BDS activities at the initial stage, and to be encouraged for development and implementation of systemic programs by private initiatives at the later stage when the outlines of sectors are developed.
- Services assessment mechanism should be designed in the long-term scope, and it should be integrated into the activities by the “focal points” for the further improvement of services.

IV. Institution

The SME Promotion Policy should be implemented in the respective ministries related to the specific policy measures in the specific issues. The major responsibility is to coordinate the implementation. When the SME Promotion Policy is uniformly adopted by the relevant line ministries, all the measures have to be coordinated on the one Policy.

The SME Sub-Committee has set forth since 2004 for all the SME development issues. The significance of the achievement of this Sub-Committee should be confirmed and the SME Sub-Committee should take a central role for formulation, implementation and coordination of over-all SME Promotion Policy. The structure of the Sub-Committee may be reviewed to be more practical to respond each issue of the policy. Setting up the working groups for each focus could be one of the realistic options, such as “Working Group for Definition”, “Working Group for Access to Technology”, “Working Group for Access to Finance”, etc..

In order to back up the Sub-Committee activities, the Secretariat function should be strengthened. Up to the current state this role has been conducted by the initiative of MIH. As the NSDP is instructing MIH for continuous initiative in the SME promotion issues, the function of the Secretariat should be maintained and even strengthened for further effective operation of Sub-Committee activities. It is to be considered to further develop the Secretariat capacity in policy & policy measure formulation, statistic and information accumulation, research & analysis, and communication and coordination in close collaboration and coordination with MIH activities.

The Secretariat should also take a strong initiative to coordinate and communicate between SMEs and the Government, including coordination in the SME issues under the GPSE, and keeping constant communication with SMEs including their associations such as FASMEC, YEA, CWEA and CIC.

In mid- to long-term perspective, a SME specific authority may well be established within the Government, such as “SME Agency”. The policy formulation and coordination function should be strengthened within the Agency.

Further discussion should be continued among the relevant organizations for the implementation of the SME Promotion Policy.

Way Forward

The Policy Framework tabled here is for the further discussion to formulate a policy and policy measures in the broader horizon of SME promotion as a whole. As it is described in the very early statement of this Policy Framework, all the elements and factors, scope, structure, and issues & directions included herein are to be addressed for the immediate SME policy, and, on the other hand, they are to be incorporated into of much needed SME basic legal framework in the near future.

As instructed by the National Policy, the Cambodia's first national level Industrial Development Policy has been launched. As for the SME policy, although the direct instruction is to update the SME Development Framework, the actual implication of the instruction should be formulation of the SME promotion policy. It may take some time to reach a final goal of comprehensive legal framework for SMEs such as the SME Basic Law; however, the continuous and consistent focus should be maintained based on consensus of all the stakeholders including the government at this stage, and the focus should be sustained till the final adoption of the establishment of the legal framework.

Appendix 1: Timeframe of measures and actions for SME Promotion

	Short Term Scope (1-2 years)	Mid- (3-5 years) and Long-Term Scope (-10years)
1. Business Enabling Environment (BEE)		
1.1 Basic SME Promotion Policy: Formulating a clear policy outline (Prakas, Charter, and/or Law) with relevant (law-) enforcement mechanism covering the “13 issues”		
1-1-1 Definition of SME <i>Principles/ Objective: The objective of introducing the base definition(s) of SMEs is to secure the legality of targeted SMEs’ access to the incentives schemes, to enable consistent and synergistic policies in different government agencies, and to accumulate the statistical data for future policy development.</i>	<ul style="list-style-type: none"> - Registration data by One Roof Services - Definitions for specific measures, priority sectors - Identification of existing definitions among line-Ministries - Discussion on objective oriented definition(s) 	<ul style="list-style-type: none"> - Coordination of definitions among line-Ministries - Set definitions in accordance with: <ul style="list-style-type: none"> i) economic reality, ii) objectives of promotion, iii) characteristics of sectors/industries
1-1-2 Code of Good Practice in Regulating SMEs and Reduction of Red-Tape <i>Principles/ Objective: The administrative procedures should be efficient, transparent to and reliable from private sector so that vital and sound economic activities by private sector can be encouraged through effective policy implementation.</i>	<ul style="list-style-type: none"> - ORS not only as registration but also as a focal point for all the information on governmental measures for SME - Simplification and improvement of duplication of procedures - Preservation of procedural efficiency and transparency 	<ul style="list-style-type: none"> - Inter-governmental coordination among registration systems - ORS of MIH to be a focal point for consultation - Setting up and coordination of fee settlement system
1-1-3 Incentive Schemes for Initial Start-Up <i>Principles/ Objectives: Objectives of introducing incentive scheme to be provided for initial start-up are to encourage and promote SMEs’ entrepreneurship for strategic sectors to contribute directly to economic growth, and for diversification of industry to form the foundation of sustainable industrial development.</i>	<ul style="list-style-type: none"> - Identification of strategic sectors - Coordinate with private business associations - Consideration of types of measures; tax exemption, financial assistance, etc. - Strengthening existing public services, assistances for the business planning (NPCC, ILCC, ISC, etc.) 	<ul style="list-style-type: none"> - Set forth the measures for strategic sectors - Extending coverage of Investment Law

<p>1-1-4 Incentive Schemes for Promoting Technology Adoption, Innovation & R&D, and Work Skill Qualification Development</p> <p><u>Principles/ Objectives:</u> <i>The over-all objective is to further facilitate SMEs' access to technology to improve productivity and competitiveness realizing better access to information on technology and reducing constraints of SME to adopt technology. The work skill upgrading is also to be included for the support of adopting technology.</i></p>	<ul style="list-style-type: none"> - Priority on technology to improve productivity - Enhancement of assistance by government-run institutions - New modality of access to finance for technology - Technology sharing (clustering) - Further coordination among academia, industry, and government - Work skill identification / qualification setting - Promotion of IPR registration 	<ul style="list-style-type: none"> - Set forth incentive measures more for R&D and innovation side - Promotion of technology agglomeration (SME Techno Park) - Further promotion of IPR system (strengthening examiners, etc.)
<p>1-1-5 Incentive Schemes and Simplified Pro-SME Tax Regime</p> <p><u>Principles/ Objectives:</u> <i>In order to promote SMEs' formalization and sound development, which contribute to Cambodia's economic development, tax system should be not only focused to efficiency of tax collection, but should provide certain benefit to the taxpayers side, as well as avoid unnecessary burden, and should contribute to SME promotion.</i></p>	<ul style="list-style-type: none"> - Continuation of promotion of awareness raising on taxation system through introduction of simplified financial reporting system for SME - Promotion and implementation of transparent tax payment and refund system 	<ul style="list-style-type: none"> - Introduction of incentives for on-going promotions on introduction of simplified financial statement for SME and micro-enterprises - Introduction of incentives for spontaneous tax declaration based on proper bookkeeping
<p>1-1-6 Schemes for Applying Law on Investment in SMEs Investment Promotion</p> <p><u>Principles/ Objectives:</u> <i>A wider and diversified range of options for investment opportunities should be provided for SMEs as well as large scaled investment projects and relevant incentives should be considered to encourage them to take the opportunities in order to activate potential economic foundation for industrial development and dynamic economy.</i></p>	<ul style="list-style-type: none"> - Review and update criteria for QIP and SEZ feasible for SME 	<ul style="list-style-type: none"> - Identification and set priority sectors for SME investment incentives - Set forth the SME specific investment promotion provisions in the Investment Law or in the other frameworks - Consideration for setting up the SME Zone

<p>1-1-7 Scheme for Supporting Access to Finance for SME</p> <p>(1) Credit (Collateral, Credit Guarantee)</p> <p><u>Principles/ Objectives:</u> <i>Objectives of improvement and promotion of access to finance in the area of loan are to; i) introduce a specifically designed SME public loan scheme complementary and synergistically effective to existing SME loans provided by private commercial banks and MFI, and ii) promote capacity development of SME (modernizing its management) to facilitate its access to finance including technical guidance to and promotion of financial products and services available for SME.</i></p>	<ul style="list-style-type: none"> - The Credit Guarantee Fund (CGF) scheme be considered - Policy interest rates and/or loan interest subsidizing scheme be discussed - Establishment of a focal point of information and consultation be considered 	<ul style="list-style-type: none"> - Establishment of government-run SME financial institution be considered (SME Bank)
<p>(2) Leasing, Risk Capital, and Other Options</p> <p><u>Principle/ Objectives:</u> <i>It is significant to widen the options of financial products to facilitate SME access to finance. The major objective of the actions to be taken is to preserve sound legal foundation for each of different financial product and provide a range of services through diversification.</i></p>	<ul style="list-style-type: none"> - Promotion of further Financial Leasing - Governance on needs of new financial services and their development (settlement for the legal provisional conflicts) 	<ul style="list-style-type: none"> - Introduce relevant legal framework for the new modalities of financial services, such as risk capital, Cloud funding, etc.
<p>(3) Credit Information</p> <p><u>Principles/ Objectives:</u> <i>The sound operation of credit information sharing scheme is essential to sustain healthy credit climate among financial sector. Maintaining the scheme running appropriately, the easier and more efficient credit decisions could be made, thereby increasing financial supply to SME with good credit history.</i></p>	<ul style="list-style-type: none"> - Information updating scheme - Utilization of data for the formulation and reference of SME definition 	<ul style="list-style-type: none"> - Contribute to the Credit Guarantee Fund system

<p>(4) Simplified Accounting</p> <p><i>Principles/ Objectives:</i> It is recognized by NCA that the simplified financial reporting standards (ex. FRT and Templates for Micro Firms) was necessary, in order to: (i) improve SME access to finance; (ii) improve financial management of their business; and in the longer-term (iii) to improve tax collection.</p>	<ul style="list-style-type: none"> - Review the relevancy on current FRT and Templates for Micro Firms with CIFRS (NAC and GDT) - Utilization of data for the formulation and reference of SME definition 	<ul style="list-style-type: none"> - Further assistance to enhance the simplified accounting to upgrade to be compliant to CIFRS standards - IDP states that “By 2025, 80% and 95% of small and medium enterprises respectively operating in Cambodia should be officially registered while 50% and 70% of small and medium enterprises respectively of micro enterprises should have accurate accounting records and keep proper balance sheets”
<p>1-1-8 Schemes for SME Clustering and Linkages with FDI Large Industries</p> <p>(1) Scale of Economy; SME Clustering and Cooperatives</p> <p><i>Principles/ Objectives:</i> To encourage scale of economy to achieve competitiveness, through promoting SME clustering and cooperative. To promote further diversification of the industrial base and realize more efficient and high-qualified industries.</p>	<ul style="list-style-type: none"> - Identification of seeds and coordination of the programs (policies) - Review SEZ and other industrial parks’ activities to identify the specific needs (garment, automobile parts, etc.) - Further information sharing on the needs of FDI and Large companies 	<ul style="list-style-type: none"> - Consider providing preferential treatment and special assistance to promote strategic clustering to encourage scale of economy and accumulation of technology and human resources - Cooperative forming - Setting up “SME Zone”
<p>(2) Linkage</p> <p><i>Principles/ Objectives:</i> Cambodian SME can effectively connect to, and recognized as a part of GSC preserving alignment with the development policies of “Connectivity”. Given that many multinational corporations have been considering their portfolio for risk management and dispersion of global manufacturing sites, the measures for continuous technology transfer from linkage with FDI and access to GSC should be assured</p>	<ul style="list-style-type: none"> - Consideration of schemes for encouraging SME to get linkage to FDI and access to GSC (scheme for encourage FDI/large-scale-companies to link with SME) 	<ul style="list-style-type: none"> - Introduction of support mechanism through the successful cases of pilot linkage programs - Introduction of schemes for encouraging linkage

<p>1-1-9 Schemes for Promoting SME Internationalization</p> <p><i>Principles/ Objectives:</i> <i>To have Cambodia's SMEs and their products recognized in global market as well as domestic market. Cambodia's SMEs are to gain competitiveness in the global business communities and their products shall enjoy their unique comparative advantages in AEC as well as in global market. Cambodia's SMEs shall have free access to international market and necessary information thereof.</i></p>	<ul style="list-style-type: none"> - Utilization of existing export promotion programs - Reduction of red-tape; custom clearance cost for exports - Strengthening of effective function of IPA (Investment Promotion Agency) 	<ul style="list-style-type: none"> - Strengthen the institutions for trade facilitation (ex. CAMCONTROL, CDC and/or SME Center and/or new IPA (Investment Promotion Agency) function), and for international standards (ex. ISC, ILCC) - Scheme for encouraging private BDS
<p>1-1-10 Schemes for Promoting SME BDS Markets</p> <p><i>Principles/ Objectives:</i> <i>Access to public/ private BDS is essential for promoting SME, and variety of BDS to cover needs of SME should be provided so that SMEs would develop and contribute to Cambodia's economy. To make an environment that SMEs, both in cities and provinces, shall have choices and access to BDS to get adequate types of business services when necessary.</i></p>	<ul style="list-style-type: none"> - Setting the guidelines and standards (on fees, quality of services, etc.) for private BDS sector - Provide and encourage to form model contracts, terms and conditions - Strengthening of effective function of IPA (Investment Promotion Agency) 	<ul style="list-style-type: none"> - Identification of which BDS functions; <ul style="list-style-type: none"> i) should be remained in government, ii) should be handled by public organizations, and iii) should be privatized
<p>1-1-11 Schemes for Facilitate Gender Issues in SME Promotion</p> <p><i>Principles/ Objectives:</i> <i>Making alignment with the strategy and policies projected by MOWA, the SME policy shall provide and secure the fair business conditions for gender issues in SME promotion. The necessary and relevant measures should be designed to facilitate SME in the subject area to take advantage of their conditions.</i></p>	<ul style="list-style-type: none"> - Measures and projects available for women business owners and entrepreneurs shall be adequately aggregated and information thereof shall be provided - Any discrimination, including gender discrimination, shall be eliminated 	<ul style="list-style-type: none"> - Alignment and coordination among social policy and economic policy in terms of gender issues

<p>1-1-12 Arrangement for SME Employment and Labor Conditions</p> <p><u>Principles/ Objectives:</u> - enhancing development of a labor market from which SMEs can hire necessary human resources with technique, technology and motivation to provide wider options for SME employment. - setting out the fair and favorable condition of employment and labor for SME to fill the gap between those of large companies so that SMEs can attract workers and enable stable employment.</p>	<ul style="list-style-type: none"> - Utilize existing agencies and functions to support SMEs employment - Introduce mechanism for upgrading condition of working place including safety and health 	<ul style="list-style-type: none"> - Introduction of model contracts, guidelines, SME social welfare schemes, SME HRD scheme - Skill upgrading schemes
<p>1-1-13 Scheme for SME Access to Information</p> <p><u>Principles/ Objectives:</u> Make information accessible and apprehensible necessary for SMEs business opportunities, policy measures, and capacity development.</p>	<ul style="list-style-type: none"> - “focal point for SME information” (Web-portal) - Coordination and review on the statistic collection systems - Continuous information promotion scheme with explanation (interpretation) and guidance (seminars, workshops, training courses, Radio/TV programs as well as home page on the web-site (relevant authorities)) 	<ul style="list-style-type: none"> - Set up a “focal point for SME information”, such as a SME Information Centre (portal) (ORS) - Nationwide information sharing - “SME White Paper”
<p>1-2 Mechanism for Widening Network: mechanism for dialogs among private/public sectors and global counterparts</p>		
<p>1-2-1 Utilizing Existing Dialogue Channels</p> <p><u>Objectives:</u> Dialogues between the Government and private sector should be more activated through stronger commitment of both sides with capacity development in order to generate constructive discussion and information sharing, and extended to link with comparable dialogue mechanisms in global level.</p>	<ul style="list-style-type: none"> - Further activation of SME Sub-Committee for formulation of SME basic policy/Law/Charter - Further activation and extension of G-PSF - Further strengthening of SME Secretariat under the MIH 	<ul style="list-style-type: none"> - Integration of Cambodia’s network linked with wider network (such as ASEAN level)

<p>1-2-2 Broadening Intra-regional and with Academia Communication Channel</p> <p><i>Principles/ Objectives:</i> <i>In order to broaden opportunity of communication with stakeholders, further involvement of provincial players (SMEs and governmental agencies), academia and regional/ global counterparts is essential.</i></p>	<p>- Consideration on new/further communication channel for SME into intra-regional level</p>	<p>- A regional “SME Center” can be considered for establishment to be a core of regional network</p>
<p>2. SME Capacity Development (C/D)</p>		
<p>2-1. Facilitation of SME’s Efficient and Effective Business Operation</p> <p><i>Objectives:</i> <i>The objective is to provide foundation for SME to tackle for both efficiency and effectiveness in their business and sustainable operation through providing appropriate information and technical assistance, and to facilitate to strengthen SME capacity for the quality of goods and services at all levels of supply chain according to the standard and value-added as Cambodia could pursue as for competitive uniqueness.</i></p>	<p>Capacity Development for:</p> <ul style="list-style-type: none"> - Efficiency to quality - quality as international standards - quality as value - branding 	<p>Capacity Development for:</p> <ul style="list-style-type: none"> - “Cambodia’s Brand”
<p>2-2. Linkage to Global Market</p> <p><i>Objectives:</i> <i>The major objective is to fill the gap between on opportunities (including policy measures) and on SME capacity in the area of linkage to global market.</i></p>	<p>Capacity Development for:</p> <ul style="list-style-type: none"> - “right SME sector in the right market” - Access to BDS 	<p>Capacity Development for:</p> <ul style="list-style-type: none"> - Catching up business matching opportunities - Catching up to meet FDI’s needs - Catching up to have scale of economy

<p>2-3. Technical Assistance for Promoting Technology Adoption, Innovation & R&D, and Work Skill Qualification Development</p> <p><i>Objectives:</i> <i>The major objectives are to generate awareness on actual significance and strong point of technology and to promote potential capacity to make better use of technology along with the awareness. The shift of SMEs' notion of technology is to be encouraged from only productivity to quality. The quality generation for value-added (ex. "originality") is the key to the capacity development in this area.</i></p>	<p>Capacity Development through:</p> <ul style="list-style-type: none"> - Organize workshops and trainings - Publication and dissemination of applied technology toolkits for SME - Provide technical assistance on site 	<p>Capacity Development by:</p> <ul style="list-style-type: none"> - Public institutions conveyed to private institutions/BDS for the specific and/or in-depth level
<p>2-4. Technical Assistance to Access to Finance</p> <p><i>Objectives:</i> <i>The capacity development in the area of SME access to finance has to be addressed primarily to narrow the gap between the awareness of SME and actual available financial opportunities provided, and to promote SME's business-consistent (SME's financial-requirement-consistent) opportunity to access to finance.</i></p>	<p>Capacity Development for:</p> <ul style="list-style-type: none"> - SME's "modernization of business management" - which is a gateway for SME access to finance - Bookkeeping to financial statement for business management 	<p>Capacity Development through:</p> <ul style="list-style-type: none"> - collaboration of financial related entities including academia
<p>2-5. Assistance for Human Resource Development</p> <p><i>Objectives:</i> <i>Support scheme on capacity development to individual SME's internal human resource development complementing with training programs by relevant organizations.</i></p>	<p>Capacity Development through:</p> <ul style="list-style-type: none"> - In-house training - Good practices - Collaboration with associations 	<p>Capacity Development through:</p> <ul style="list-style-type: none"> - SME specific HR center with collaboration of academia

3. Promoting Private/Public BDS for SME	
<p>3-1. Public BDS Facilitation Promotion</p> <p><i>Objectives</i></p> <p><i>i) initially to strengthen the existing public BDS till the private sector BDS is developed,</i></p> <p><i>ii) to introduce new BDS and its scheme where no BDS is available,</i></p> <p><i>iii) to promote private BDS providers in the areas the initial actions are taken by authorities, and</i></p> <p><i>iv) to set and implement a relevant mechanism to bridge the tasks to private BDS providers.</i></p>	<p>* time frame not specified</p> <ul style="list-style-type: none"> - The schedule and objectives when and to what extent the government should continue and hand over its function to private sector BDS providers, how the government will involve in facilitation (bridging) - The quality of BDS and fair trade in private sector BDS should be monitored - The important aspects and points: <ul style="list-style-type: none"> i) coverage of services ii) quality of services iii) physical infrastructure & HR iv) future plans for private BDS promotion
<p>3-2. Private BDS Promotion and Capacity Development</p> <p><i>Objectives:</i></p> <p><i>i) to provide concrete business enabling environment for private sector BDS for SMEs, and</i></p> <p><i>ii) to promote capacity development and private initiatives in the sector. To reach this stage, it is essential to specify the policy target.</i></p>	<p>* time frame not specified</p> <ul style="list-style-type: none"> - The priority action should be put focus on formulation of the recognition of private sector BDS “market” for SMEs. - Information gathering and identification of outline of private sector BDS is first priority, - Encourage the information “focal points” to accumulate and disseminate information on private sector BDS, - Set the qualification criteria and/or standards for BDS, and guidelines for fair and proper business transaction for private sector BDS including model fee ranges and model contract, etc.

Appendix (7) Project Activities

(7)-1 Policy formulation component

(7)-1-2 Concept Note for SME Policy:

Cambodia's SME Promotion
= SME's Initiative for Cambodia Brand of Quality =
Concept Note (Draft)

SMEPP/CN/W006-3
October, 2014

Background

Cambodia's economy has been demonstrating steady growth in 2000s. Even after the global financial crisis in 2007-8, it recovered swiftly and remained constant economic growth rate of 6-7%. The booming investment is continued since the new investment law was introduced in 2003 attracting FDI (Foreign Direct Investment) which counts for approx. US\$30 bil. as accumulated value of QIP¹ approval base since 2006.

Among others, SME is taking a significance role to contribute to Cambodia's economy and its development. The SME holds 73% and 58% of national employment and production respectively². The importance of SME has been stressed out in major key policies such as "The Rectangular Strategy, Phase III", the initial industrial policy draft "Diversification of Cambodia's Economy, 2010", and "GDI Strategy 2013-15".

However, there is a deep-rooted vulnerability in the current developing feature of Cambodia such as i) considerable dependency on import of goods and services as well as their inputs, agriculture products and consumer goods, ii) lopsided structure of industry with weak foundation of domestic manufacturing sector (dependency on garment/footwear and food processing sector³), iii) losing opportunities for efficient exports with less value-added in domestic production, iv) weakness in economic comparative advantages (competitiveness) in the region, v) widening the regional gaps affecting employment and human resource development.

Provided that the SME plays a significant role in the Cambodia's economy, it has to be promoted to serve as one key driving force through providing more favorable business enabling environment and assistances to break loose from its structural constrains. There are a varieties of difficulties and constrains of SME have been pointed out such as structural constrains in i) access to finance, ii) access to technology, iii) access to information, iv) linkage (vertical & horizontal⁴), v) BDS⁵ assistance. There are more capacity issues to be addressed such as weakness in a) productivity, b) scale of economy, c) competitiveness.

In order to achieve the sustainable economic and social growth of Cambodia, especially to prepare for the dynamic change in regional and global economic change such as AEC 2015, the emerging impact of recent development in neighboring countries in the regions concerned, and diversification of portfolio of GSC of the leading MNEs⁶, the SME promotion is timely and inevitable, and, moreover, construct the firm foundation to support its promotion system is vital for both Cambodia's future and regional prosperity.

Vision

By the year of 2030⁷, which is also the goal of over-all policy, "Vision 2030", the Cambodia SME is the significant and integral part of Cambodia's economy and so well recognized, while contributing Cambodia's economy with the annual growth rate of 7% by 2018 as targeted in the "Rectangular Strategy Phase III"⁸;

¹ Qualified Investment Project

² The number of SME establishment counts for 99.8% of the entire establishment based on Economic Census 2011.

³ FDI and CMT base for the former and accumulation of undeveloped and micro business for the latter.

⁴ Vertical linkage: between large-scale enterprise/FDI and SME, Horizontal linkage: between SME and SME

⁵ BDS: Business Development Services

⁶ MNEs: Multi National Enterprises

⁷ The year of goal is as of the time of this draft and has to be reviewed in alignment with the finalized over-all policy.

⁸ Paragraph 12, "Rectangular Strategy" for Growth, Employment, Equity and Efficiency Phase III, Of the Royal Government of Cambodia of the Fifth Legislature of the National Assembly, September 2013,.

- contributing Cambodia's sustainable economic and social development as one of major driving forces with noticeable "national champions" in key sectors;
- enjoying its unique comparative advantages as a core of its competitiveness (ex. "Cambodia's Quality"⁹) in AEC as well as global market;
- performing innovative business development;
- creating greater employment opportunities and assisting the living standard upgrading nation-wide¹⁰;

Strategy

In order to achieve the goal as set as the Vision, following strategies shall be focused in a manner to include social development aspects as well as the industrial development objectives, as the SME promotion policy shall contribute the living standard upgrading through SME promotion.

As the coverage of "SME" to the policy can be wide and inter-Ministerial, thus, the implementing function of policy is to be discussed thoroughly and well-designed. The existing base of implementation function, such as SME Sub-Committee, is to be strengthened for this objective. The time-frame should also be considered for the firm implementation, such as short-, mid-, long-term, and/or phasing I, II, III, etc.

1) Set out the concrete foundation of business enabling environment for SME

- formulating a clear policy outline (Prakas, Charter, and/or Law) with relevant (law-)enforcement mechanism covering the "12 issues"¹¹
- opening systems for widening networks (ex. system for dialogs with global/public sector counterparts, etc.)

2) Facilitate SME to develop its capacity (in;

- technical guidance for efficient and/or effective operation (ex. through assistance in business planning and financial statement formulation, through encouraging innovation for the "Cambodia's Quality" as a core of competitiveness, etc.);
- linking to global market (especially links to global supply chain to increase domestic value-added through being a part of GSC in terms of in-flow of inputs and out-flow of goods as well as technology transfer);
- accessing to technology (technique);
- accessing to information (related to development of market, product);
- accessing to finance;
- promoting cluster/sectoral association (scale of economy through "cooperation", "collaboration"); and
- human resource development.

3) Promote private/public BDS and frame financial assistance for SME

- private BDS promotion (scheme building and delivering the SME's interests and requirement);
- public BDS facilitation promotion ("bridge" for private BDS, direct function such as incubator/testing);
- SME financing scheme building (scheme for private financial sector, for possible public financing);

Policy

1) Basic SME Promotion Policy

- i) With securing full alignment with principles of relevant national policies, such as Rectangular Strategy Phase III and Industrial Development Policy¹², and confirming solid coordination with existing

⁹ Instead of challenging the price-competitiveness with other countries' industries already performing efficiency, the quality oriented development can be pursued for the Cambodia branding in good and unique quality.

¹⁰ both in rural and urban areas.

¹¹ In addition to 10 items identified by the GDI Task Force, 2 items were identified from an extended dialogue.

¹² The principle for promotion of linkage with FDI and/or large scaled enterprises appeared in the Industrial Development Policy is recognized the significance base of the policy.

undertakings related to the policy, such as improvement of SEZ, strengthening CAMCONTROL and development of One Roof Service of SME registration, the over-all policy on SME promotion is to be formulated as a basis of prospective promotion measures that shall preserve consistency of its principles. The priority industrial sectors, including agro-industries, will be considered, when appropriate, to design specific policy measures. The basic policy shall include following provisions:

- Definition of SME and eligibility criteria for accessing the incentives schemes or supports under the policy
- Codes of Good Practice in regulating SMEs and Reduction of Red-Tape including improvement on duplication in practices among authorities and simplification of regulatory procedures
- Incentive Schemes to be provided for initial Start-Up¹³
- Incentive Schemes to be provided for promoting R&D, Technology Adoption & Innovation, and Work Skill Qualification Development
- Incentive Schemes to be provided and simplified pro-SME tax regime¹⁴
- Schemes for Applying Law on Investment in SMEs investment promotion
- Schemes for supporting SME Access to Finance
- Schemes for building SME Clustering and linkages with FDI large Industries
- Schemes for promoting SME internationalization
- Schemes for promoting SME BDS markets and linkages
- Schemes for facilitate gender issues in SME promotion
- Arrangement for SME employment and labor conditions

ii) In order to facilitate better implementation of the policy, a supporting system scheme is to be introduced in addition to GPSF, such as business dialogs among SME and with other stakeholders, that include communications with SME related organizations and authorities in other strategic partner countries.

2) Facilitate SME Capacity Development

i) In order to provide assistance in technical guidance for efficient and/or effective operation, the set of schemes are to be discussed in the following aspects:

- information dissemination and/or training on business planning, financial/labor/production management, and standardizes benchmarks for SME to comply with and/or assess themselves such as standards and KPI/Guidelines.
- As effective promoting measures, such as awarding system, can well serve as a vehicle to promote/generate core elements of competitiveness, along with standards and guidelines, the clear direction for industrial development is to be officially launched as a policy message such as “industrial development based on the quality oriented manufacturing/services” recognizing Cambodia’s option is more or less narrowed down to select “quality” rather than “efficiency”¹⁵.

ii) For the facilitation of linkage to global market, the current and prospective GVC/GSC development efforts, together with domestic business promotion to strengthen the market to be linked, should also be addressed to SME integration objectives in;

- business matching to facilitate Cambodia’s SME to have opportunity to interrelate with foreign company as a potential supplier.

¹³ including the preferential tax regime for SME Start-Ups.

¹⁴ on-going consideration on variation of tax regimes, such as special regimes for elderlies, tax incentives on QIP, etc., should be discussed in relation with SME affairs

¹⁵ Cambodia’s SME will be facing more and more competition with advanced SME of neighboring countries in terms of efficiency. Their capital investment, especially on their production, is far advanced. It may require for Cambodia’s SME to catch up with their stage. The possible competition areas for Cambodia’s SME’s favor should be in the competition on “quality”.

- enhancing procedural efficiency on the border, (e.g. strengthening CAMCONTROL function)
 - coordination with SEZ policy (e.g. consideration of setting SME zone in and/or attached to SEZ)
 - coordination with export promotion policies (e.g. business fair including GVC/GSC development objectives)
- iii) In providing facilitation in accessing to technology (including skills, methodologies, technique, know-how), the SME's development-level-balanced¹⁶ technology access shall be considered in;
- technology transfer from foreign partners,
 - providing opportunities of BDS to identify the suitable technology levels (e.g. Schemes for provision of company diagnosis and consultation, as well as seminars and trainings),
 - encouraging R&D¹⁷.
- iv) Coordination of all the relevant information related SME promotion is essential and it has to be accessed efficiently and effectively through;
- virtual and/or actual SME information center(s) where necessary information regarding technology, marketing, product and finance would be collected and provided upon request of SMEs through database, advice by experts, and also establishment and/or access to research and testing facility,
 - the SME Agency to provide full-range assistances is to be considered based on this undertaking, as accumulation/portalization of information shall well serve as an initial core of facilitation of assisting services¹⁸.
- v) As to secure the access to finance for SME, the relevant formalities have to be preserved to apply for in SME side as well as setting the system to provide opportunities in the public sector for;
- preservation of legitimate registration of company establishment and business licenses,
 - preparation of appropriate financial statement;
 - confirming sound business planning and management.
- vi) The scale of economy, aiming not only efficiency but also quality, shall be pursue to maximize SME's advantages in business operation (e.g. Five Forces¹⁹) through "cooperation", "collaboration" in;
- clustering approaches suitable to Cambodia's SME situation,
 - improvement of general "sense of trust" in Cambodia's business environment (e.g. cooperation rather than exclusive competition among Cambodia's stakeholders),
 - promoting linkage with existing and potential industrial agglomeration areas (e.g. SEZ, industrial parks).
- vii) The comprehensive and consistent system for the industrial human resource development should be coordinated through integration/interrelation among existing systems for the industrial human resource development and strengthening including vocational training. Where relevant, the new scheme should be introduced.
- 3) Promoting private/public BDS and financial assistance for SME
- (BDS business enabling environment) The rules and regulations related to private BDS are to be reviewed and the clear direction for improvement shall be set ensuring standards and/or guidelines of quality BDS. The schemes to promote private BDS, then, shall be designed responding to the needs

¹⁶ The word "technology" often implies high-end technology; however, there should be step-by-step level of "technology" is to be considered that shall well applies to the SME's requirements according to its level of development.

¹⁷ It also has to be "the SME's development-level-balanced".

¹⁸ The forms of the "Agency", ex. private or public, should be discussed in the process for the prospective relevancy.

¹⁹ such as described by M. Porter.

and requirements of SME that include programs to strengthen the private BDS such as certified BDS system, BDS award program, etc.

- (BDS bridging) The policy is to be designed that private BDS be facilitated in coordination by the public sector in which areas that BDS function should be owed publicly, such as incubation, testing, international promotion, etc. In these areas, the public sector should play a bridging role to facilitate SME to relevant private BDS providing a foundation for the bridging. An overall facilitation scheme should also set forth which includes a database of private BDS for SMEs use.
- (Public financial schemes designed for SME) SME financing schemes should be developed. For example, designing the governmental guarantee and/or loan-rate-subsidization system can be a short-term task to encourage private financial institution's closer relation to the SME. In mid- to long-term, besides micro-finance, it should be considered to establish governmental/official financial institution specifically designed for SME making alignment with industrial/social development policies as well as SME promotion policy itself.

Appendix (7) Project Activities

(7)-1 Policy formulation component

(7)-1-3~5 Policy Review Working Papers:

3: RS-Phase III

4: NSDP

5: IDP

I. Rectangular Strategy (Phase III: 2013 - 2018)

“Growth, Employment, Equity and Efficiency” : promoting economic growth, creating jobs, equitable distribution of the fruits of growth, and ensuring effectiveness of public institutions and management of resources)

Side 1: Strengthening the Private Sector and Promoting Investment and Business

94. The strategic objective of the Royal Government of the Fourth Legislature was to continue attracting domestic and foreign private investments through strengthened conducive investment and business climate, improved physical infrastructure, promotion of industrial diversification, **upgrading small and medium enterprises (SMEs)**, enterprise modernization, strengthened regulatory framework, development of special economic zones and trade facilitation, and expanded access to international markets and strengthened public-private sector partnership (PPP) arrangements.

96. However, Cambodia still faces a number of challenges in private sector development, especially inefficiency of logistics system and supporting infrastructure, high cost of doing business in comparison to other countries in the region, productivity and labor skill levels not having met market requirements, and **the need to strengthen the capacity of SMEs** and the regulatory and institutional framework.

Side 2: Development of Industry and Small and Medium Enterprises (SMEs)

99. The strategic objective of the Royal Government of the Fourth Legislature was to upgrade SMEs especially to improve business climate through enhanced regulatory framework, promotion of innovation and technology, increased access to finance, strengthened and expanded related support services, and integration of SMEs into global value chains.

100. In meeting this objective, the Royal Government achieved remarkable progress especially in promoting the implementation of the SME development framework through strengthened governance. The framework was aimed at promoting the business environment through developing industrial standards, adopting accounting and financial report standards to increase SMEs' access to finance, supporting priority activities with tax incentives on inputs, and building institutional capacity particularly with the establishment of “National Productivity Center” and “Industrial Laboratory Center”. The implementation of these measures contributed to the expansion of the industrial base including the emergence of a range of industries including machinery assembly, electronics, spare parts manufacture, agro-processing, and other manufacturing industries. During 2008- 2012, 518 new large-scale factories were set up, contributing around USD5,500 million to GDP and providing 560,000 jobs. Moreover, the number of SMEs in 2012 reached more than 38,000 creating more than 185,000 jobs.

101. Nevertheless several challenges remain in industrial and SME development including in particular the narrowly-based industrial structure, lack of auxiliary industries supporting main

industries, underdeveloped linkages between SMEs and large-scale enterprises, low productivity, high cost of doing business and other factors adversely impacting on Cambodia's competitiveness, not sufficiently effective policy and institutional frameworks, and industry not being fully equipped to meet market demand as compared to neighboring countries. Aside from this, the emergence of the extractive industry in Cambodia requires the Royal Government to pay more attention to the development of this sector to ensure that the management of mineral exploration and exploitation is efficient, transparent and accountable, and environmentally sustainable.

102. In the Fifth Legislature, the objective of the Royal Government is to continue to promote further diversification of the industrial base through encouraging investments in new high value added, more creative and more competitive industries, including in particular, assembly, electronics, spare parts manufacture, agro-processing and other manufacturing industries while also promoting further development of SMEs and handicrafts and expanding industrial development into rural areas to boost economic growth, job creation and incomes of rural population. Moreover, the Royal Government will also focus on the development and management of extractive industry with high account ability to transform its potential into another source of Cambodia's economic growth.

103. In pursuing this objective, the Royal Government will focus on the following priorities:

1. Formulating industrial development policy based on two key approaches: (1) expansion of industrial base supported by increased attractiveness of Cambodia to investors and investment promotion including modernization of SMEs; and (2) improved connectivity with regional production networks to integrate with and move up the global value chains.
2. Preparing science and technology policy with the objective to increase research and development capability of Cambodia in responding to the projected needs of national development in the next higher phase, in particular ensuring consistency with the industrial development policy and agricultural development policy as they evolve.
3. Updating the SMEs Development Framework to be consistent with the industrial development policy aimed at enhancing SME's capacity to link with large enterprises and form a cluster while promoting entrepreneurship, productivity, creativity, innovation and specialization through introduction and implementation of a comprehensive package of supporting measures including clustering, enhanced technology transfer, increased access to finance, strengthened technical standards, establishment of business development counseling centers, promotion of "one village one product" movement and improvement of regulatory framework as well as strengthened institutional coordination.
4. Aligning private sector development and investment policies with SME and industrial development policy especially by encouraging investment in industrial clusters and industrial parks through promoting the adoption of Law on Special Economic Zones, in order to upgrade management, infrastructure and operations in the industrial sector to international standards.
5. Promoting industrial corridor development along the main national roads, linking key economic poles in Cambodia and connecting the Cambodian economy with the neighboring countries in particular through the economic corridor development framework in GMS and ASEAN.
6. Further strengthening the development process in extractive industry, especially technical regulation and supervision including risk management, and social and environmental impact management from inception of operations to post operations; and the management of fiscal

revenue from this activity through development of policy, strengthening regulatory framework, capacity building, institutional coordination and human resource development.

7. Human resource development especially the skill training for industrial sector through enhanced quality of education in all areas and at all levels, especially the reform of tertiary education, technical and vocational training, giving priority to training of engineers, technicians and workers to acquire appropriate skills as demanded by the markets with a pro-active approach using public-private sector partnerships.

Side 4: Banking and Financial Sector Development

113. In pursuance of this objective, the Royal Government will further promote effective and successful implementation of the “**Financial Sector Development Strategy 2011-2012**”, particularly focusing on:

5. Exerting more effort to expand microfinance services with affordable prices and better terms and conditions, especially targeting the poor and agricultural communities to promote the rural economy, and further expand credit to SMEs.

II. SME Development Framework (2005)

1. SME Policy Framework – Implementation Process

2. Regulatory and Legal Framework

(A) Company Registration

(B) Regulatory Review and Resource Mechanism

(C) Commercial Legal Framework (Biz enabling legal platform)

(D) Smuggling

3. Access to Finance

(A) Collateral and Land Titling

(B) Leasing

(C) Credit Information Sharing

4. SME Support Activities

(A) Business Development Services

(B) Access to Markets

(C) Technology and Human Resource Upgrading

(D) Linkages

1. NATIONAL STRATEGIC DEVELOPMENT PLAN UPDATE 2009-2013

The National Strategic Development Plan is the roadmap for the implementation of the Rectangular Strategy. The Update (NSDP Update), 2009-2013 has been prepared to accomplish two primary goals; first, to synchronize the time period covered by the NSDP Update with the term of the Fourth Legislature of the Royal Government in order to ensure that the actions, programmes, and projects of all ministries and agencies are aligned to implement our prioritized policies that are outlined in the Rectangular Strategy Phase II; second, to ensure that the actions to be laid out by line Ministries and Agencies to implement these prioritized policies are formulated taking into account the potential impact of the global economic downturn on our economy.

2. 「III. PROMOTION OF SMALL AND MEDIUM ENTERPRISES」

199. Further development of this sector has contributed to benefiting rural communities in processing, and adding value to, products, as well as creating employment. It has also created an important link with the trade sector, as well as with larger enterprises. The planned work ahead will focus on three main aspects, viz., (1) legal framework and adjustment – limitation of procedures of inspection and product justification for import and export without sacrificing essential quality aspects, preparation and adoption of a sub-decree on business facilitation through risk management, and widening registration through internet; (2) financing, creation of a financial leasing company, company classification by credit points, and strengthening governance and financial reporting; and, (3) supportive actions for SMEs – creation of a new business development service, prevention of all kinds of smuggling, subsidies for SMEs for export, and adding SMEs into a global value chain. Adoption and acceleration of the “one village, one product” movement is among many other measures to be pursued.

200. The Ministry of Commerce (MOC) has taken actions to reform the commercial registration procedures for SMEs. The timeline required for commercial registration has been reduced from 2 - 3 weeks to only 1 week. The documentation required to register a SME has have been reduced. The requirements to report criminal convictions and reconfirming address of the company are no longer needed. The capital requirements in the form of a Bank Deposit for commercial registration have been reduced from 20 million riels to 4 million riels. The administrative fee for Commercial Registration has been reduced to 177.00 US\$. After the reform in 2005, the number of companies registered has increased every year, and in 2008 it was the double of the 2005 level.

3. 「B. Planned Actions to Implement the Prioritized Policies」

504. To implement RGC’s prioritized policies, the Ministry of Industry, Mines and Energy (MIME) will focus on achieving the following four Objectives:

- i. Creating enabling business environment for the development of industry and manufacturing sector.
- ii. Promoting SMEs and developing businesses.
- iii. Private sector development and attracting investment.
- iv. Building human resource capacity and technology transfer.

505. These objectives will be achieved through the implementation of the following seven programmes:

- Programme 1: Strengthen institutional capacity and improve the quality and efficiency of public service delivery. National Strategic Development Plan Update 2009 – 2013 Chapter IV: Key Policy Priorities and Actions: 2009 - 2013 161
- Programme 2: Strengthen quality and efficiency of the enforcement of the Law on the Management of Factories and Handicraft Workshops.
- Programme 3: Strengthen partnerships with private sector and development partners.
- Programme 4: Formulate policies to support industry and SMEs.
- Programme 5: Promote the national products to be in compliance with national and international standards.
- Programme 6: Enhance the productivity and capabilities of Cambodian industrial producers.
- Programme 7: Formulate and implement policies to strengthen works on industrial property rights.
- Programme 8: Formulate and implement policies to strengthen works on metrological issues.

508. In Programme 3, strengthen partnerships with private sector and development partners, the MIME will take the following actions that are focused on:

- Strengthening partnership with private sector and implement the activities with the framework of the Government-Private Sector Forum.
- Strengthening the capacity of SME sub-committee to efficiently exercise its role.
- Facilitating and providing orientation to development partners in manufacturing sector.

509. In Programme 4, formulate policies to support industry and SMEs, the MIME will take the following actions:

- To monitor and take appropriate actions to improve fiscal and non- fiscal measures to support prioritised industries.
- To issue regulations necessary for promoting the investment in prioritized industries.

1. Industrial Development Policy 2014-2024 (Draft)

As of May 23, the draft Industrial Development Policy 2014-2024 (IDP) is discussed among line-Ministries. It consists of 5 major pillars; which are 1. Attracting Foreign Direct Investment, 2. Industrial Zoning and SEZs Development, 3. SMEs Upgrading and Modernization, 4. Export Promotion and Trade Facilitation, 5. Investment and Financing.

2. Priority Sectors (p.9 B.)

The IDP focuses on the following three groups of priorities: First, it focuses on attracting new industries by encouraging FDIs in such areas as machinery assembly and assembly of electrical appliances and transportation equipment, and through promotion of SMEs, in such areas as medicine, craftsmanship, construction materials, packaging materials, furniture and other consumable products. Second, it gives priority to agro-processing industry through modernization of processing techniques and technology, packaging and strengthening its value chains. Third, it considers the development of industries, which are strategic for national interest and trigger for future industries such as in energy and heavy industries.

3. IDP Framework and Measures

The IDP framework is organized as follows (1 to 6):

- (1) Strengthening coordination mechanism to promote investments in industrial sector by upgrading the capacity of institutions managing FDI and domestic investment and **SME** development;
- (3) Establishing new financing arrangements to support industrialization including public and private sector partnership (PPP), industrial and **SME** development funds, government bonds to finance infrastructure projects, and credit guarantee mechanisms;

4. Industrial Zoning and SEZs Development

Developing a master plan for industrial zoning and development aimed at promoting competitive SMEs and industries in designated provinces. The RGC will provide essential supports including regulatory and administrative facilitation, technical assistance for capacity building and business development, provision of market access and information, basic infrastructure such as electricity and water supplies, and support to foster better industrial relation and community building.

5. SMEs Upgrading and Modernization

Short-term measures

- Reviewing framework and mechanism for SMEs development focusing on improving registration, management and monitoring processes that encourage industries/ enterprises in Cambodia to officially register their business with relevant authorities especially with real tax regime.
- Regularly informing prospective and registered SMEs/industries about available support, benefits and protection provided by the policy.

- Facilitating technology transfer through study tour and training to other countries or any other supports.
- Establishing R&D Fund managed by a highly professional and independent organization and with an innovative business model, whereas the RGC provides seeds funding and other partners provide additional contribution to support researches in new product development, starting with limited amount as the government budget could handle while increasing it gradually to meet the demand for R&D by industries.
- Building capacity of SMEs aimed at promoting stronger and dynamic industries in Cambodia by providing special skill trainings to address skill shortage in priority sectors as well as providing more scholarships to students to study engineering and vocational trainings both in the country and abroad.
- Promoting the capacity of higher education institutions to support the development of adequate pool of engineers and technicians for SMEs and to promote technology absorption by SMEs.
- Developing events/activities that promote SMEs development including providing awards for technical skill contests.
- Encouraging inter-professional organizations including SMEs associations/ federations to share knowledge/information and to dialogue with the RGC in resolving their concerns and challenges.
- Enhancing SMEs corporate governance including adherence/compliance with existing rules and regulations as well as nurturing a culture of social responsibility.

Medium to long-term measures

- Promoting development of private research institutions specialized in SMEs issues while connecting them with vocational training centers to address SMEs challenges such as planning, marketing and technical skills, access to technologies and other issues related to productivity improvement.
- Providing other support to SMEs to facilitate their access to finance and new technologies.
- Brokering linkages between SMEs and multinational enterprises/industries helping them access to capital, technologies and markets.
- Establishing a government-run research institute, which fully devotes to science and technology development. It is expected to start from a few to several engineering fields directly related to SMEs priority sectors. The institute could recruit able scientists and engineers from abroad by providing attractive benefits. Moreover, the RGC should provide appropriate laboratory facilities. It may discuss this proposal with interested development partners.

6. Export Promotion and Trade Facilitation

Short-term measures:

- Export of new products by **SMEs**/Manufacturing industries by offering specific awards or incentives to outstanding domestic firms for their innovative business model, volume of export and new products that have significant impact on future industrial development in line with the IDP's objectives.
- Establishing export promotion agency that provides trading skills and information on foreign markets and assist exporters to participate in trade/industry fairs. At the same time, the RGC

should consider establishing policy-financing institutions in charge of funding exporting industries in key priority sectors while making efforts to reduce uncertainty and export risks.

- Encouraging establishment of **SMEs**/Industry associations by sector to share knowledge and enhance communication with the RGC.

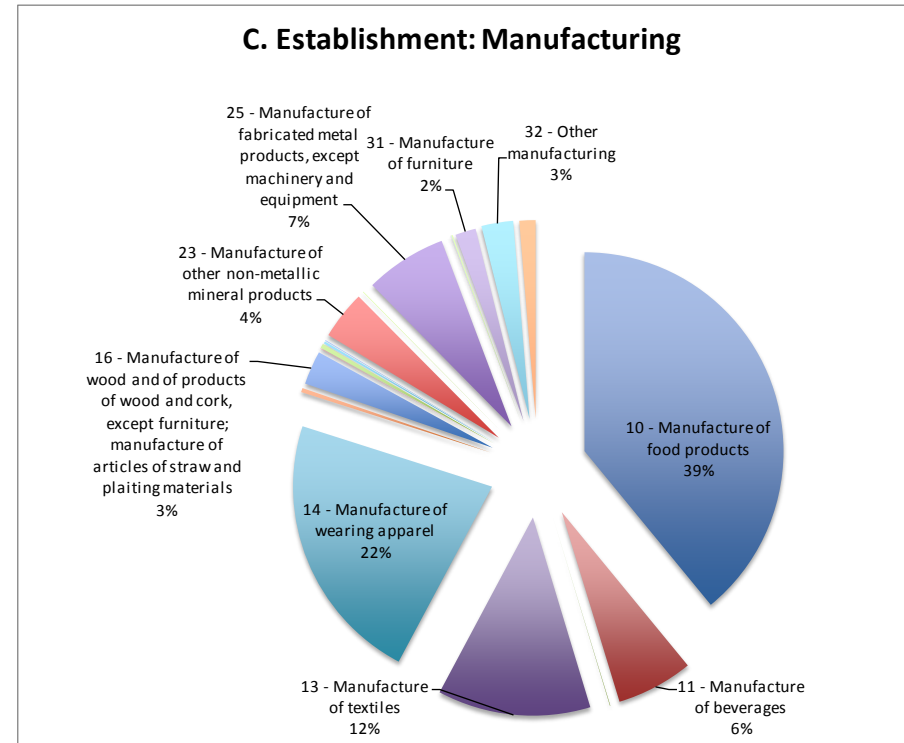
Appendix (7) Project Activities

(7)-1 Policy formulation component

(7)-1-6 SME Statistics:

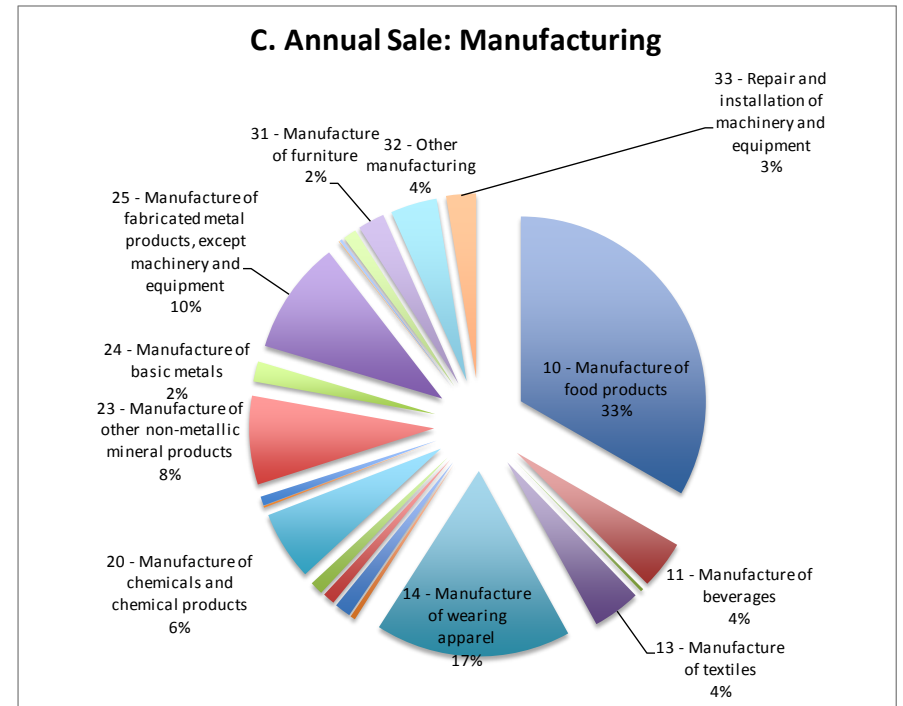
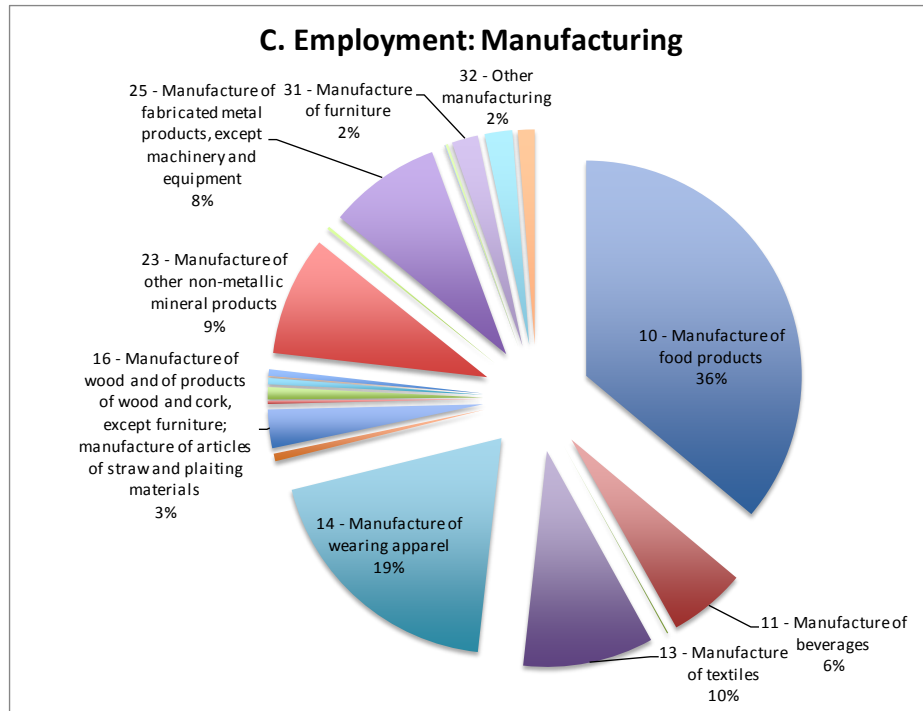
Breakdowns of Manufacturing Sector (Total) (No.1)

Potential Industry	Establishmen	Employment	Annual Sale
C - Manufacturing	70,635	177,772	574,756,840
10 - Manufacture of food products	27,585	64,177	191,397,065
11 - Manufacture of beverages	4,407	10,309	24,377,759
12 - Manufacture of tobacco products	25	154	1,493,858
13 - Manufacture of textiles	8,811	17,365	24,127,511
14 - Manufacture of wearing apparel	15,618	34,473	98,001,875
15 - Manufacture of leather and related products	239	1,022	2,513,670
16 - Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw	1,939	5,145	8,108,318
17 - Manufacture of paper and paper products	22	433	6,073,844
18 - Printing and reproduction of recorded media	250	1,627	6,612,566
19 - Manufacture of coke and refined petroleum products	1	5	6,000
20 - Manufacture of chemicals and chemical products	130	836	34,719,562
21 - Manufacture of basic pharmaceutical products and pharmaceutical preparations	8	90	813,429
22 - Manufacture of rubber and plastics products	41	890	4,577,617
23 - Manufacture of other non-metallic mineral products	2,777	15,943	44,552,625
24 - Manufacture of basic metals	34	357	10,156,264
25 - Manufacture of fabricated metal products, except machinery and equipment	4,700	15,003	57,003,554
26 - Manufacture of computer, electronic and optical products	4	15	49,700
27 - Manufacture of electrical equipment	6	25	350,438
28 - Manufacture of machinery and equipment n.e.c.	20	119	1,295,901
29 - Manufacture of motor vehicles, trailers and semi-trailers	2	10	84,000
30 - Manufacture of other transport equipment	78	339	6,681,766
31 - Manufacture of furniture	1,188	3,509	13,414,894
32 - Other manufacturing	1,821	3,688	23,363,825
33 - Repair and installation of machinery and equipment	929	2,238	14,980,800



Note: Since it is too dense, sectors with the smallest percentage, 1% and 0%, are cut off from the pie chart. Only sector with highest percentage are shown.

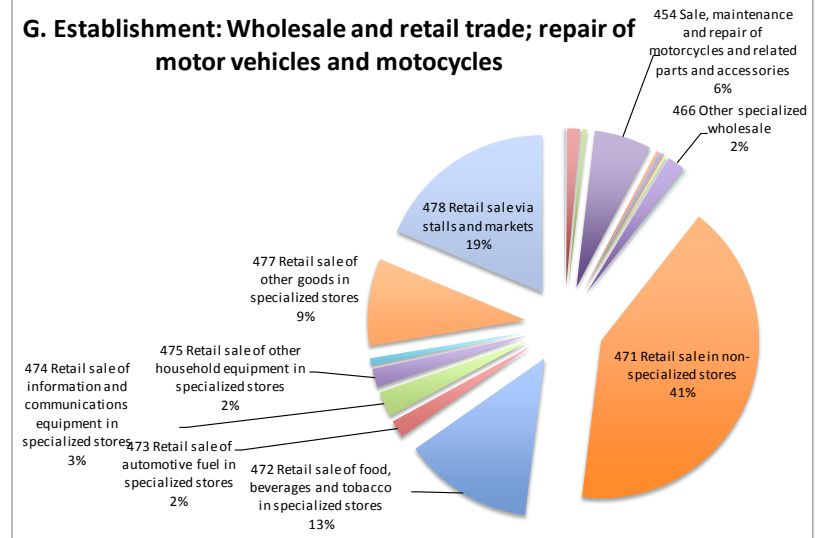
Breakdowns of Manufacturing Sector (Total) (No.2)



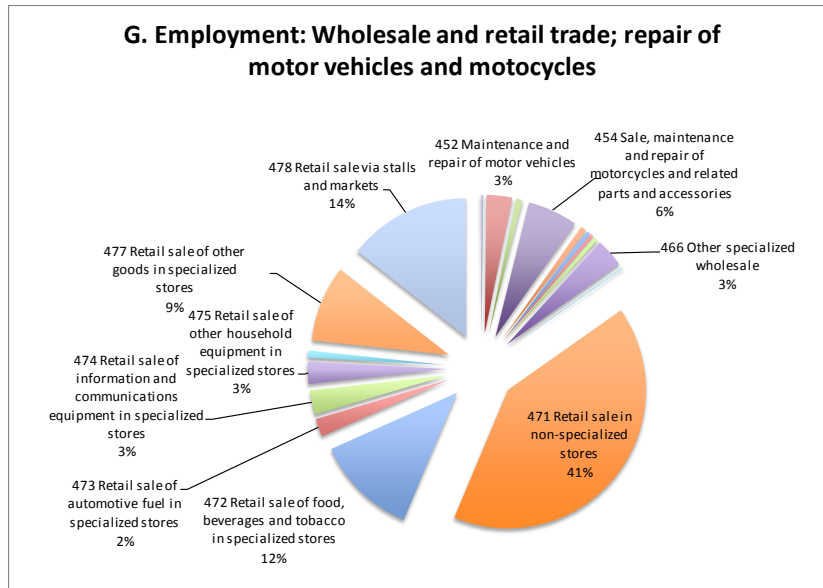
Breakdowns of Wholesale Sector (Total)

	Establishment	Employment	Annual Sale
G · Wholesale and retail trade; repair of motor vehicles and motorcycles	290,352	536,570	4,571,316,760
451 Sale of motor vehicles	266	1,121	60,134,058
452 Maintenance and repair of motor vehicles	3,833	15,934	67,473,874
453 Sale of motor vehicle parts and accessories	1,352	3,857	34,900,303
454 Sale, maintenance and repair of motorcycles and related parts and accessories	16,892	31,324	168,016,684
461 Wholesale on a fee or contract basis	17	38	796,169
462 Wholesale of agricultural raw materials and live animals	908	3,679	144,464,961
463 Wholesale of food, beverages and tobacco	708	2,703	70,948,219
464 Wholesale of household goods	577	1,902	55,077,953
465 Wholesale of machinery, equipment and supplies	722	2,508	55,527,044
466 Other specialized wholesale	5,281	17,905	234,926,677
469 Non-specialized wholesale trade	262	745	21,489,325
471 Retail sale in non-specialized stores	120,009	220,502	981,604,707
472 Retail sale of food, beverages and tobacco in specialized stores	38,669	64,284	558,315,408
473 Retail sale of automotive fuel in specialized stores	5,237	11,318	264,371,201
474 Retail sale of information and communications equipment in specialized stores	7,677	15,225	157,890,989
475 Retail sale of other household equipment in specialized stores	5,592	13,827	109,412,816
476 Retail sale of cultural and recreation goods in specialized stores	2,164	4,555	29,309,080
477 Retail sale of other goods in specialized stores	25,949	47,883	577,291,249
478 Retail sale via stalls and markets	54,088	76,893	976,914,877
479 Retail trade not in stores, stalls or markets	149	367	2,451,166

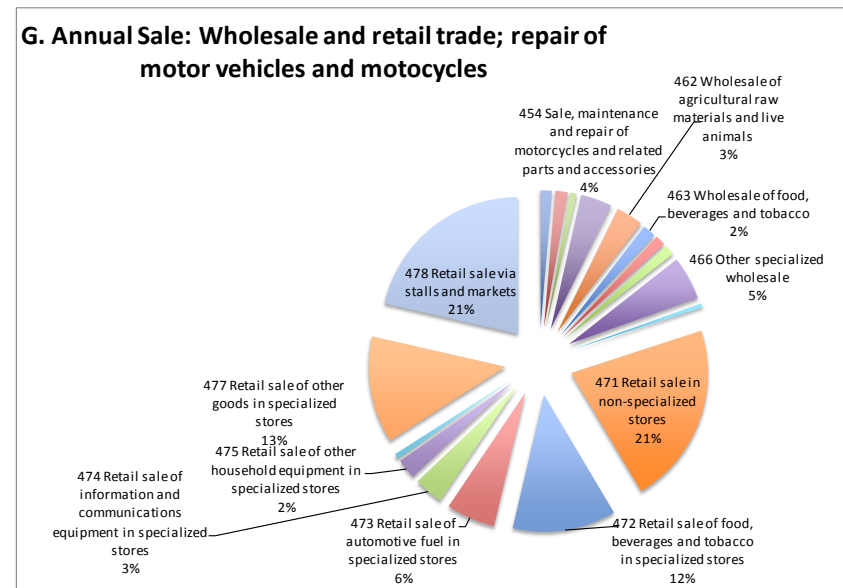
G. Establishment: Wholesale and retail trade; repair of motor vehicles and motorcycles



G. Employment: Wholesale and retail trade; repair of motor vehicles and motorcycles



G. Annual Sale: Wholesale and retail trade; repair of motor vehicles and motorcycles



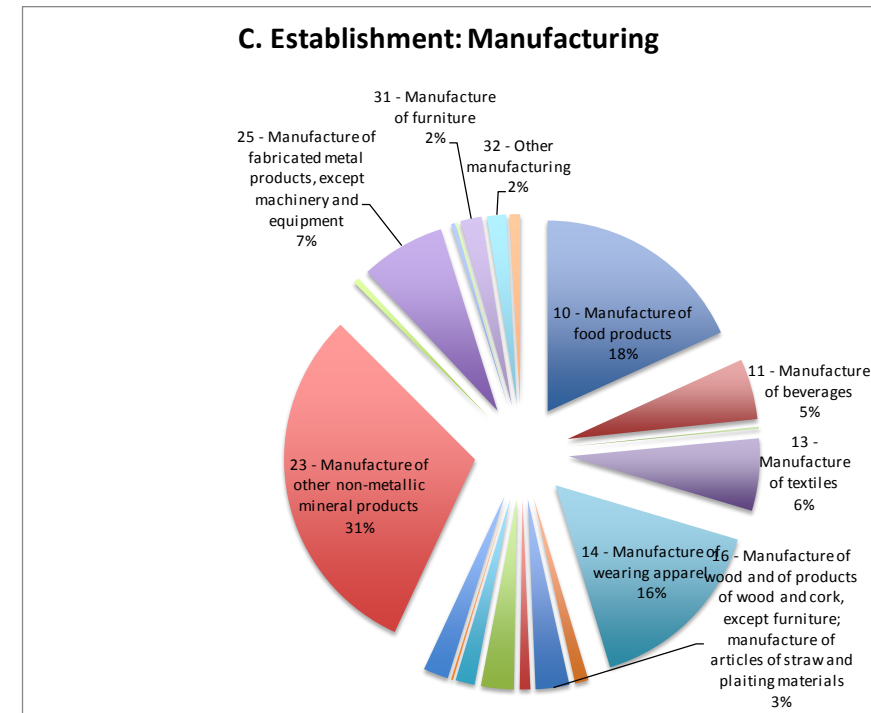
Note: Since it is too dense, sectors with the smallest percentage, 1% and 0%, are cut off from the pie chart. Only sector with highest percentage are shown.

Breakdowns of Manufacturing Sector (Employment of 11- 100) (No.1)

Potential Industry	Establishmen	Employment	Annual Sale
C - Manufacturing	1,226	27,798	200,630,374
10 - Manufacture of food products	223	4,056	54,892,275
11 - Manufacture of beverages	63	1,375	5,677,343
12 - Manufacture of tobacco products	2	72	1,397,681
13 - Manufacture of textiles	75	2,236	8,522,743
14 - Manufacture of wearing apparel	193	4,864	28,671,264
15 - Manufacture of leather and related products	14	399	882,447
16 - Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw	35	635	930,739
17 - Manufacture of paper and paper products	11	404	6,024,729
18 - Printing and reproduction of recorded media	34	819	3,447,891
19 - Manufacture of coke and refined petroleum products	-	-	-
20 - Manufacture of chemicals and chemical products	20	445	29,238,360
21 - Manufacture of basic pharmaceutical products and pharmaceutical preparations	2	74	796,860
22 - Manufacture of rubber and plastics products	26	806	4,219,645
23 - Manufacture of other non-metallic mineral products	375	8,658	21,596,100
24 - Manufacture of basic metals	6	301	9,914,161
25 - Manufacture of fabricated metal products, except machinery and equipment	88	1,483	9,738,314
26 - Manufacture of computer, electronic and optical products	-	-	-
27 - Manufacture of electrical equipment	-	-	-
28 - Manufacture of machinery and equipment n.e.c.	4	67	528,300
29 - Manufacture of motor vehicles, trailers and semi-trailers	-	-	-
30 - Manufacture of other transport equipment	2	102	5,387,255
31 - Manufacture of furniture	22	337	1,089,450
32 - Other manufacturing	20	511	1,330,717
33 - Repair and installation of machinery and equipment	11	154	6,344,100

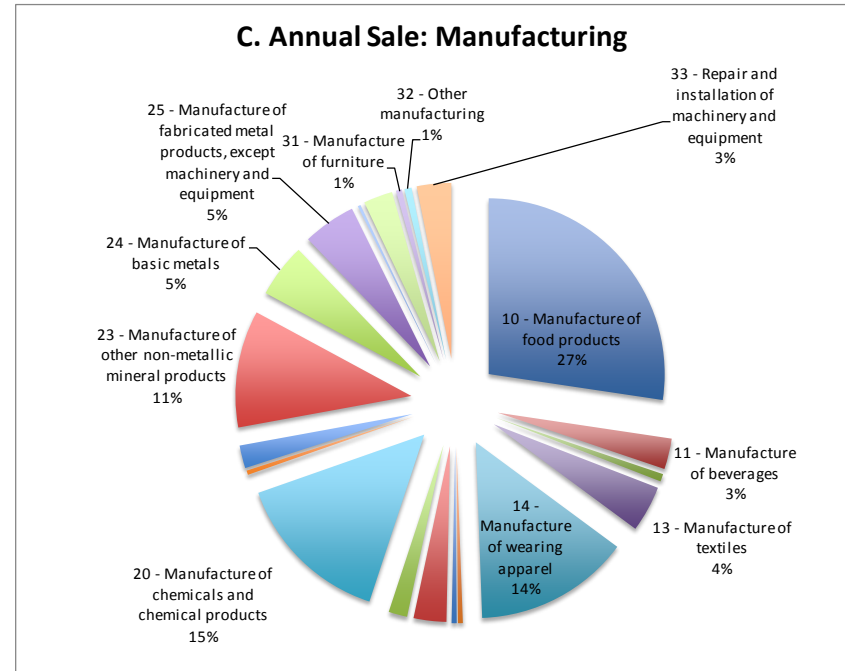
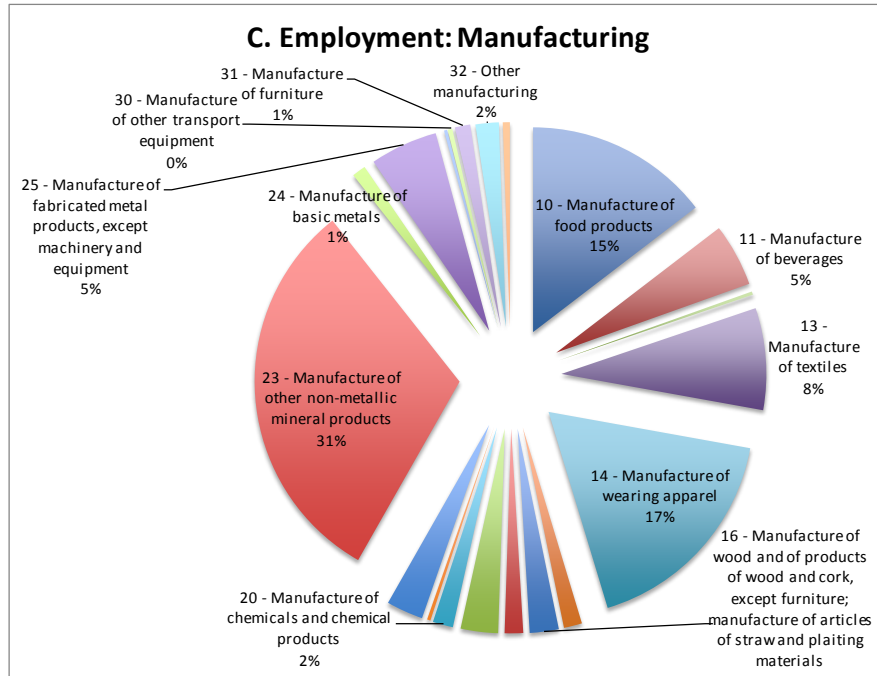
Structure of composition of sector by ISIC 2 digit for number of employee of 11-100

Note: All the data is based on "entity base"



Note: Since it is too dense, sectors with the smallest percentage, 1% and 0%, are cut off from the pie chart. Only sector with highest percentage are shown.

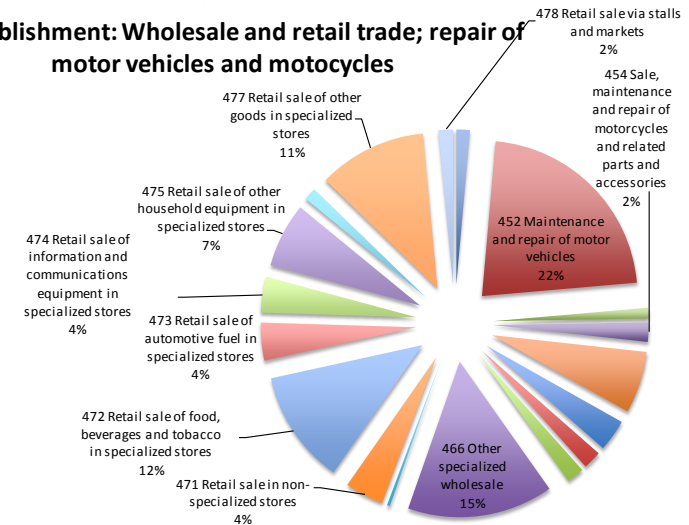
Breakdowns of Manufacturing Sector (Employment of 11- 100) (No.2)



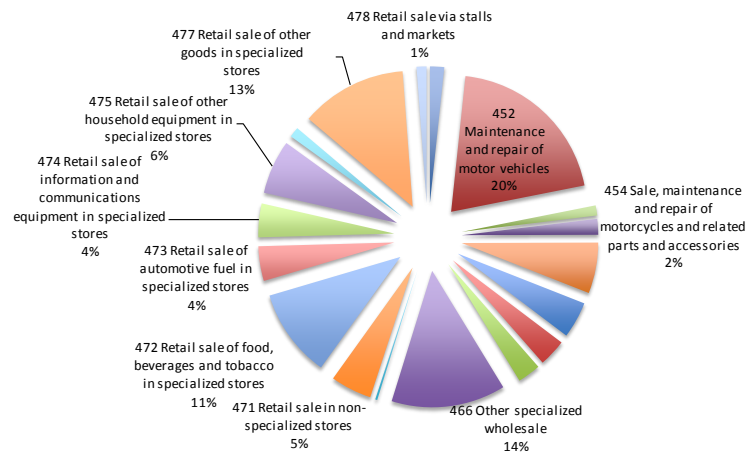
Breakdowns of Wholesale Sector (Employment of 11- 100)

	Establishment	Employment	Annual Sale
G - Wholesale and retail trade; repair of motor vehicles and motorcycles	995	18,914	480,701,249
451 Sale of motor vehicles	14	318	17,175,215
452 Maintenance and repair of motor vehicles	221	3,822	18,260,270
453 Sale of motor vehicle parts and accessories	11	225	3,199,724
454 Sale, maintenance and repair of motorcycles and related parts and accessories	20	354	3,915,849
461 Wholesale on a fee or contract basis	0	0	0
462 Wholesale of agricultural raw materials and live animals	64	1,138	56,785,171
463 Wholesale of food, beverages and tobacco	33	820	23,972,671
464 Wholesale of household goods	19	612	16,368,045
465 Wholesale of machinery, equipment and supplies	18	517	22,961,396
466 Other specialized wholesale	151	2,558	52,110,889
469 Non-specialized wholesale trade	3	45	298,491
471 Retail sale in non-specialized stores	40	922	22,251,247
472 Retail sale of food, beverages and tobacco in specialized stores	118	1,990	27,130,740
473 Retail sale of automotive fuel in specialized stores	39	780	109,145,769
474 Retail sale of information and communications equipment in specialized stores	37	758	7,018,419
475 Retail sale of other household equipment in specialized stores	67	1,209	6,731,234
476 Retail sale of cultural and recreation goods in specialized stores	13	230	1,143,400
477 Retail sale of other goods in specialized stores	112	2,392	85,831,361
478 Retail sale via stalls and markets	15	224	6,401,359
479 Retail trade not in stores, stalls or markets	0	0	0

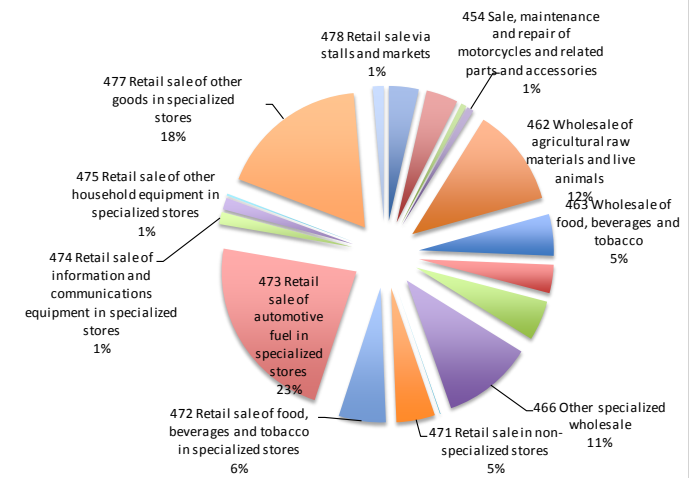
G. Establishment: Wholesale and retail trade; repair of motor vehicles and motorcycles



G. Employment: Wholesale and retail trade; repair of motor vehicles and motorcycles



G. Annual Sale: Wholesale and retail trade; repair of motor vehicles and motorcycles



Note: Since it is too dense, sectors with the smallest percentage, 1% and 0%, are cut off from the pie chart. Only sector with highest percentage are shown.

Appendix (7) Project Activities

(7)-1 Policy formulation component

(7)-1-7 TOR for SME Promotion Survey:

SME Promotion Survey
Terms of Reference
(Tentative Work Description)

August 30, 2013
Policy Team

The questionnaire based interview survey (hereafter “the Survey”) will be undertaken as a part of the Project for Strategic Strengthening of SME Support System (hereafter “SME Project”), supported by Japan International Cooperation Agency (JICA), collaborating with Ministry of Industry Mines and Energy (MIME). The Policy Team, consists of officials of Department of Small Industry and Handicraft (DSIH) and JICA Experts, is initially responsible to the actual conduct of the Survey.

One of the major objectives of the Survey is to identify the SME’s difficulties in business operation/management and business environment, and the needs for assistances to improve them as well as their current situation. The assistance includes both public assistances for information, technology upgrading, training and/or finance as well as improvement of laws/business practices, and private assistances including BDS (Business Development Services, such as business consulting, legal consulting, accounting, marketing assistance, training/coaching, etc.)

The outcome of the Survey will be utilized for future policy/ measure formulation. While putting major focus on overall concerns (difficulty and needs) of SME, the outcomes of this survey, thus, are also to be conducive to foreseeing the potential obstacles and requirements/needs that may be encountered in SMEs’ business operation/biz-environment to reach the level ready for take-off to further competitive business arena, such as the effective linkage with global supply chain and/or with foreign direct investment (FDI),.

0. Overview of the current situation of SME in Cambodia

A brief overview of the current situation of SME in Cambodia will be summarized through the available written materials and statistic data. This is to be substantiated by the outcome of the actual field survey, interviews.

1. Selection of Sample SME (Companies)

The Survey is conducted in “two-tier” approach.
First Tier: 200 samples in Phnom Penh area [interviews undertaken in October-November 2013]
Second Tier: 300 samples in other regions (subject to discussion) [interviews undertaken in January-February 2014]

(1)-1 (First Tier) Categorize SME and select 200 balanced samples in Phnom Penh and surrounding area. The Consultant is to make the initial categorization SME and selection of 200 balanced samples. As the qualitative outcome is more expected, the statistical sample balance is not necessarily preserved. The criteria of sampling can count more for motivation and sense of ownership of the SME top-management in terms of improvement of current business enabling environment as well as its own business. The number of samples, 200, at this stage is initial target.

The consultant is to suggest options of sample number in the proposal.

(1)-2 (Second Tier) Taking into consideration of the result from the First Tier, categorize the issues and type (sector) of SME. Select 300 balanced samples based on the consultation with the Policy Team (DSIH/JICA Team). The region(s) subject to the Second Tier survey will, then, be discussed and specified after this process. The region(s) may include Siem Reap, Battambang, Sihanoukville, Kampong Cham, Kampong Speu and/or Svay Rieng. The number of samples, 300, at this stage is initial target. The final number is subject to discussion with the Team, as the more qualitative outcome may be required in the Second Tier.

For reference, the definition of SME in the “SME Development Framework (2005)” is as follows:

	Total asset	Number of employees
Micro	Less than \$50,000	1-10
Small	\$50,000 - \$250,000	11-50
Medium	\$250,000 - \$ 500,000	51-100
Large	Over \$500,000	Over 100

(2) Methodology of selection is subject to the proposal. Sample companies, for example, can be selected from the lists and information sources indicated below, the other information sources should be suggested in the proposal. The methodology is also to include how the consultant will arrange interviews with CEOs/owners with motivation described in (1)-1. (Refer to (4) below.)

- a) information from the census list
- b) member companies to SME associations (such as FASMEC),
- c) member companies to Cambodia Chamber of Commerce,
- d) business directory,
- e) information from International Organizations,
- f) information from Ministries, etc.

Note: The targeted SME in this survey is mainly in the manufacturing sector. The consultant may suggest the inclusion of other sectors in the proposal as reviewed the current situation of SME. It will be discussed in the preparation process after the submission of proposal if the other sector is to be included other than manufacturing, such as services.

(3) Categorization of difficulties and needs of SME are to be suggested in the proposal. The following is some of the initial examples (random order): (Refer to the example breakdowns in the attached copy.)

- Human resource
- Products/Services
- Customer
- Access to technology
- Access to finance
- Agglomeration/clustering
- Governance

Based on the outcome of the First Tier, the categorization of difficulties and needs of SME for the Second Tier may be modified through the discussion between the Consultant and the Team when relevancy is preserved on consistency between the First and Second Tier.

(4) In order to select sample companies, the pre-survey through telephone or other methods will be conducted for the plotted portion of the total sample to identify if the pre-selected SME are relevant to be included in this Survey. The initial targeted number of sample in the First Tier, 200, is the number after the pre-survey. The information obtained through the pre-survey will be reported to conducive to the questionnaire designing.

2. Questionnaire Formulation

(1) The Consultant will draft a questionnaire of 4 to 6 pages (A4 size). Prior to this draft, the discussion with the Team will be held. The questionnaire is to be finalized through discussion with the Team (members from MIME and the JICA experts). The Consultant is to re-arrange and refine the questionnaire suitable and practical for SME, and translate from English to Khmer.

(2) Tentative outline of the Questionnaire is indicated as follows. The Consultant is requested for further suggestions in the proposal.

Tentative Outline of the Questionnaire

1) Overview and profile of the companies

Established year/ founder/ initial funding/ background of establishment

Representative/ sector / sales and income/ total asset / capital / registration status / taxation status
number and nature of employees

2) Difficulties

by category set

details (the background of difficulties, specific causes of difficulties, temporary countermeasures)

3) Experiences of assistance in relation to the difficulties specified above. (from government, international assistance/donor, private consulting/advisor, etc.)

Type of assistance, programs, range of fees, duration, etc.

Evaluation of the assistances received, further request for the better usability

4) Needs for the (further) assistances

Respondents' own business needs (detail/break down is required)

Respondents' views on needs for SME in Cambodia

Needs for available assistances.

(Assessment of the assistances, acceptable cost for the assistances not limited to the actual cost but relative costs such as the workload for preparing application forms, introducing additional management system such as the financial statement and/or data collection, etc.)

5) Requests for government in terms of assistances

Among the available assistances appeared in the question above and invite further requests for improvement.

Needs for the improvement especially on the business enabling environment, (laws, regulations, policy measures/systems, law enforcement, etc.)

Comments and expectation to SME policies, future visions, etc. will be also collected. The level of awareness on the governmental measures is also to be identified.

Based on the outcome of the First Tier, the questionnaire for the Second Tier will be designed through the discussion between the Consultant and the Team.

3. Dispatch Questionnaire Sheets

Prior to the interviews, the questionnaire may need to be dispatched. The methodology is to be elaborated in the proposal in relation to the section 1-(2) above,

4. Interviews

The Consultant is to conduct interviews with the companies selected and screened.

- For each interview, the interviewee must be a responsible person in management level (e.g. CEO, owner or general manager) who knows about the over-all management status and strategy of the company.
- The interviewers must be well-trained and qualified.
- The Team member from DSIH will accompany some of the interviews.

5. Aggregate Information

A grand total and aggregation of information are to be well organized. Aggregated data and summary thereof both in English and Khmer shall be submitted as well as raw data and original interview sheets.

6. Reporting, Meeting and Data

The progress will be reported by the Reports as follows (the reporting form for the progress is to be subject to the discussion with the Team):

October 31, 2013	Initial Report
November 29, 2013	Report of interviews in Phnom Penh area
February 28, 2014	Interim Report
March 28, 2014	Draft Final Report
April 18, 2014	Final Report

The above reports will include aggregated data, raw data and analysis.

The other reporting and/or discussion sessions will be held on the request of the Team on the mutual consent base. Especially, after the implementation of the First Tier in the end of November, the discussion sessions will be held for designing the Second Tier in effective manner.

All the result will be combined and analyzed in the Final Report in both Khmer and English language. As for the actual questionnaire sheets completed and/or any information gained from respondents, translation in both Khmer and English will be prepared on all the result, and include them in the report form with analysis where necessary.

7. Special note

In case of the interview survey and other survey conducting process, the involvement of the Team member can be requested to share the process information. The survey project will include this task when design the plan. The Consultant may require conducting extra discussion and/or preparation task. For this case, the necessary cost of the Team side will be taken care of by the Team.

8. Submission of Proposal

The consultant is to prepare i) a technical proposal, and ii) a financial proposal. The technical proposal is to include a) the consultant's understanding of the survey objectives, b) the survey policy (and principles) of the consultant, c) the methodology including operation schedule, d) the CVs of consultants to be assigned.

The submission due is by 12:00 pm on 18 of September, 2013 at Department of Small Industry and Handicraft, MIME, #45 Norodom Blvd., Phnom Penh.

Number of copies:	Original: i) the technical proposal	one original
	ii) the financial proposal	one original
Copies:	i) the technical proposal	two copies
	ii) the financial proposal	two copies

over

<Sample breakdowns of the categories of difficulties>

Information / Guidance



- Human resource : employment/recruitment
employee management
training/education
- Products/Services : efficiency in production
quality control/upgrading
cost/price management
- Customer : market finding (new customer)
link to Supply Chain / market access (access to customer)
public/customer relation (maintenance of customer)
- Access to technology: operational know-how
management know-how
equipment
high-end technology (existing)
R&D
quality test
- Access to finance : initial capital
operating capital
equipment capital / capital investment
guarantee
trade finance
direct financing
- Agglomeration/clustering: cooperative business enabling environment (legal system)
cooperative operation (purchase, sales, transportation)
hard infrastructure (energy, water/sewage, roads/rails/ships, telecom)
soft infrastructure (industry-academia-government collaboration)
horizontal linkage (association, mutual accomodation)
vertical linkage (large scale / FDI)
- Governance : laws and regulations adequacy
transparency
enforcement
compliance
capacity of authorities

Appendix (7) Project Activities

(7)-1 Policy formulation component

(7)-1-8 Questionnaire Sheet for SME Promotion Survey:

Guided questions for interview survey – several versions for discussion (Dec 2013)

*This paper was developed by the discussion among DSIH/JICA Team and Cambodia Development Resource Institute (CDRI), the contractor of implementing SME survey for the effective interviews to the SMEs.

Guided Questions (as of Nov 28)

Section 1: Overview and Profile

Type of business	
Main products/services	
Year founded	
Registered	<input type="checkbox"/> Yes <input type="checkbox"/> No
Registration year	
Current number of employees ¹	
Number of branches	
Business plan during start-up	<input type="checkbox"/> Yes <input type="checkbox"/> No
Business plan developed by	<input type="checkbox"/> Owner <input type="checkbox"/> Hired consultant <input type="checkbox"/> Other, specify
Turnover – annual (US\$2012)	(value)
Turnover – monthly (average)	(value)
Average growth (revenues) per year	%
Value of total assets (US\$)	
Market share (%)	%
Direct competitors	Specify number and names:
Current money loan	Amount %
Financing structure (start-up)	Internal = % External= %
Financing structure (operation as of now)	Internal = % External= %
Financial records (statement)	<input type="checkbox"/> Yes <input type="checkbox"/> No → Reasons if any:
Bank account for firm	<input type="checkbox"/> Yes <input type="checkbox"/> No → Reasons if any:
Tax regime	
Senior management positions ²	<input type="checkbox"/> All relatives <input type="checkbox"/> All non-relatives <input type="checkbox"/> Relatives and
Recruiting system or channel	→ any fixed system or channel or recruiting employees, e.g. internet,
Job separation rate	

Training system for employees	→ any fixed system or channel or recruiting employees, e.g. internet,
Fringe benefit for managers/employees	→types of benefit, amount, etc.
[mfg.] basic parts purchase	→ rates, management system, source, etc.
[mfg.] inventory control system	→ whether there is the system. If so, what kind/ if not, reason why?
[mfg.] quality control system	→ whether there is the system. If so, what kind/ if not, reason why?
Information collection	→ How to collect information relating to: - customer needs - competitors' business
Member of Association	<input type="checkbox"/> Yes → Name of association/federation: → How do you know the association? : → Terms of membership (how long)? → Membership fee: → Benefits received: <input type="checkbox"/> No → Reasons if any:

¹exclude unpaid family workers and freelancers

²head of department

Section 2: Difficulties, Assistance and Further Needs

2.0 Priority of concern issues

Identify and prioritize the area of concern. (numbering on priority)

- Human Resource
- Products/ Services
- Customer/ Market
- Access to Technology
- Access to Finance
- Access to Information
- Agglomeration/clustering
- Governance
- Others-> specify [_____]

[Note: Skip to the questions for prioritized issue(s)]

2.1 Human Resource

[Note: explain the term Human Resource to interviewee before proceeding to the questions]

2.1.1 Difficulty

1. List the most pressing problems in relation to 'human resource' aspect in your firm. Select the following: (should also ask interviewee to emphasize one of the most appealing problems that he/she selects.)
 - a. Hiring/selection (recruitment process)
 - b. Right skills needed

- c. Personnel administration (employee management)
- d. Staff performance (i.e. low productivity, poor disciplines, lack of integrity, etc.)
- e. Employee turnover (job separation (reasons))
- f. Training/education (difficulty to design in-house training, limited access to outside trainings, etc.)
- g. Other: specify:

2. Could you please tell us more about each problem you have mentioned earlier?

- a. Background of the problem
- b. Causes (internal vs external) – requires probing to figure out real root causes
- c. Solutions (and result)

2.1.2 Assistance

1. Have you ever sought/received any assistance in relation to the problems above? select the following:

- a. Government (Related ministries: should specify which ministry involve)
- b. International assistance
- c. Donor (refer to both local and international donor or either one?)
- d. Private consulting/advisor
- e. Associations/federations
- f. Other: specify:
- g. None of the above (Some SMEs may not seek any assistance from outsider. They may deal with problem by themselves.)

2. Could you tell us more about the assistance?

- a. Program
- b. Fees (how about fund and grant?)
- c. Duration

3. How useful or relevant is it to your needs?

4. How can this assistance be improved?

2.1.3 Further Requests for Assistance

- 1. What are the specific needs for assistance you may have in relation to ‘human resource’ area particularly for your firm?
- 2. What are the specific needs for assistance you may have in relation to ‘human resource’ area for the whole SMEs in Cambodia?

2.2 Products/Services

[Note: explain the term Products/Services to interviewee before proceeding to the questions]

2.2.1 Difficulty

1. List the most pressing problems in relation to 'Products/Services' in your firm. Select the following: (also state one of the most appealing problem among the chosen list)
 - a. Input (cost, supply, quality, storage of materials, parts, fuel, etc.)
 - b. Production process (lack of technology etc. of design, packaging, quality control)
 - c. Output (difficult to manage etc. of cost, quality, price, storage)
 - d. Distribution (no distribution channel, etc.)
 - e. Production equipment/tools, machine
 - f. Other, specify:

2. Could you please tell us more about each problem you have mentioned earlier?
 - a. Background of the problem
 - b. Causes (internal vs external) – requires probing to figure out real root causes
 - c. Solutions

2.2.2 Assistance

1. Have you ever sought/received any assistance in relation to the problems above? select the following:
 - a. Government
 - b. International assistance
 - c. Donor
 - d. Private consulting/advisor
 - e. Associations/federations
 - f. Other: specify:
 - g. None of the above

2. Could you tell us more about the assistance?
 - a. Program
 - b. Fees
 - c. Duration

3. How useful or relevant is it to your needs?

4. How can this assistance be improved?

2.2.3 Further Requests for Assistance

1. What are the specific needs for assistance you may have in relation to 'Products/Services' particularly for your firm?

2. What are the specific needs for assistance you may have in relation to ‘Products/Services’ area for the whole SMEs in Cambodia?

2.3 Customer/Market

[Note: explain the term Customer/Market to interviewee before proceeding to the questions]

2.3.1 Difficulty

1. List the most pressing problems in relation to ‘Customer/Market’ issue in your firm? Choose the following: (also state one of the most appealing problem among the chosen list)
 - a. Competition (with local and foreign products, specially in term of what)
 - b. New/updated market information
 - c. Customer satisfaction/Customer needs
 - d. Market expansion (difficult to expand local or international market)
 - e. Marketing (lack of technique or methods of promotion and advertisement)
 - f. Other, specify:
2. Could you please tell us more about each problem you have mentioned earlier?
 - a. Background of the problem
 - b. Causes (internal vs external) – requires probing to figure out real root causes
 - c. Solutions

2.3.2 Assistance

1. Have you ever sought/received any assistance in relation to the problems above? select the following:
 - a. Government
 - b. International assistance
 - c. Donor
 - d. Private consulting/advisor
 - e. Associations/federations
 - f. Other: specify:
 - g. None of the above
2. Could you tell us more about the assistance?
 - a. Program (please clarify what you want to refer to?)
 - b. Fees
 - c. Duration
3. How useful or relevant is it to your needs?
4. How can this assistance be improved?

2.3.3 Further Requests for Assistance

1. What are the specific needs for assistance you may have in relation to ‘Products/Services’ particularly for your firm?
2. What are the specific needs for assistance you may have in relation to ‘Products/Services’ area for the whole SMEs in Cambodia?

2.4 Access to Technology

[Note: explain the term Access to Technology to interviewee before proceeding to the questions]

2.4.1 Difficulty

1. List the most pressing problems in relation to ‘Access to Technology’ in your firm? Choose the following: (also state one of the most appealing problem among the chosen list)
 - a. Possession of current technology (difficult to gain and sustain production & management)
 - b. Cost of technology (expensive to get technology)
 - c. Information on new technology
 - d. Ability to understand/absorb new technology
 - e. Other, specify:
2. Could you please tell us more about each problem you have mentioned earlier?
 - a. Background of the problem
 - b. Causes (internal vs external) – requires probing to figure out real root causes
 - c. Solutions

2.4.2 Assistance

1. Have you ever sought/received any assistance in relation to the problems above? select the following:
 - a. Government
 - b. International assistance
 - c. Donor
 - d. Private consulting/advisor
 - e. Associations/federations
 - f. Other: specify:
 - g. None of the above
2. Could you tell us more about the assistance?
 - a. Program
 - b. Fees

c. Duration

3. How useful or relevant is it to your needs?
4. How can this assistance be improved?

2.4.3 Further Requests for Assistance

1. What are the specific needs for assistance you may have in relation to 'Access to Technology' particularly for your firm?
2. What are the specific needs for assistance you may have in relation to 'Access to Technology' area for the whole SMEs in Cambodia?

2.5 Access to Finance

[Note: explain the term Access to Finance to interviewee before proceeding to the questions]

Also, the objectives of financing is to be identified in detail (ex. operation? > wage, parts purchase, etc. Capital investment? > purchasing machines, land for factory, etc.)

Background of the situation should be highlighted. Lack of financial management (financial statement), un-developed credit transaction (bill & check system) and dependence on cash on delivery, under developing social welfare system for workers injury and/or business damages by sudden economic changes, etc. may be the real cause of requirement of financing.

Amount necessary is to be identified if possible.

2.5.1 Difficulty

1. List the most pressing problems in relation to 'Access to Finance' in your firm? Choose the following: (also state one of the most appealing problem among the chosen list)
 - a. External financing (difficult to get bank loans, overdrafts, credit lines, trade credit, etc)
 - b. Terms and conditions of bank loans (interest rates, size of loans, credit line, loan maturity, collateral requirement, procedures, time to get approval, etc)
 - c. Other, specify:
2. Could you please tell us more about each problem you have mentioned earlier?
 - a. Background of the problem
 - b. Causes (internal vs external, please clarify each in every part) – requires probing to figure out real root causes
 - c. Solutions

2.5.2 Assistance

1. Have you ever sought/received any assistance in relation to the problems above? select the following:
 - a. Government
 - b. International assistance
 - c. Donor

- d. Private consulting/advisor
 - e. Associations/federations
 - f. Other: specify:
 - g. None of the above
2. Could you tell us more about the assistance?
 - a. Program
 - b. Fees
 - c. Duration
 3. How useful or relevant is it to your needs?
 4. How can this assistance be improved?

2.5.3 Further Requests for Assistance

1. What are the specific needs for assistance you may have in relation to ‘Access to Finance’ particularly for your firm?
2. What are the specific needs for assistance you may have in relation to ‘Access to Finance’ area for the whole SMEs in Cambodia?

2.6 Access to Information

[Note: explain the term Access to Information to interviewee before proceeding to the questions]

2.5.1 Difficulty

1. List the most pressing problems in relation to ‘Access to Information’ in your firm? Choose the following: (also state one of the most appealing problem among the chosen list)
 - a. Website (difficult to access and gather information)
 - b. Network (no network)
 - c. People capacity (no capacity to find useful information)
 - d. Communication (no channel of communication to get information)
 - e. Other, specify:
2. What kind of information do you need and are you having difficulty to gain? Choose the following: (also state one of the most appealing problem among the chosen list)
 - a. Information about customer needs
 - b. Information regarding competitors’ business
 - c. Information in order to access to preferential measures for money loan, marketing, production, employees, etc. provided by government, international partners, etc.

- d. Other, specify:
3. Could you please tell us more about each problem you have mentioned earlier?
 - a. Background of the problem
 - b. Causes (internal vs external, please clarify each in every part) – requires probing to figure out real root causes
 - c. Solutions

2.5.2 Assistance

5. Have you ever sought/received any assistance in relation to the problems above? select the following:
 - a. Government
 - b. International assistance
 - c. Donor
 - d. Private consulting/advisor
 - e. Associations/federations
 - f. Other: specify:
 - g. None of the above
6. Could you tell us more about the assistance?
 - a. Program
 - b. Fees
 - c. Duration
7. How useful or relevant is it to your needs?
8. How can this assistance be improved?

2.5.3 Further Requests for Assistance

3. What are the specific needs for assistance you may have in relation to ‘Access to Information’ particularly for your firm?
4. What are the specific needs for assistance you may have in relation to ‘Access to Information’ area for the whole SMEs in Cambodia?

2.7 Agglomeration/clustering

[Note: explain the term Agglomeration/clustering to interviewee before proceeding to the questions. Especially, the purpose and merit of agglomeration/ clustering shall be explained, e.g. promotion of business enabling environment, having merit of scaled economy, etc.]

2.7.1 Difficulty

1. List the most pressing problems in relation to ‘Agglomeration/clustering’ affecting your firm? Choose the following: (also state one of the most appealing problem among the chosen list)

- a. -(I think this point is more into an importance of clustering rather than a problem.)
- b. Cooperative operation (difficulty to coordinate and/or utilize cooperative purchase, sales, transportation)
- c. Hard infrastructure (lack of energy, water/sewage, roads/rails/ships, telecom for coordination/cooperation)
- d. Soft infrastructure (lack of industry-academia-government collaboration)
- e. Horizontal linkage (lack of association, mutual accommodation)
- f. Vertical linkage (large scale/FDI)

(From C-F point, the key terms seem to be a bit technical so the common understanding between interviewer and interviewee is crucial. Specifically, vertical linkage, which is related to FDI, most SMEs may not get this linkage. More explanation is needed.)

2. Could you please tell us more about each problem you have mentioned earlier?
 - a. Background of the problem
 - b. Causes (internal vs external) – requires probing to figure out real root causes
 - c. Solutions

2.7.2 Assistance

1. Have you ever sought/received any assistance in relation to the problems above? select the following:
 - a. Government
 - b. International assistance
 - c. Donor
 - d. Private consulting/advisor
 - e. Associations/federations
 - f. Other: specify:
 - g. None of the above
2. Could you tell us more about the assistance?
 - a. Program
 - b. Fees
 - c. Duration
3. How useful or relevant is it to your needs?
4. How can this assistance be improved?

2.7.3 Further Requests for Assistance

1. What are the specific needs for assistance you may have in relation to ‘Agglomeration/clustering’ particularly for your firm?
2. What are the specific needs for assistance you may have in relation to Agglomeration/clustering’ area for the whole SMEs in Cambodia?

2.8 Governance

[Note: explain the term Governance to interviewee before proceeding to the questions. Especially close relation with compliance in this context.]

2.8.1 Difficulty

1. List the most pressing problems in relation to 'Governance' issue affecting your firm? (Also state one of the most appealing problem among the chosen list)
 - a. Laws and regulations adequacy (lack of understanding of law and regulation in related area)
 - b. Transparency (In term of what? Governance of coopeation?)
 - c. Enforcement (by the authority?)
 - d. Compliance (difficulties to comply with law and regulation of taxes, custom, patent, etc)
 - e. Capacity and integrity of authorities
 - f. Other, specify:

2. Could you please tell us more about each problem you have mentioned earlier?
 - g. Background of the problem
 - h. Causes (internal vs external) – requires probing to figure out real root causes
 - i. Solutions

2.8.2 Assistance

1. Have you ever sought/received any assistance in relation to the problems above? select the following:
 - a. Government
 - b. International assistance
 - c. Donor
 - d. Private consulting/advisor
 - e. Associations/federations
 - f. Other: specify:
 - g. None of the above

2. Could you tell us more about the assistance?
 - a. Program
 - b. Fees
 - c. Duration

3. How useful or relevant is it to your needs?

4. How can this assistance be improved?

2.7.3 Further Requests for Assistance

1. What are the specific needs for assistance you may have in relation to ‘Governance’ particularly for your firm?
2. What are the specific needs for assistance you may have in relation to ‘Governance’ area for the whole SMEs in Cambodia?

--End of questions--

Proceeding of interviews

I. Explain the purpose of the interview

- 1) To identify SME’s difficulties so that government could assist to solve them
- 2) To have SME’s request for government assistance so that government could design relevant measures
- 3) Note: nothing to undermine SME’s benefit – not to impose any obligation.

II. Overall profile and business operation of interviewee by Section I of this sheet

- 1) To have profile information
- 2) To provide opportunity and encourage the interviewee to recall the difficulties and problems they are facing in their dairy business.

III. Focus by issue

- 1) Ask overall concern and prioritize by Section II 2.0
- 2) Skip to the prioritized are in Section II and get elaborated information
- 3) Cover second and third priority issues if time allows.

IV. Finally, explain the treatment of information.

- 1) The information will be utilized for policy/ measure formulation.
- 2) No mention to the particular names of person/company.
- 3) During the course of forming policy/ measures, there may be seminar or “public hearings” so that you may be invited for such occasions.

Appendix (7) Project Activities

(7)-1 Policy formulation component

(7)-1-9 Final Report on

SME Promotion Survey:

FINAL DRAFT REPORT

SME PROMOTION SURVEY

SUBMISSION TO JAPAN INTERNATIONAL COOPERATION AGENCY
(JICA)/DEPARTMENT OF SMALL INDUSTRY AND HANDICRAFT (DSIH), MINISTRY
OF INDUSTRY AND HANDICRAFT

JULY 2014

I. BACKGROUND AND OBJECTIVES

Structural transformation in Cambodia is evidenced by the increasing share of industrial sector to the total value-added of the economy, with manufacturing being seen as a driving force. This trend is parallel with and perhaps triggered by the increasing number of small and medium enterprises (SMEs) across the country, most of them operating in manufacturing and services sectors. According to the Economic Census 2011, around 99 percent of all manufacturing establishments are SMEs¹. However, manufacturing SMEs are small (only 15 percent), compared to the service ones (85 percent). For many countries, SMEs are widely viewed as a source of economic growth, employment generation, diversification and innovation.

A strong need to promote SMEs has given rise to the formulation of various policies and interventions from the government with support from the development partners. The particular case in point is the establishment of SME Development Framework first adopted in 2004 and a Subcommittee on Small and Medium Enterprises, chaired by the minister of Industry and Handicraft. The framework outlines a number initiatives; from rules, regulations and legal framework to SME financing. Its overall vision was “to develop a conducive business environment which will lead to a competitive SME sector and will contribute to the creation of quality employment and improve the range of goods and services available” (CDC 2005)². Government-Private Sector Forum on Manufacturing and SMEs also provides a platform for the working group (Manufacturing and SMEs Working Group) to discuss how the sector could be transformed from informal to formal businesses as well as to support the sector in general. The forum also gives an opportunity for SME representative to raise concerns and requests for assistance.

The endeavor to supporting SMEs is seen as well from the development partners. International Financial Cooperation (IFC) of the World Bank has carried out many projects directed to assisting the SMEs – to improve investment climate and access to formal finance, and to map out areas for reform. ADB has a number of joint-projects with the Ministry of Industry and Handicraft in addition to its technical assistance. USAID also works to strengthen SMEs in agriculture, manufacturing, environment and services. Some of the programmes are to improve competitiveness, improve SME abilities through interest groups, working groups or associations. In addition, SMEs have been pro-active in helping themselves through business associations and networking to assist members to access finance, obtain market information and share experiences in management practice, financial reporting, production methods and the like.

However, existing support could not sufficiently respond to many challenges the sector is currently facing. A few main obstacles include weak legal framework and bureaucracy, difficult access to finance and insufficient SME support—have been identified by international organisations such as the World Bank and Asian Development Bank. These factors were also noted during a forum organised in mid-2010 by the General Department of Industry to create dialogue between SMEs and bankers. Another major issue cited by the forum participants was the low skill and productivity of SMEs, whose high administrative costs make them uncompetitive with imports. Therefore, support initiatives and interventions are very much needed at the stage for SMEs in Cambodia to move forward.

¹ See the definition of SME in section II

² Council for the Development of Cambodia (2005), Draft Outline of SME Development Framework, http://www.cdc-crdb.gov.kh/cdc/7cg_meeting/7cg_document/draft_outline_sme.htm

This study which is initiated by Japan International Cooperation Agency (JICA) in partnership with the Department of Small Industry and Handicraft of the Ministry of Industry and Handicraft is important and timely and reflects a strong focus of the government and the development partners alike on the crucial role of SMEs in promoting economic growth in the country. This study is a combination of project design, project implementation and project outcomes. The key approach is to effectively carry out a survey among SMEs in Cambodia to collect data and information mainly on constraints and difficulties those enterprises are currently facing in their internal business operations and management as well as in a wider business environment. The survey also aims to capture the real needs of SMEs and the nature of assistance they wish to take place. The assistance ranges from technology upgrading, to financing to training. Results from this survey would essentially be useful for future policy directed to improving the overall performance of SMEs in Cambodia to reach the level where they are ready for take-off and further their competitiveness in the global markets. This study will involve both survey data collection and analytical report writing. Appropriate methodologies for this study are described in section that follows.

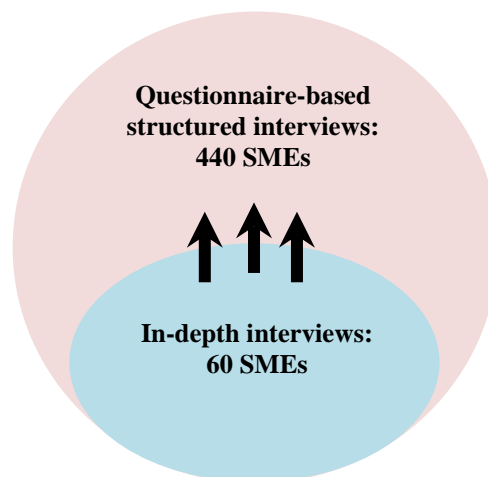
II. SURVEY METHODOLOGIES

The survey is conducted in two rounds – the first round in Phnom Penh and the second round in six provinces namely Siem Reap, Battambang, Sihanoukville, Kampong Cham, Kampong Speu and Svay Rieng. In each round, the survey is carried out in two steps: first semi-structured in-depth interviews are conducted, followed by questionnaire-based structured interviews. The rationale behind this is that findings from semi-structured interviews are used to design the questionnaire. While doing only in-depth interviews of targeted 500 respondents is costly, this study employs this two-step approach so as to get as much information as possible.

Sampling design and sample size

The sample size for the first round survey in Phnom Penh is 200 SMEs, 25 of which are in-depth interviews. For provinces, among 300 SMEs, 35 of them are chosen for in-depth interviews. In total, there are 60 in-depth interviews and 440 questionnaire-based structured interviews (see Figure 2.1).

Figure 2.1: Sample



A complete dataset of Economic Census 2011 published by the National Institute of Statistics is used as a sampling frame from which a sample of SMEs to be interviewed is drawn. In the dataset, enterprises or business establishments are categorised into four: micro, small, medium and large. Table 2.1 gives a definition of each category based on the SME Development Framework 2005. We exclude large enterprises from the survey as we want to wage more focus on micro, small and medium ones. Moreover, even though both sectors manufacturing and services are included in the sample, more weight is given to manufacturing; in the sample, around 65 per cent are SMEs operating in manufacturing sector and the other 35 percent in services.

Table 2.1: SME categories

	Total asset	Number of employees
Micro	< \$50,000	1-10
Small	\$50,000 – \$250,000	11-50
Medium	\$250,000 – \$500,000	51-100
Large	> \$500,000	>100

Source: SME Development Framework (2005)

Table 2.2 lists all SME population classified by each category in all sectors in Phnom Penh and the six sample provinces. As shown in the Table 2.2, there are 266,265 SMEs, around 97 percent of which are micro whilst the medium ones constitute to less than a half percent. Around 87 percent of the total SMEs are services.

Table 2.2: SME Population of Sampling Frame

Region	Type	Micro	Small	Medium
Phnom Penh	M	8,066	478	71
	S	83,521	2,959	283
Battambang	M	3,150	94	3
	S	30,182	613	38
Kampong Cham	M	8,031	166	15
	S	47,334	650	33
Kampong Speu	M	6,271	33	5
	S	15,954	248	15
Siem Reap	M	3,737	92	7
	S	27,452	721	65
Sihanoukville	M	743	26	8
	S	9,675	232	19
Svay Rieng	M	2,630	11	5
	S	12,346	213	10
Total	M	32,628	900	114
	S	226,464	5,636	463

M=Manufacturing; S=Services

Source: extracted from Economic Census 2011

Table 2.3 presents a selected sample of 500 SMEs disaggregated into a sub-sample for in-depth interviews and for questionnaire-based interviews across seven regions. This study does not aim for ‘representation’, but rather an in-depth one given the small sample size. The selection of SMEs for interviews are purely purposive, but ensuring the mixture of firms across different industries and types of businesses. Moreover, a large sample size is given to small/medium firms provided that researchers received little information from micro firms during field tests.

Table 2.3: SME Sample Size

Region	Type	Questionnaire-based	In-depth	Total
Phnom Penh	M	118	18	136
	S	58	7	65
Battambang	M	35	4	39
	S	20	2	22
Kampong Cham	M	59	4	63
	S	29	2	31
Kampong Speu	M	26	4	30
	S	14	2	16
Preah Sihanouk	M	6	4	10
	S	7	1	8
Siem Reap	M	33	4	37
	S	22	2	24
Svay Rieng	M	3	4	7
	S	10	2	12

M=Manufacturing; S=Services

Source: Authors’ calculation using Economic Census 2011

Questionnaire design

Key themes in the questionnaire prepared for the survey include 1) overview and profile of SMEs; 2) the difficulties faced by SMEs in such areas as human resource, products/services, customer/market, access to technology, access to finance, agglomeration/clustering and governance; 3) assistance received till date either from the government, donors or private consulting agencies; 4) the needs of further assistance; and 5) specific requests for the government in terms of assistance. The results from the in-depth interviews are used to design questions for the subsequent questionnaire-based survey.

Training and field data collection

The in-depth interviews are conducted by the researchers (authors) themselves to ensure that key data and information are collected. As for questionnaire-based survey, a number of experienced enumerators will be recruited for data collection. We select 12 enumerators divided into four teams, each of which is supervised by a leader. So in each team, there are two member and one team leader.

Before actual data collection takes place, intensive training and pre-test are conducted. This is to ensure that interviewers have a clear understanding of the survey objectives, methodology, and their roles. The training is delivered by the project team leader and assisted by team members. The training also gives a chance to the hired enumerators to clarify questions in the questionnaire as well as to give feedback. Pre-test of questionnaire is carried out following

the enumerator training to ensure the clarity and consistency of the questions and to make interviewers familiar with the task. We hold a 3-day training including pre-test assignments. The final version of the questionnaire is printed and translated into Khmer.

Before field data collection begins, enumerators make appointment with each SME in the sample in advance. We make use of Economic Census 2011 to get hold of contacts of all SMEs in the sample and make telephone calls requesting for the meeting. An interviewee is a responsible person in management level inclusive of CEO, owner or general manager who knows about the overall management status and strategy of the company.

Data entry and analysis

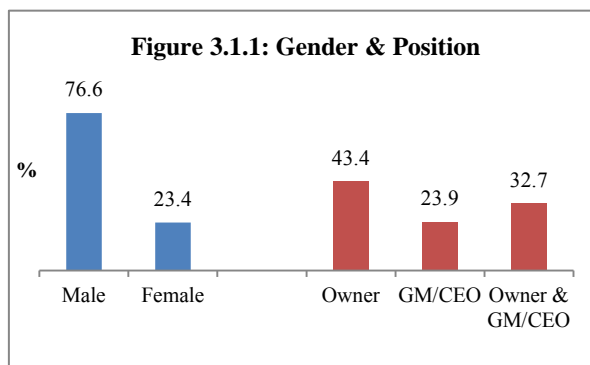
The survey data are coded and cleaned using statistical software CPro and STATA in order to ensure consistency and accuracy. CDRI's data management officer is the one in charge of the data entry supervision and quality control.

III. SURVEY RESULTS

This section provides a detailed account of survey findings from 440 quantitative survey and 60 key informant interviews among SMEs in Phnom Penh and in the provinces. Findings from the survey are divided into three main parts: 1) general information of the SMEs, 2) difficulties, and 3) assistance and further requests. Sections below present each of them in turn.

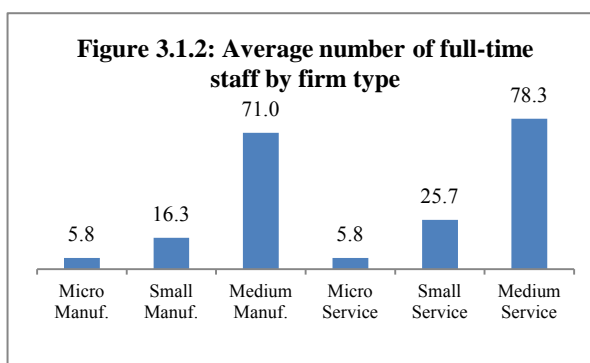
3.1 General Information of SMEs³

- **Gender:** 77% of owners/managers of SMEs interviewed are male (Figure 3.1.1).
- **Position:** This survey aims to interview only owners or managers of the company since they should know very well the current situation of their company. From the interviews, owners account for 43% of the total respondents, compared to 24% for GM/CEO and 33% for both owner and GM/CEO (Figure 3.1.1).



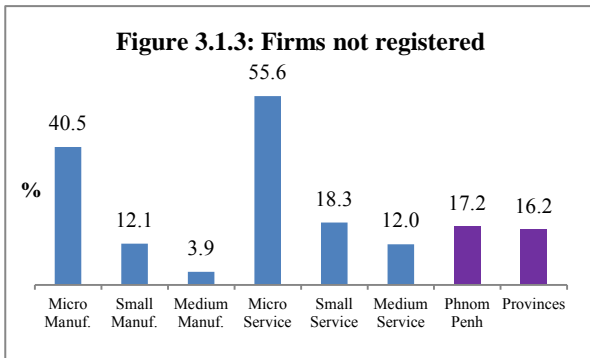
Other important general information related to the company includes the following:

- **Average number of full-time staff:** Micro firms have an average number of staff of around 6, small 16-26 and medium 71-78 (Figure 3.1.2). Part-time employees account for a small share, yet larger firms tend to recruit more part-time staff. 21 out of 440 SMEs (mostly in Phnom Penh) hire foreign workers in an average of around 4 per firm.

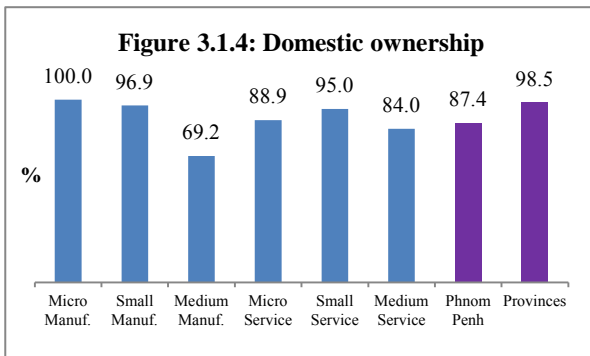


³ From 440 SMEs (excluding 60 in-depth interviews)

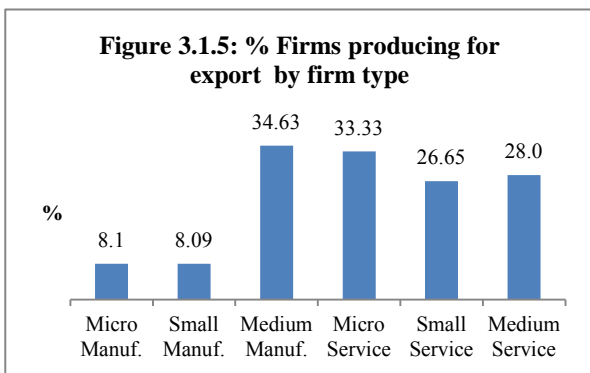
- **Registration:** Most of the SMEs interviewed (83%) registered their business in government agencies. Bigger firms have more proportion of registration compared to smaller ones (Figure 3.1.3). There is no significant difference between Phnom Penh and provinces in terms of number of unregistered firms. About half of the firms register their business in the same year as start-up.



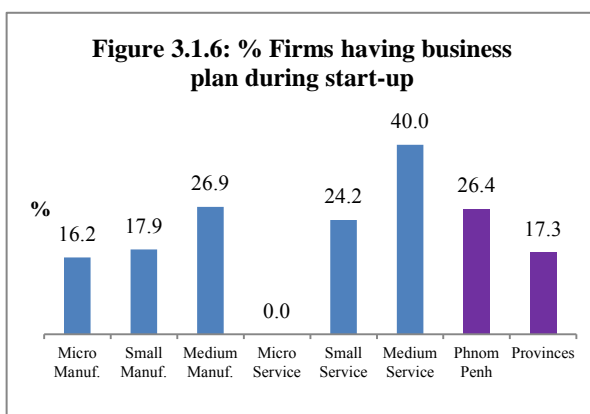
- **Ownerships:** 94% of SMEs interviewed are 100% owned by local businessmen, another 4% owned by foreigners and the remaining 2% are jointly owned by both local and foreign entrepreneurs. Joint-venture or foreign ownership happens mostly among medium-size firms (Figure 3.1.4). There are fewer cases of joint-venture or foreign ownership in provinces than in Phnom Penh.



- **Markets:** 84% of SMEs produce for domestic market only. Firms that produce for export account for only 3%, the other 3% is for both domestic and export markets. Firms that produce for foreign markets are mostly medium-size manufacturing ones or those providing services (Figure 3.1.5). For example, hotels or restaurants providing services to foreigners are categorised as firms producing for export.



- **Business plan:** Around 76% of all firms interviewed do not have business plan during their start-up. However 40% of medium service firms, followed by medium manufacturing, 27% have such document. None of micro service firms have a business plan. Fewer firms in province than in Phnom Penh have the document in place. However, Key informant interviews among 60 SMEs reveal that although many of them do not have proper document of their business plan, they do have clear ideas and plan in mind. Among the 92 SME who had their business plan, a large majority of them developed the document by themselves.



- **Turnover 2013:** In average, medium manufacturing firms earned the largest revenues (USD 1,535,209) in 2013, followed by medium service (USD 338,080). Basically, in average manufacturing firms generate more revenues than manufacturing firms as data shows. Micro manufacturing firms earn about the same amount as micro service firms. It should be noted that 83 out of 440 SMEs interviewed decline to provide or do not know the information on this. One more thing one needs to take note is that the standard deviations of the revenues are larger than the mean values. This indicates there are some extreme values in the data which is usual for such a small sample.

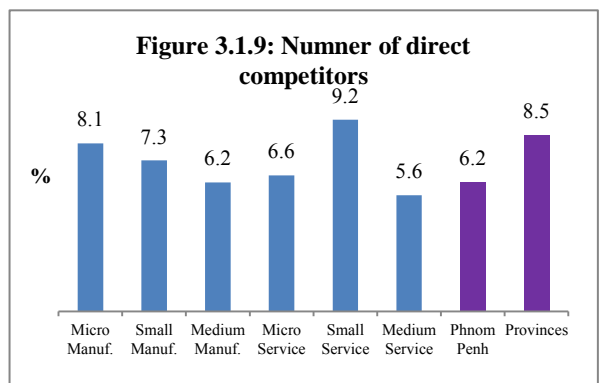
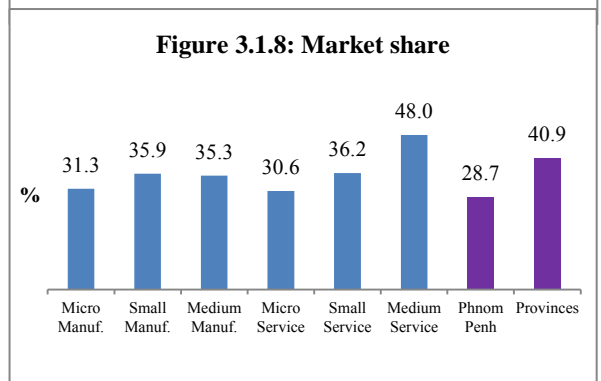
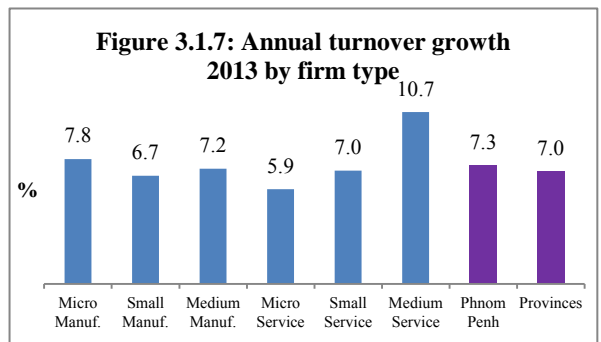
As for annual growth, medium service SMEs shows higher growth about 11% per year, compared to around 6% of micro service SMEs. Firms in Phnom Penh and provinces have comparable rate of turnover growth (Figure 3.1.7).

- **Market Share:** Service SMEs in average have higher market share than manufacturing ones, with medium service firms boasting 48% market share. However, it is logical that bigger firms have to have a bigger share in the market. Firms in provinces in average have much higher market share than firms in Phnom Penh, suggesting a bigger market in the provinces.

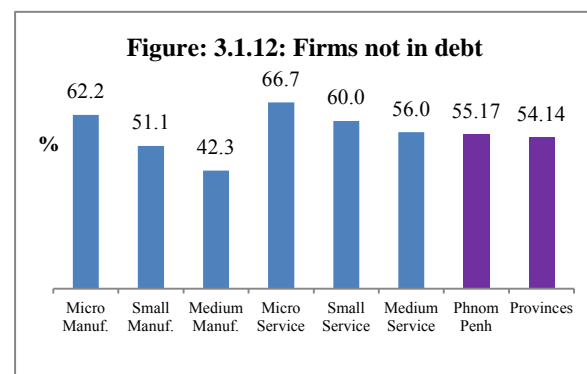
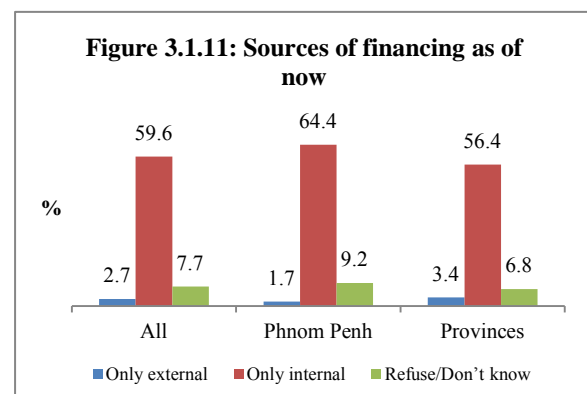
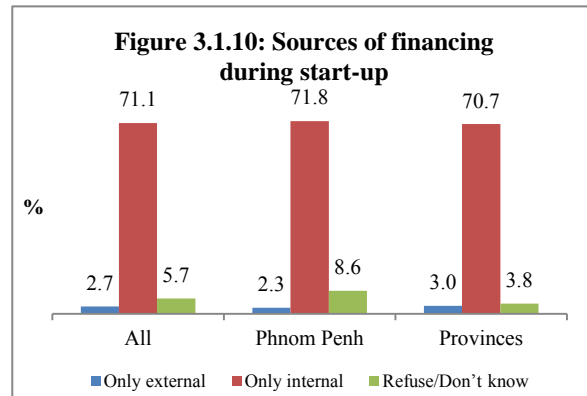
- **Number of direct competitors:** In average, SMEs have around 8 direct competitors, with small service firms having the highest number, indicating that competition among small service firms is stronger than other types of SMEs. Moreover, in general competition in service sector is fiercer than in manufacturing one as these data show. SMEs in provinces in average have more direct competitors than SMEs in Phnom Penh, suggesting a stronger competition in the provinces (Figure 3.1.9).

Table 3.1.1: Turnover 2013

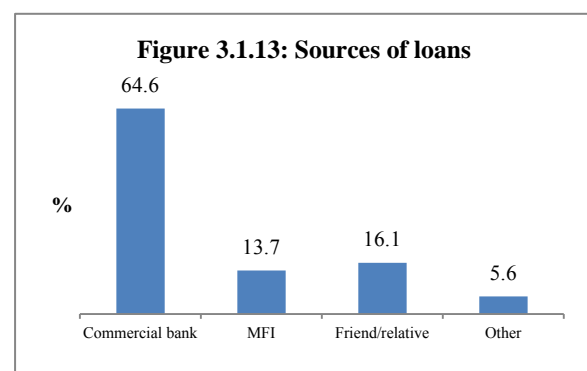
<i>Firm type</i>	Mean (USD)	Standard Deviation
Micro Manuf.	64,993	200,388
Small Manuf.	316,049	1,481,656
Medium Manuf.	1,535,209	4,980,720
Micro Service	69,533	92,678
Small Service	205,423	361,414
Medium Service	338,080	552,313
<i>Region</i>		
Phnom Penh	226,174	551,518
Provinces	402,907	2,054,812



- Sources of financing:** Most firms across different types of sector, industries and areas rely on their own funding during business start-up. Around 20% of all firms interviewed utilize both internal and external sources of funding, whereas firms that rely solely on external sources are few, only around 3% (Figure 3.1.10). As firms operate, the dependence on internal funds alone starts to diminish, while the external funds begin to mount. Results from in-depth interviews (detailed in section 3.2) reveal that firms use external sources of funding in order to expand their business or upgrade their technology. As a result, firms that rely only on own source of funds for daily business operation decline from 71% to 64%, meanwhile around 10 percentage points more firms use both internal and external funding. However, interestingly the mean share of internal funds constitutes much more than the external ones, meaning while firms diversify their sources of funds during operation, they invest more of their own money than borrowing. In relative term, more firms in the provinces than in Phnom Penh use external funds, suggesting own financial constraints among SMEs in the provinces (Figure 3.1.11).

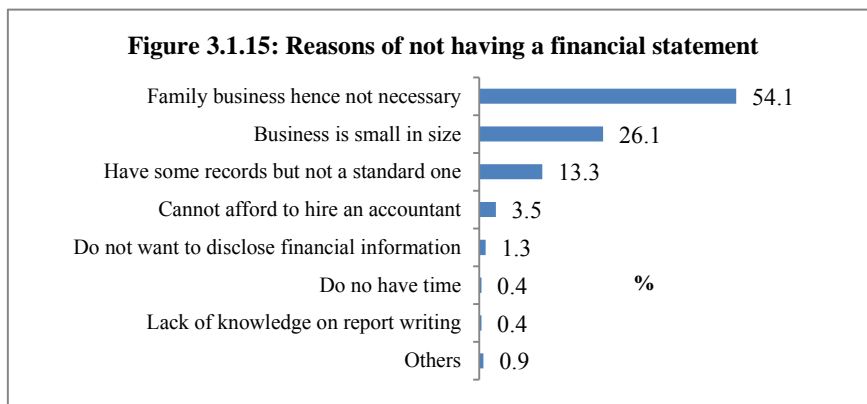
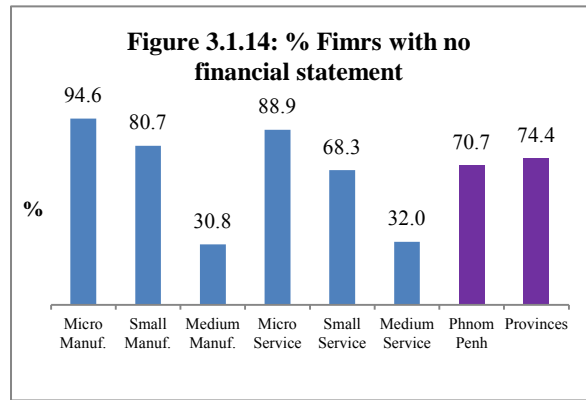


- Debts:** Around 55% of all SMEs report that they do not have outstanding loans. 12% of them do not know or decline to disclose this information. Therefore, firms that borrow account for about 33%. This result is consistent with section above on financial structure as of now that some 36% of all firms are currently utilizing external funds. As shown in Figure 3.1.12, in average more manufacturing firms than service ones borrow. However, there is no significant difference between manufacturing and service firms in terms of borrowing status. Among those in debt, around 65% of them take loans from commercial bank(s), 16% of them from informal sources like friends or relatives, 14% from MFI and 6% from other sources (Figure 3.1.13).

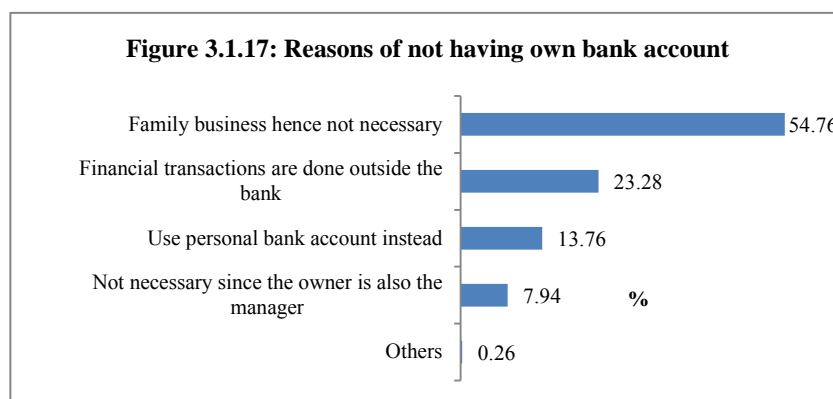
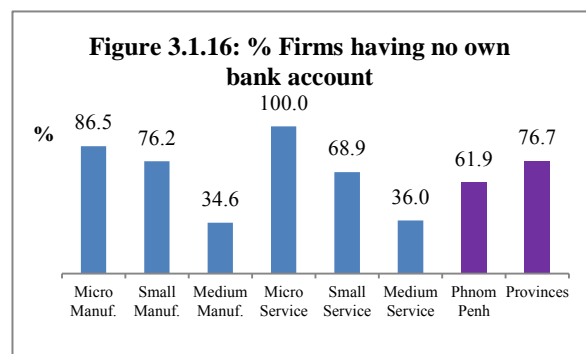


- Financial statement:** Some 73% of all SMEs interviewed do not have the financial

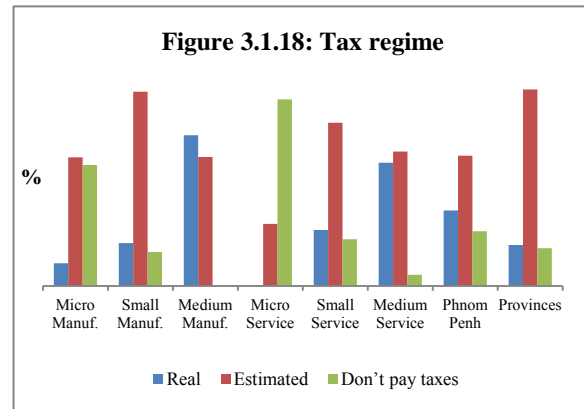
statement for their firm. Almost all micro-sized firms do not have the document. However, over two third of medium-sized firms have the financial statement, suggesting that bigger firms understand more the benefit of having the statement or they are capable to prepare such document. In relative term more manufacturing firms than service ones that have the financial statement in place. More firms in Phnom Penh than in the provinces relatively have the statement, perhaps signifying a lower capacity among firms in the provinces than those in Phnom Penh in making the statement. When asked about reasons why they do not have one, 54% of total responses point to the fact that the document is not necessary for such family business. Second most answers which probably relate to the first response is the view that the business is small in size hence they do not need to have the proper record. Other answers include lack of standard record, inability to afford an accountant to do the job, unwillingness to disclose internal financial information and time constraint (Figure 3.1.15).



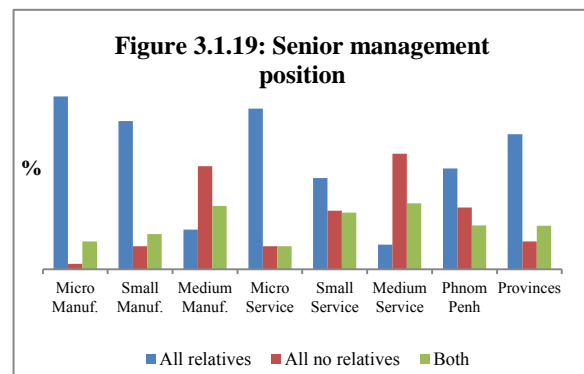
- **Bank account:** Most of the firms (71%) do not have a separate bank account. Bigger firms tend to have a bank account for their business than the smaller ones. Reasons of not having one include family business hence unnecessary (55%), financial transactions which are operated outside the bank (23%), using personal bank account instead (14%), and owner who is also manager hence unnecessary (8%) (Figure 3.1.17)



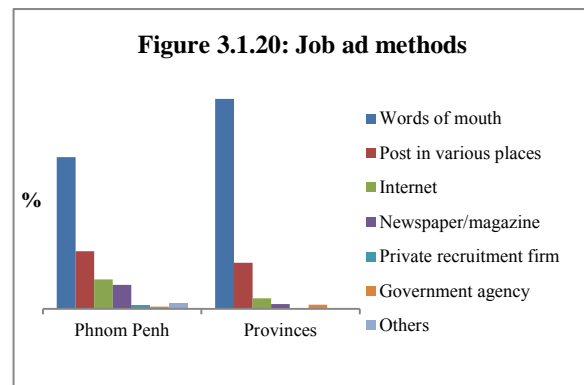
- **Tax regime:** 61% of respondents said their firm pays estimated taxes. Firms paying real taxes account for only 20%, most of which are medium-sized enterprises. Firms that do not pay taxes at all total around 16%; most of them are micro-sized ones. There are no cases of medium manufacturing firms not paying taxes, compared to 17% services. In provinces, most firms pay estimated taxes compared to those in Phnom Penh. However, more SMEs in Phnom Penh than in provinces that in relative term do not pay taxes (Figure 3.1.18).



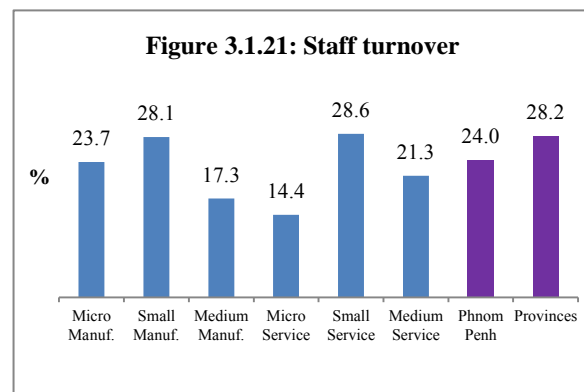
- **Senior management position:** This refers to department heads of a firm. More than half of the respondents have all department led by their relatives. Again, firms which hire relatives to hold head of department posts are mostly micro-sized firms. In provinces, more firms employ relative to hold this key position compared to firms in Phnom Penh (Figure 3.1.19).



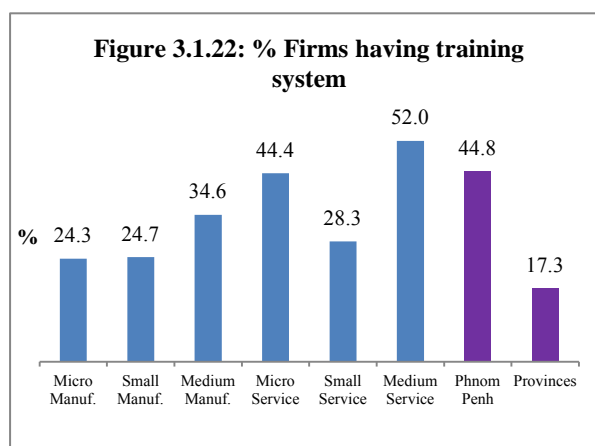
- **Job advertisement methods:** Words of mouth is the most common method of hiring new employees across firms in different sectors and industries. It is viewed as the cheapest method also. Posting job ads outside the company or elsewhere where firms think they could attract workers is the second method. Other channels such as internet, classified in newspapers/magazines are also reported, yet most of them done by firms in Phnom Penh.



- **Staff turnover:** This reports the ratio of total number of employees leaving the company to total number of employees in year 2013. In average, small SMEs happen to lose their employees more often than other kinds of SMEs. The lowest ratio is found among medium-sized firms, in average around 14% in year 2013. In average, SMEs in provinces encounter higher staff turnover than firms in provinces (Figure 3.1.21).



- **Training system:** only 28% of SMEs interviewed have a training system for their employees, most of which are internal. This training system is defined as a proper designed training plan and procedure in place rather than an ad-hoc one. More firms in services sector than those in manufacturing ones relatively have such a system in place. Moreover, interestingly only fewer firms in provinces have such system compared to those in Phnom Penh, again suggesting different in terms of capacity between Phnom Penh and the regions (Figure 3.1.22).

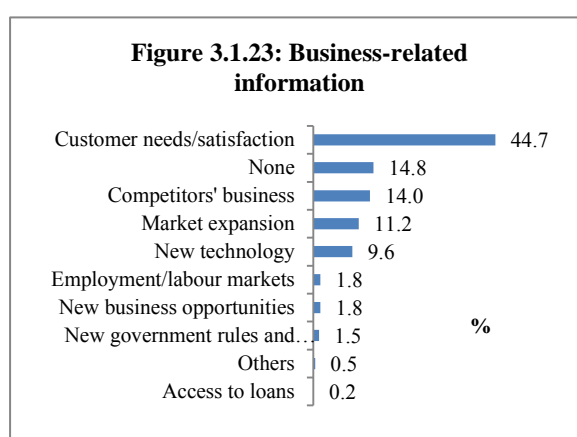


- **Fringe benefits:** There are top five benefits besides wages that firms provide for their employees. They include bonus, accommodation and food allowances, paid leave and advance of salary. In provinces, provision of accommodation and food allowances tops the list (Table 3.1.2).

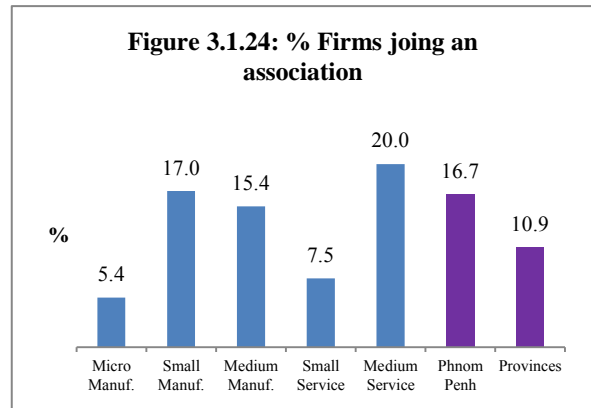
Table 3.1.2: Fringe benefits

Phnom Penh	%	Provinces	%
Bonus	18.9	Accommodation allowance	22.8
Accommodation allowance	18.0	Food allowance	22.7
Food allowance	16.3	Bonus	16.4
Paid leave (including sick leave)	11.7	Advance of salary	8.2
Advance of salary	9.3	Paid leave (including sick leave)	8.1

- **Business-related information:** Majority of all responses (45%) is information related to customer needs and satisfaction, followed by information about competitors' business and market expansion (26%). Interestingly, 15% of all SMEs interviewed do not collect such information (Figure 3.1.23). These SMEs are mixed although micro SMEs have a slightly higher proportion than the rest. The most common method of collection the business-related information includes the information provided by wholesalers or business partners. Findings from key informant interviewees reveal that wholesalers often have many suppliers and they usually inform their current suppliers if there is any new comer. They also get hold of information about customers as well. Therefore, producers often receive most of the feedback about market and competitor situation from their clients particularly wholesalers or business partners. Some SMEs also have their own staff in charge of collecting marketing information; meanwhile some others rely on information available on the internet or social media.

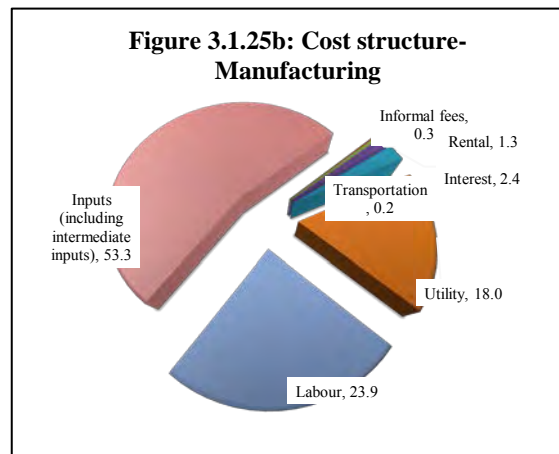
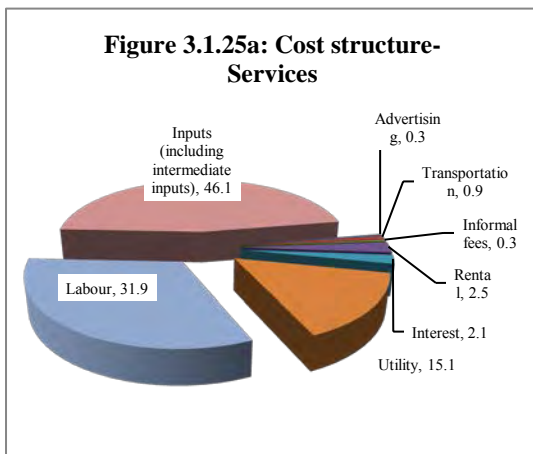


- **Association:** Only 13% of all SMEs interviewed are a member of an association. High percentage of joining an association is found among larger firms. There are fewer firms in provinces than in Phnom Penh that join the association (Figure 3.1.24). Two main reasons that make many SMEs not to join in an association owes to the fact those SMEs do not get any information about associations, meanwhile some others believe that joining in an association is useless or benefit from joining is too little.

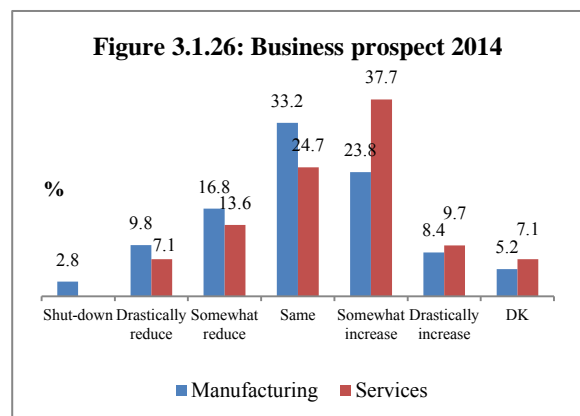


Firms joining an association were mostly introduced by the association whom they join itself. Some others received the information about the association from their fellow SMEs or the government. Moreover, when asked about benefits those SMEs have received so far most answers point to some kind of capacity building programmes or events such as workshops, seminars or training courses. They were also offered help in terms of dispute resolution, provided with market information on new products, services and inputs and information on government rules and regulations, among others.

- **Cost structure:** Raw materials/intermediate goods account for the largest share in the cost structure of both manufacturing and service SMEs although the former has higher share (53%) than the latter (46%). Expectedly, service SMEs have greater share of labour cost (32%) than that of manufacturing (24%). However, both types of SMEs have a similar share of costs on electricity, fuel and water as well as other costs (Figure 3.1.25a-b).



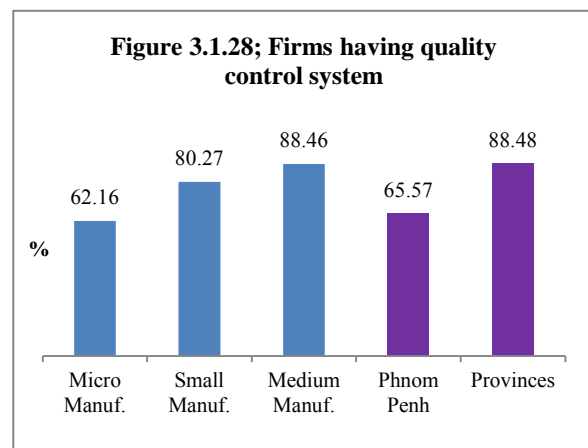
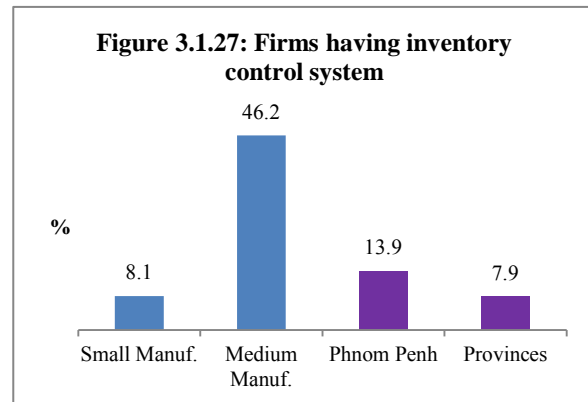
- **Business prospect 2014:** 38% of all SMEs expect that that their business in year 2014 will expand, 30% stay the same, and 25% decline. Firms in service sector seem to be more optimistic than firms in manufacturing sector (Figure 3.1.26). In terms of regional differences, SMEs in both Phnom Penh and the provinces have similar prospect for their business in 2014.



Besides the above, the survey also captures some information specific to manufacturing firms as well. Those data are presented below:

For Manufacturing Firms Only

- **Sources of basic parts purchased:** Domestic source of basic parts accounts for about 27%, the rest comes from abroad, mostly from China, Vietnam, Thailand, Japan and Korea. The management of this work is mostly done by the owners/managers themselves.
- **Inventory control system:** This refers to a proper computerised system to control inventory. Only 11% of all manufacturing firms in the sample have such system, all of which are small and medium-sized. Around two third of those having the system use simple excel spreadsheet, while the rest use other computer software to control their inventory. When asked why most of them do not have one, most responses (77%) point to the fact that their stock is simple, requiring no system to manage it, while some others report that they do not know how create one or the software is expensive.
- **Quality control system:** 79% of all manufacturing firms interviewed have their quality control system, which is mostly (77%) done by only visual examination. Quality control in which outputs are examined both visually and by machine accounts for 11% and by machine alone 12%. Most of the answers from SMEs who do not have the system include the view that they find it unnecessary, while some others report that they lack of expertise, or that their products are sent for quality check elsewhere or machine used quality check is expensive.



3.2 Difficulties

This section presents key findings from in-depth and questionnaire-based interviews among 500 SMEs in Phnom Penh and the other six provinces. It is found that the most pressing challenges most SMEs are facing now centre on four main areas including governance, customer/market, human resources and product/service. However, the order of priorities of those challenges is different between Phnom Penh and the provinces. In Phnom Penh, the top challenge is governance, followed by customer/market, whereas in the provinces the issue of human resources is the greatest concern. See figure 3.2.1 for detailed description of priority challenges in Phnom Penh, compared to provinces. The other such problems as access to formal finance, technology and information are also evident, yet they are not seen as a huge difficulty. Table 3.2.1 categorises each problem most specific to firm type. For instance, the issue of high cost of raw materials is reported in relative term by most

small manufacturing firms, followed by small service firms. Section that follows discusses at length each of the challenges raised by SMEs in turn starting from governance.

Figure 3.2.1: Challenges

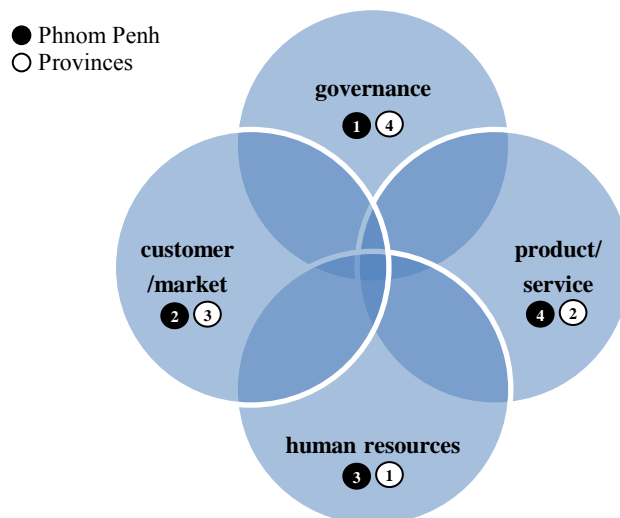


Table 3.2.1: Challenges by firm type

Micro Manuf.	Small Manuf.	Medium Manuf.	Micro Services	Small Services	Medium Services
Difficult to collect sales from customers (1)	High cost of imported raw materials (1)	Increasing import/domestic competition (1)	High cost of imported raw materials (2)	Unskilled/low-skilled labour shortages (2)	Skilled labour shortages (1)
Low discipline/commitment among workers (1)	Unskilled/low-skilled labour shortages	Unfair competition (2)	Difficult to collect sales from customers (2)	Low discipline/commitment among workers (2)	High staff turnover (2)
Unfair competition (1)	Increasing import/domestic competition (2)	Skilled labour shortages (2)	High cost of electricity/frequent outages (1)	High cost of electricity/frequent outages (2)	Difficult access to technology (2)
High staff turnover (1)	Difficult access to formal finance (2)	Difficult access to formal finance (1)	Poor public infrastructure/services (2)	Unofficial payment (2)	High tax rates/complicated tax procedure (2)
Low labour productivity (2)	Low labour productivity (1)	Unofficial payment (1)	Skills mismatch (2)	High tax rates/complicated tax procedure (1)	Poor public infrastructure/services (1)
	Difficult access to information (1)	Difficult access to technology (1)	Poor quality of raw materials (2)	Difficult access to information (2)	Skills mismatch (1)
	Poor quality of raw materials (1)		Increasing wages (1)	Poor customers' behavior (2)	Poor customers' behavior (1)
	Decreasing selling prices (1)			Political deadlock (1)	Political deadlock (2)
					Monopoly of supplier (2)

	Duration of business license is too short (1)			Monopoly of supplier (1) Decreasing customers (1)	
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3.2.1 Governance

Difficulties related to governance are mostly external to firms, making them unable to control but having considerable effect on the business of the firms. Two main governance-related issues that are reported by most SMEs (especially those in Phnom Penh) during the survey are the high cost of power/power supply shortages/power outages and unofficial payment. The other sub-issues such as poor public infrastructure, high tax rates/complicated tax procedures, lack of sufficient SME support policies and political deadlock are also disclosed.

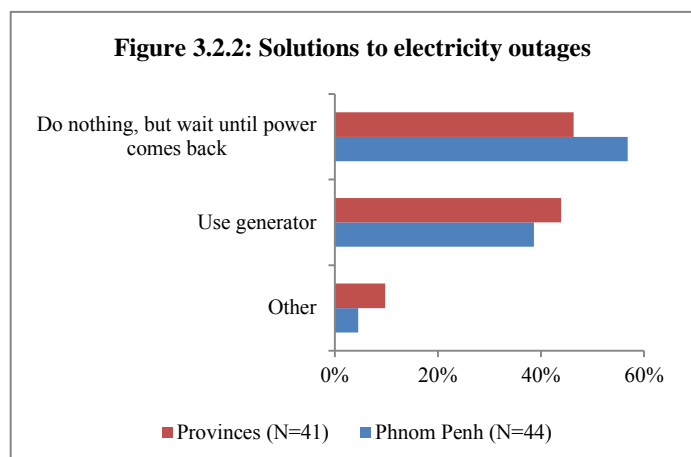
- **High cost of electricity/supply shortages/frequent outages:** majority of interviewed SMEs among almost all sectors across different industries complain about high cost of electricity. They often moan that the electricity tariff for business enterprises is much higher than that for residents. They also mention Vietnam or Thailand where cost of power is much cheaper. While high cost power directly translates into high cost of production, firms now are facing with competitive disadvantage when it comes to competition with imports. Not only high tariff of power per se is an issue, the connection fee which includes the cost of connection materials (such as electricity transformer) is also enormous. Firms are not allowed to purchase such materials from other sources besides EDC (the state-owned power supplier). Worse, the price of those materials is charged high by the EDC.

The supply of power is also insufficient, resulting in frequent blackouts which halt the production process and sometimes spoil the product. Some food producers are furious about electricity cut-off without prior notice. It makes their products become spoiled. Below are some quotes from the business owners/managers.

“My company spends approximately USD 20,000 per month (all branches) for electricity... the cost excludes expenses on fuel and maintenance of the generators used during cuts-off and insufficient supply of public electricity. If price is relatively equal to that in Vietnam, I could reduce electricity expense by half and use that amount for further investment...public services from EDC are not business friendly. For instance, the company might spend about USD 30,000-50,000 to install an electricity transformer...the government should encourage cheap, sufficient and reliable electricity so that domestic businesses could compete with imported products. The Vietnamese government is taking special care about electricity price.” (Interviewee #1, Phnom Penh, 12 December 2013)

“You know? For my business electricity is like blood tissues in a human body. To have electricity connected, I have to spend a lot of money to EDC ...we cannot buy electricity transformer by our own. We have to buy it from EDC and the price is double. Connection fee is also very high.” (Interviewee #17, Phnom Penh, 06 December 2013)

In terms of solutions to blackouts, many of the SMEs in Phnom Penh as well as provinces have no choice,



but only wait until power comes back so that they could resume production. Some use alternative sources of power including generator or battery. Some firms resort to an alternative low-cost technology which uses other power sources instead of fuel. Although that technology reduces cost of power, still firms have to spend money in order to acquire such technology. Figure 3.2.1 lists each solution by region.

In fact, electricity tariff in Cambodia is the highest among Southeast Asian countries, especially Thailand and Vietnam, and power outages are relatively frequent. Tariff for residential consumers is around USD 0.17 per Kilowatt Hour in Phnom Penh. Areas without EDC coverage use electricity from Rural Electricity Enterprises (REE) with cost per Kilowatt Hour ranges from USD 0.28 to USD 0.30 (KHR 1,120-1,200) if supplier buys electricity from EDC. The price can be between USD 0.65 and USD 0.90 per Kilowatt Hour (KHR 2,600-3,600)⁴ if electricity is self-generated by grids (ADB 2010). Cambodia ranks 134 out of 185 economies in terms of getting electricity connection. The cost of power as a percentage of per capita income is around 2,636 per cent, compared to 987 and 79 percent for East Asia and Pacific and OECD, respectively. Although there are only 4 procedures to be followed, it takes 168 days to get it connected (World Bank 2014).

Progress has been made in extending publicly provided electricity with reasonable cost per Kilowatt Hour. This has been credited to government's efforts to diversify electricity sources, mainly hydropower dams, to increase supply capacity and to expand transmission lines. Some SME owners/managers also acknowledge improvement in terms of cheaper price and less outages. Nonetheless, the issue should have been addressed more satisfactorily and quickly from business point of view given the upcoming AEC implementation that requires local production to be efficient and competitive to survive the influx of goods from other ASEAN members and beyond.

- **Unofficial payments:** This refers to extra amount of money that firms have to pay to government officials in order to comply with rules or regulations. By law, firms have to abide by certain rules such as safety standard or trade regulations, so they are subject to regular inspections by government agencies in charge; those include Ministry of Commerce, Ministry of Environment, Fire Department, National Audit Authority, Immigration Department, Ministry of Labour and Vocational Training, National Social Security Funds, Fraud Police Department, and Local Authority. However, what most SME owners/managers are complaining is the unofficial payments that they usually pay to the officials to smooth the inspections and avoid subsequent troubles. Such fees vary from one industry to another and from one region to another. Some SMEs said:

“... in addition to the regular tax payments of KHR352,500 per month and patent payment of USD300 per year, the company also has to pay fraud police officer and officers from various ministries and departments such as Ministry of Interior, Fire Department, and Ministry of Environment, on average, USD100 per year. This kind of payment has increased significantly since the new urban classification.” (Interviewee #16, Phnom Penh, 12 December 2013)

“The company, on average, spends USD20-30 per month for inspectors from various ministries. Local authority, particularly police, also occasionally asks for a certain amount of money especially during Chinese or Khmer New Year. It is not a large sum but it does affect the feeling of the owner. It would be highly applauded if the government can get rid of this tradition.” (Interviewee #6, Phnom Penh, 9 December 2013)

⁴ The exchange rate is USD1 = KHR 4,000

According to the data from the survey, unofficial payments account for about 7 percent of the total cost of production. Such informal, under-the-table fees clearly affect price advantage of businesses. Companies can choose not to pay; however, the feeling would be that they will be in trouble if they do not pay. Thus, it seems that such payments have become one of the traditions that companies could not resist. Government's officers are seen as troublemakers not problem solvers. In terms of solutions, most firms do not have one; some have to bargain with officials to reduce the informal fees.

In addition to the two main challenges above, some other sub-issues related to governance are also raised including:

- **Poor public infrastructure and services:** Some related issues include the lack of sewage system within the firm's location which causes poor sanitation, lack or insufficient supply of water, poor garbage collection service (i.e. collection during business hours or leaving the place unclean, etc) while the tariff is high, not appropriate to the size of the business/premise. In some other locations, the road condition is poor, making firms difficult to transport goods.
- **Lack of enough policy to support SMEs:** There is a complaint about small firms striving by their own to survive amid strong import competition from foreign countries. The government so far has no policies to protect local producers so that they have chance to grow and be competitive. Imported products from Vietnam for instance are cheaper and many in varieties, making local producers a hard time to compete against. While low cost of production is a major advantage those imported products possess, some of those products even get subsidies from their government and in some cases they evade taxes due to poor governance here in Cambodia. According to one SME, such a market situation cannot be regarded as a true free market competition as the playing field is not level.
- **High tax rates/complicated tax procedures:** Some SMEs in the provinces complain about high tax rates particularly taxes on raw materials. They also bemoan about complicated tax procedures which are hard for them to understand.
- **Short life of business license:** Two SMEs in mining sector complain about short life of business license offered to them. They raised that for their business it takes time to prepare everything before actual operation takes place. If the duration of license is too short they have to spend money to renew it again.

3.2.2 Customer/Market

This section describes all difficulties related to customer/market SMEs are facing. Three main challenges top the list including difficulty in collecting sales from customers, rising competition, and unfair competition. Other sub-issues complained by SMEs are

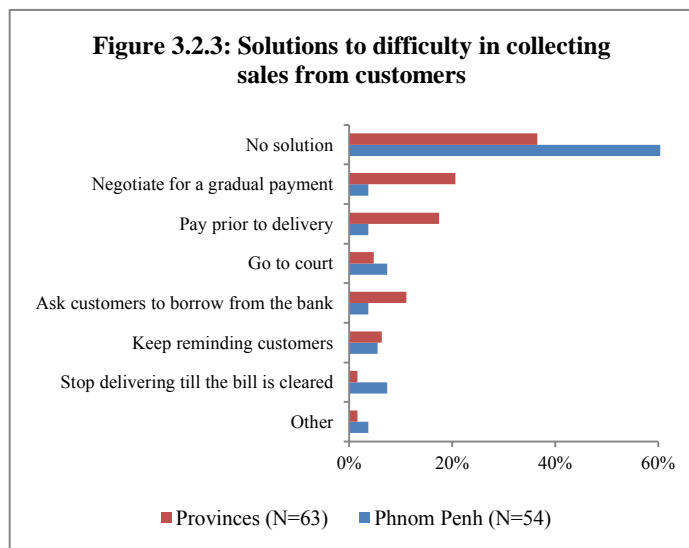
- **Difficulty in collecting sales from customers:** As a practice in Cambodia, suppliers often deliver their product to customers prior to the settlement of payment. For small firms like SMEs, most of payment agreements are verbal. Therefore, the problem that is happening now is that suppliers find it hard to collect payments from their clients citing three main reasons. Most SMEs said that their customers have a bad habit to settle the payment late, followed by slow cash flow and slow sales by customers themselves. As some SMEs put it,

"They ordered our product on late payment basis, and they paid very late after that. If we do not give them what they asked for, we will not be given order. We try to be very generous dealing with our customers" (Interviewee #Hongbunrith, Kampong Speu, 01 April 2014)

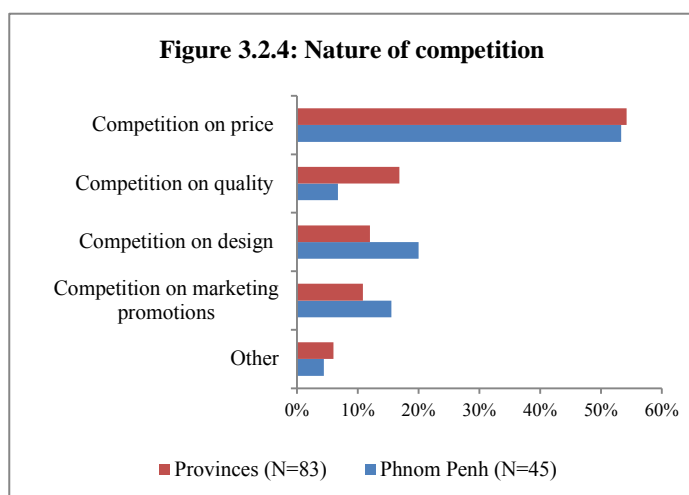
“It is customary that we have to deliver the products to our customers first and they will settle the payment later. However, there are a few customers who have bad habit of paying late or not paying at all and nothing we can do about it. We can only ask them to settle it bit by bit of the amount they owe. I think it is not because of their bad business, but they just don’t have willingness to pay. They may allocate their money for other uses we don’t know of. We don’t want to lose our customers so we have to bear, hoping some day they will settle it” (Interviewee #SoaPeng, Svay Rieng, 07 April 2014)

Besides prolonging their debt payment, some customers do not repay at all. Usually, suppliers can do nothing about it as they do not want to lose customers as described by SME owner in the second quote. Some customers who are high ranking officials or local authorities often bought on credit but have never settled the debt. Sometimes, even a firm complained to the local authority about unsettled payment, still there has been no useful intervention. The case in point is that only less than half of households in Sihanouk province pays garbage collection fee. Even though the company asked the authority to address this problem, they act nothing in fear of losing votes from those citizens.

Most of SMEs facing this problem cannot think of a solution. However, from the survey it is revealed that firms in provinces seem to have more solutions than firms in Phnom Penh. In Phnom Penh, around 65 per cent said they do not have a solution, compared to only 37 percent among SMEs in the provinces. In provinces, SMEs try to negotiate for gradual debt payment or start implementing pay prior to product delivery to avoid late repayment or default. In a few worse cases, the problem was brought to court. Figure 3.2.2 list all the solutions by region.



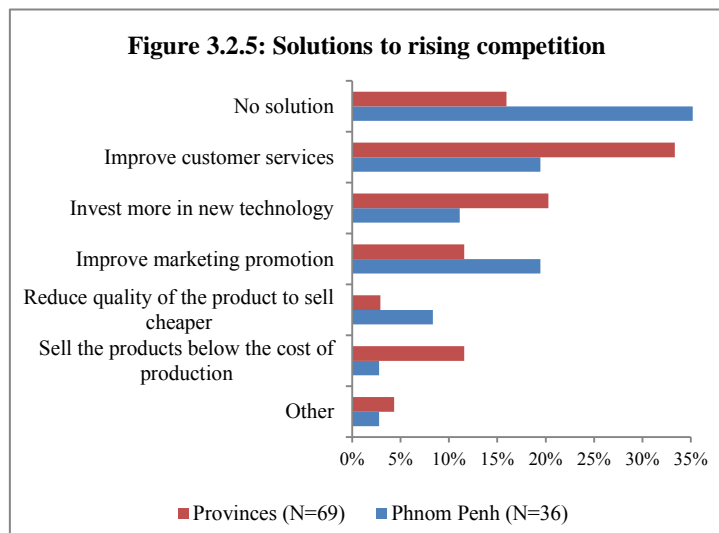
- **Rising competition:** Some 18 percent of all SMEs interviewed express their concerns about increasing both domestic and import competition. More than half of those SMEs complain about rising domestic competition, around one third about import competition and the rest about both domestic and foreign competitions. SMEs in Phnom Penh face more import competition than those in the provinces. Most of the competition is on price, followed quality, design and product promotion (Figure 3.2.4). Businesses which are small or medium in size are easy to attract many people to do. For examples, there are many rice millers in Battambang as well as a great deal of drinking water producers in Siem Reap; they compete among themselves for their own market share. Such competition often brings down the price and



hence profit margin. Moreover, competition with import is also a threat especially with that from Vietnam. Imports from Vietnam are viewed as the top competitors, followed by Thailand and China. Vietnamese products are usually cheaper given their lower cost of production contributed by low cost of power and transportation. In some cases, the quality of imported products is even better than the local ones, therefore making local producers difficult to compete.

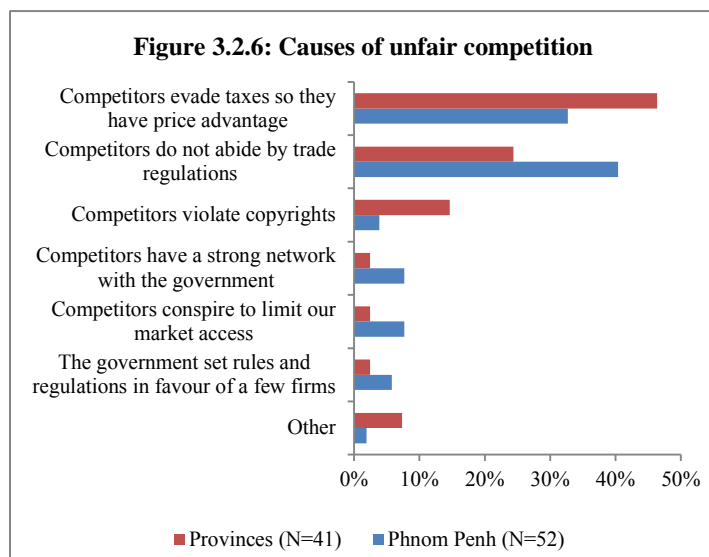
Among those bemoaning about increasing competition, around 38 percent of them said they are not up to the contest. A few reasons for that are cited. For firms in the provinces, most of them (around 65 percent) reported that they lack enough capital to expand the business or upgrade their current technological capability so that they can lower production cost or improve productivity, and hence become more competitive. In Phnom Penh, a big issue at hand is the lack of access to information related to new technology available to SMEs, followed by the same issue of insufficient financial resources. This suggests that unlike in the provinces, in Phnom Penh finance is not a serious issue compared to the problem of access to information on new technology. Moreover, a few firms lament their inability to evade taxes so as to make their products cheaper compared to others.

When it comes to solutions, in relative term firms in Phnom Penh seem to have more solutions than firms in the provinces. Those includes among others improving customer services, investing more in new technology, and improving marketing promotion (Figure 3.2.5).



- Unfair Competition:** Rising competition might be a good sign and an outcome of free-market economy. At least in principle, not only is competition good for economic growth but it also is beneficial for consumers in terms of prices and product quality. “Creative destruction” is a concept used to describe the situation in which companies with obsolete technology die because of the newly established firms who bring new technology and more efficient way of operation and management that could increase productivity.

Nonetheless, such competition has to be played on an equal footing. SMEs equally importantly raised concerns that current competition is not fair enough for all companies. Two main issues that



stand out are tax evasions by some firms so that they have price advantage and the violation of trade regulations (See Figure 3.2.6). Ice producers in Svay Rieng for instance often complain about imported ice from Vietnam without paying taxes. Although the government has recently strengthened tariff collection, still a food commodity like ice is overlooked. It is not quality that worries local producers but price. Vietnamese ice makers produce ice with lower cost than the local do. Such unfair competition prevents local producers from expanding the market. Markets along the border all are taken up by Vietnamese suppliers due to lower cost of production. Below are some more quotes from two SMEs in relation to these issues:

“...the other thing is that MIME fails to make sure that those producers (of similar products) comply strictly with the law regarding accurate quantity of products sold in the market. Some producers are cheaters, so they can sell their products cheaper. For example, on the package it is printed 100g but the real quantity is less than that. They do not only cheat their customers, but also give a bad image to Khmer products.” (Interviewee #6, Phnom Penh, 03 December 2013)

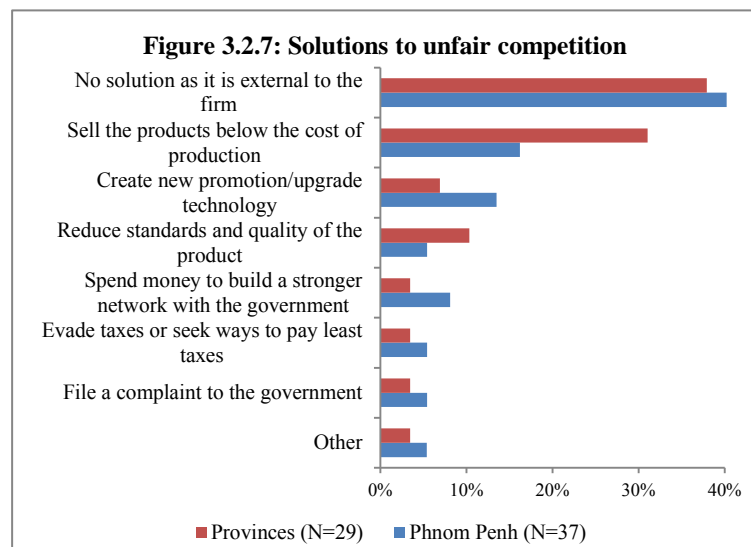
“We produce in our country but we do not have a good sale in our market, while those of foreigners sell very well in our country. I think some foreign products avoid paying tax and quality control in their countries, while our government closes her eyes importing them at cheaper prices; that badly affects the local products” (Interviewee #Boreitracheakam, Kampong Cham, 08 July 2014)

Some SMEs, especially those in Phnom Penh complain about the government providing a good favour to a group of firms either through established network or else. Like one small firm complains:

“...competitors are now increasing because of a free-market policy. However, there is no fair competition. Firms producing in Special Economic Zone have price advantage because they could access to cheaper electricity as part of the government policy to enhance exports. However, in fact they sell domestically rather than export. I do not know why authorities did not check it. The government has never cared about us. They require us to comply with standard requirements, but they have never checked other factories producing with no sanitation.” (Interviewee #15, Phnom Penh, 19 December 2013)

When asked about the solution, most SMEs use short-term methods such as selling below the cost of production or reducing the standard quality of their products (see Figure 3.2.7).

The issue of this unfair competition is purely a governance issue. Clearly, it could affect price and product quality, for it drives companies who comply with required standards, rules and regulations out of businesses. For instance, firms who evade taxes and do not comply with government regulations and other standards have competitive advantages, especially on unit price of final products over those who fully comply. This issue is clearly exogenous to SMEs who strictly comply with official requirements. Therefore, one of the government’s roles in free-market



economy is to guarantee fair competition and to protect market provisions and procedures to ensure that good and efficient firms are to stay.

Some other customer and market related issues include the following:

- **Misbehaved customers:** This happens in entertainment business such as restaurants and beer gardens in which drunken customers who are also powerful people create troubles. Owners often report these to the authority or ask those customers to resolve the problem outside their place.
- **Monopoly of Supplier:** One service firm exporting recycled wastes to China complain about monopoly of supplier to provide shipping service to China.

3.2.3 Human Resources

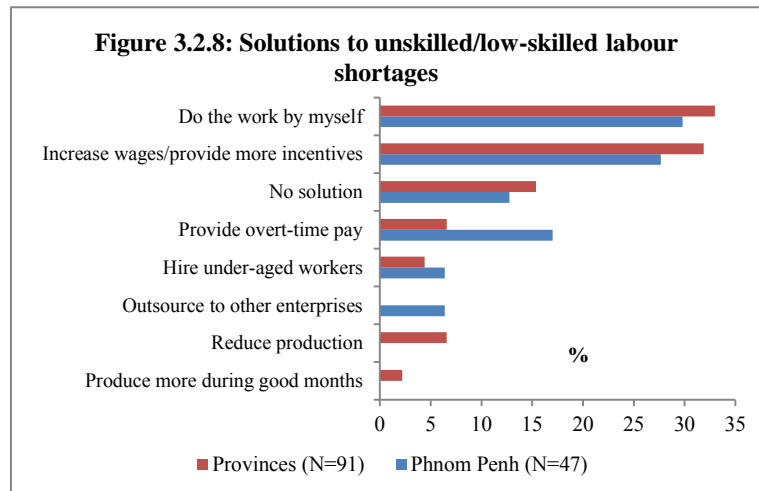
Human resource is the most pressing challenge facing many SMEs in the provinces. Two major difficulties related to human resources are on top of the list. They include 1) shortages of low skilled/unskilled workers; and 2) poor staff commitment and disciplines. Other sub-issues which are not far from the top list are high staff turnover and skilled labour shortages. Low productivity, skills mismatch and rising wages are also raised but by only a few SMEs. We discuss each challenge in detail below.

- **Shortage of low-skilled/unskilled labour:** In provinces, it is observed that almost all manufacturing firms are low-skilled/unskilled labour-intensive. Therefore, having sufficient supply of labour of that type is crucial for the survival and growth of the firm. However, a large majority of SMEs raises the issue of difficulty in getting low-skilled workers to work cited three main reasons including the abundant job opportunities with higher wages in garment and construction sectors. SMEs moan that their business is small and hence unable to afford high wages demanded by those workers. In terms of solution, the owners themselves have to do all the work when they are unable to hire workers. Some have to increase the base wages or provide more incentives to attract workers to come. Some are forced to recruit children or the elderly. Those less preferred workforce demands lower wages and is not wanted by employers overseas. Some quotes below further describe the situation:

“... we lack workers particularly type A (18-35 years old) who are full of energy to do the work. We have more of workers type B (36-60 years old) who are prone to sickness. Most workers (type A) migrate to Thailand or capital city. Actually, the wage there is not higher than that in the village; however, they migrate because of their temptation to move to other area” (Interviewee #Kongchamroeun, Siem Reap, 03 April 2014)

“The most challenging problem we have now is the difficulty in hiring full time staff. My business is small, so I can’t afford to pay higher wages like other factories do. Some people can also migrate elsewhere, for instance to Thailand to earn higher wages. The rest of adult villagers have a better job to do which is to sell traditional medicines...adult workers in the village have no incentive at all to work for me. To address this issue, I decided to employ young children [aged 8-12] and the elderly. Young children are mostly male students who study in shift. They could work in the whole afternoon if their school shift is in the morning or vice versa...I also contract out some of the work to the elderly who does the work from their home” (Interviewee #Rattanhandi, Kampong Speu, 01 April 2014)

In terms of solution, the owners themselves have to do all the work when they are unable to hire workers. Some have to increase the base wages or provide more incentives to attract workers to come. Some are forced to recruit children or the elderly. Those less preferred workforce demands lower wages and is not wanted by employers overseas (Figure 3.2.8).



- Poor discipline and commitment:** The second most cited problem is poor staff commitment and discipline. There are reports of workers not paying enough attention to the task at hand, lacking punctuality, leaving the job without permission or advance notice, and not working hard enough to meet the targeted productivity level. Most of the cases, this happens among low-skilled/unskilled workers, according to the answers by SME owners. The reasons which drive workers to perform poorly include bad habit, poor or low education, and again the availability of second best alternative which is to migrate to work in Thailand. Some workers follow one another. When one moves to Thailand, others tend to follow suit. Moreover, some workers do not obey the internal rules of the company, for instance spending too much time on the phone or prolonging their holidays. As some firms put it:

“ ... Cambodian workers have a kind of ‘free to do’ attitude. When they are not happy or feel bored with the job, they leave the workplace right away, so we are in difficult time to find quick replacements.” (Interviewee #17, Phnom Penh, 6 December 2013)

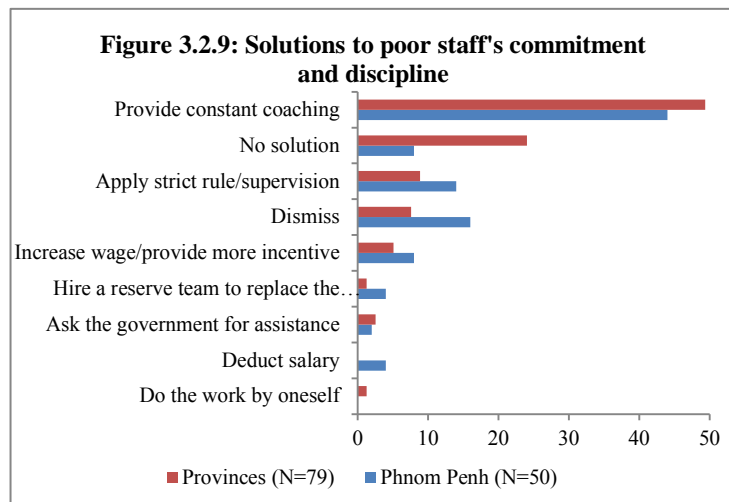
“... they don’t come to work regularly... they took the truck out at night without our approval and caused traffic accidents and they just ran away.” (Interviewee # 15, Phnom Penh, 19 December 2013)

“Some workers drank during work and did not perform their task well. Some stole my stuff such as chairs, glasses, plates, and others. I fired them when I got to know this. It happened in almost every event.. My stuff was broken during work, and no one helped taking care of it. When I blamed on my workers or fired them, I was said to be mean to them. But I had to spend on every bill and broken-stuff. I spent a lot on buying stuff to replace the broken ones.”(Interview #Kongsithacaterer, Svay Rieng, 07 April 2014)

Results from quantitative survey reveal that this issue happens mostly (67%) among low-skilled or unskilled workers. Solutions reported by firms include constant coaching among poorly disciplined staff or strict rule enforcement against them, and in worse case they are dismissed from the workplace (Figure 3.2.9).

Some other human resource related issues besides the aforementioned are also reported in order of priority such as:

- **High staff turnover:** The most cited reason for this high staff turnover is tough work. Some workers are not persistent with the hard work so they decide to leave the job. Some SMEs raised that remuneration might not be a problem causing workers to quit the job, yet the availability of low or unskilled jobs overseas as well as in the capital city could



possibly attract workers to move there. Some firms provide a decent amount of wages plus allowances for accommodation and food and even bonuses during major national events like KNY or Pchum Ben, but still workers mostly unskilled ones want to leave the job and wish to experience life overseas, particularly Thailand. To work abroad, workers could possibly earn a little more, but the work there is tougher and more demanding than that in Cambodia. This issue is reported to happen most of the time among low skilled/unskilled workers. To address this problem, most SMEs have to increase wages and incentives, and if not they have to do the work by themselves.

- **Shortage of semi-skilled/highly skilled labour/Skill mismatch:** Most of the SMEs complain that workers with the right skills (highly skilled) they need are few. Some SMEs moans that most of semi-skilled labour has moved to work abroad, particularly to Thailand. The ones that remain are unskilled or poorly educated. So far, those SMEs had no choice but hired those unskilled workers and invested more time and money to train and supervise them. Some people even did not stay for long once they knew that they could not catch up with the rest of the workers in terms of productivity due to their low skills despite being trained. Moreover, although hiring uneducated workers save costs, yet some firms already complain about the difficulty to manage those people. Some firms have to hire semi-skilled workers from the capital city, Phnom Penh or abroad when they need, but of course the wage is high. Among professional workers that are hard to find, engineering is ranked top, followed by other management related skilled workers. As one firm complains:

“When the machine is broken, we have to hire experts from Vietnam to help us as it is cheaper than hiring someone from Phnom Penh. We don’t have good local technicians here who can fix the machine if it is broken.” (Interviewee #SoaPeng, Svay Rieng, 07 April 2014)

Some SMEs raises a difficulty to find right people with the right skills for the job. Hence, they have to spend money on training of new employees or they the work by their own through self-learning. The cost of training becomes even higher if staff turnover is at the same time high. Moreover, some specific skills training are not provided at local universities or any other educational institutions, so the only solution is that new comers have to go through on-the-job training provided by their seniors. As one business owner describes:

“...in Vietnam there is already a university providing a degree on logistics. We don’t have one here. We therefore mobilize skills resource among one another to share knowledge and experience” (Interviewee # 7, Phnom Penh, 13 December 2013)

- **Low productivity:** This is not a stand-alone issue, but truly related to the above problems raised. From the interviews, low productivity is mostly reasoned by poor commitment and disciplines among workers. Another exogenous factor is low level of education of workforce. In addition, low wages and incentives as well as poor technology are also to blame for this poor productivity. Most of the SMEs provide no solutions, while some others only mention that they have to hire better skilled workers if productivity is to be increased.
- **Increasing wage:** Some SMEs complain about rising daily wage demanded by workers. While increasing minimum wage is among the causes, those SMEs also view that their workers often compare the amount they earn here with that they would have earned in Thailand had they moved to work there. Yet, those workers often ignore the like of benefits of having free accommodation and meals which may not be available for the job overseas. A few SMEs complain about rising wages and interestingly point this to the government's lack of mechanism to control labour union.

3.2.4 Products and Services

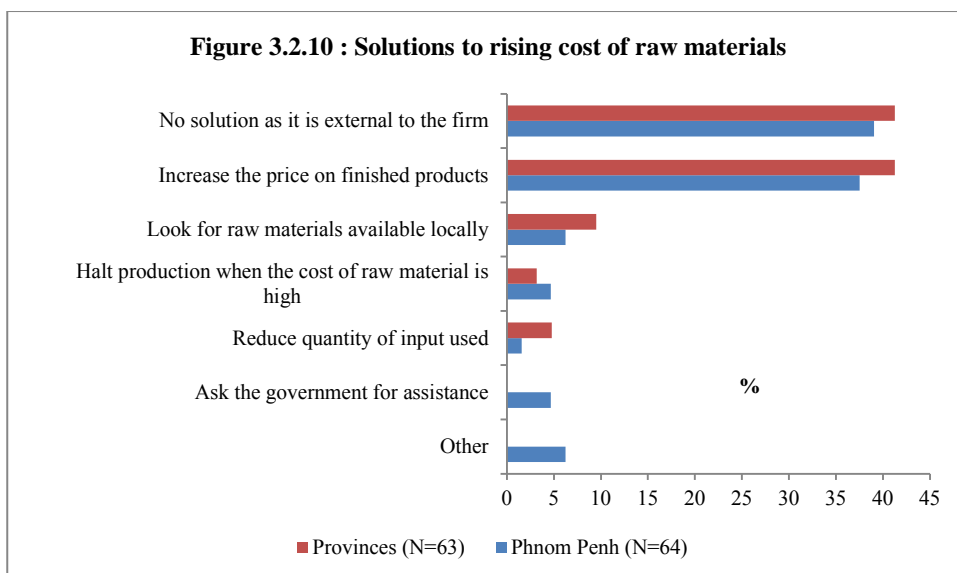
One major issue springs up which is:

- **Rising cost of raw materials:** Many manufacturing firms use more or less raw materials imported from the neighbouring countries, specifically Vietnam and Thailand. This is due to that inputs are not available locally or even if they are available, they are of limited quality or have low standard not suitable for production of high quality products demanded in the market. Moreover, those raw materials are subjected to import tariff and recent government's measure to strengthen tax collection has contributed further to the rise of tariff, making cost of production even higher among SMEs. There is even a complaint from a manufacturing firm that the import tariff of raw materials should be zero percent so that the firm could decrease the cost of production and remain competitive. As he suggests,

"...in other countries around the world, you look at Thailand for example the tariff of raw materials is zero. For Cambodia, the government imposes 17.7% tariff on that input, the rate which is the same charged to finished products. This creates a difficulty for small business like us to make profit and expand our business. I already complained this to the custom department and they replied that we don't have a law for this. Zero-tariff on inputs only applies to investments above \$2 million which are big investments. However, to promote industry in Cambodia the government should promote the small business first (Interviewee # 17, Phnom Penh, 6-12-2013)

Other SMEs also relate the causes of rising cost of raw materials to the issue of limited suppliers and monopoly, the change in demand and supply of raw materials in the world market, and the increasing prices of inputs used to produce raw materials they need for their production.

Majority of the SMEs facing the above problem does not have a solution therefore have to bear with it as it is exogenous to their firm, something beyond their control. For those who have some solutions, mostly of them have to increase the price of final products, while a few others try to look for raw materials available locally and some have shut down their production when the price of raw materials is increasing (Table 2.8).

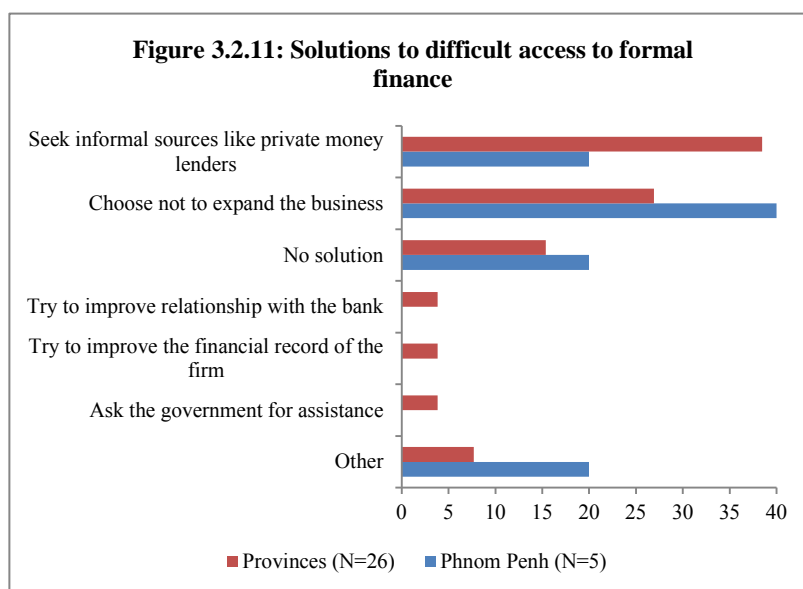


The other sub-issue within ‘products and services’ includes the following:

- **Poor quality of raw materials:** This happens among rice millers who sometimes complain about difficulties in buying good quality paddy rice. Poor quality intermediate input then leads to low quality output which is difficult to sell out or millers have to sell at a lower price.
- **Decreasing price of finished product:** This again happens among rice millers. Some of them cannot export so they have to reduce the price. Sometimes, the customers ask for discount that they find hard to deny.

3.2.5 Access to formal finance

There are reported cases of SMEs, mostly in provinces in need of finance to either expand their business or support their current business operations such as by buying a new machine to replace an old one or increasing stock of intermediate inputs when their prices decline. However, lack of collateral is cited to be the main reason barring SMEs from having access to formal finance. Second reason is poor cash flow of SMEs themselves, making the banks have less confidence on the financial health of the firms. Moreover, high interest rates charged by commercial banks often constrain those firms’ ability to borrow. Some firms cite a reason of inability to pay back the loans due to unpredictable business



outcomes they are operating. Hence, they dare not to borrow. In some cases, although a firm thinks it can afford the interest rate, the commercial banks often have borrowing cap which limits the amount of money the firms can borrow. The banks allow the firm to borrow between 10-20% of the firm's value of total asset. This hinders such firm to generate enough capital to support their business operation. Some loans also have short maturity date lasting around 7-8 months. Firms need to ensure that they can pay back the principle with interest by the date.

With all these constraints, SMEs could only seek informal sources of finance (for example private money lenders) when they need to invest. Some choose not to expand the business while some others try to improve the relationship with the banks as well as financial standard within their company (Figure 3.2.11).

3.2.6 Other Issues

Besides the main areas described above, a few SMEs are also fraught with the following difficulties worth to be mentioned as follows:

- ***Inability to acquire new technology due to cost:*** Cost is the major factor constraining firms to acquire new technology. New technology does not mean only new machines firms purchase but it also requires skilled workers to operate those machines. Therefore, total cost to get the new technology and have it operated is very high. Furthermore, in some cases, SMEs do not have access to information on new technology they can use to improve efficiency in production. They suggest the government play more active role in helping SMEs access to those information.

The types of technology that SMEs need are mostly equipment used in production, high-end (advance) technology, technology related to quality test, management know-how and research and development.

- ***Generally lack of technical capacity (technology adoption, managerial skills and business development, research and development):*** Majority of SMEs managers/owners seem to have limited ability to acquire and upgrade new technology into their production. Most of them operate using conventional knowledge. They also perceived that acquiring new technology is not profitable and competitive enough in the current situation since the adoption simply adds more to cost of production, thus, sale prices. They do not see it as a good investment given short-term financial hardship. The types of technology that they need are mostly related to production equipment, followed by high-end production technology, R&D, management know-how, and quality assurance related technologies. SMEs feel that assistance from the government on new high-end technology in order to improve productivity and upgrade quality of their products is needed.
- ***Limited access to information:*** In Phnom Penh, this has been raised as a main concern by two consulting firms. One of them relies much on genuine information from its clients and verification information from local authorities such as village or commune chiefs. One example cited is the verification of a land certificate in which local authorities issued five different land certificates to a client, making a lot of trouble for the consulting firm to verify. The other one find it hard to access information about new market. The firms, to address the issue, have to incur more cost to gather necessary information from other sources including the client's friends, relatives as well as neighbors.

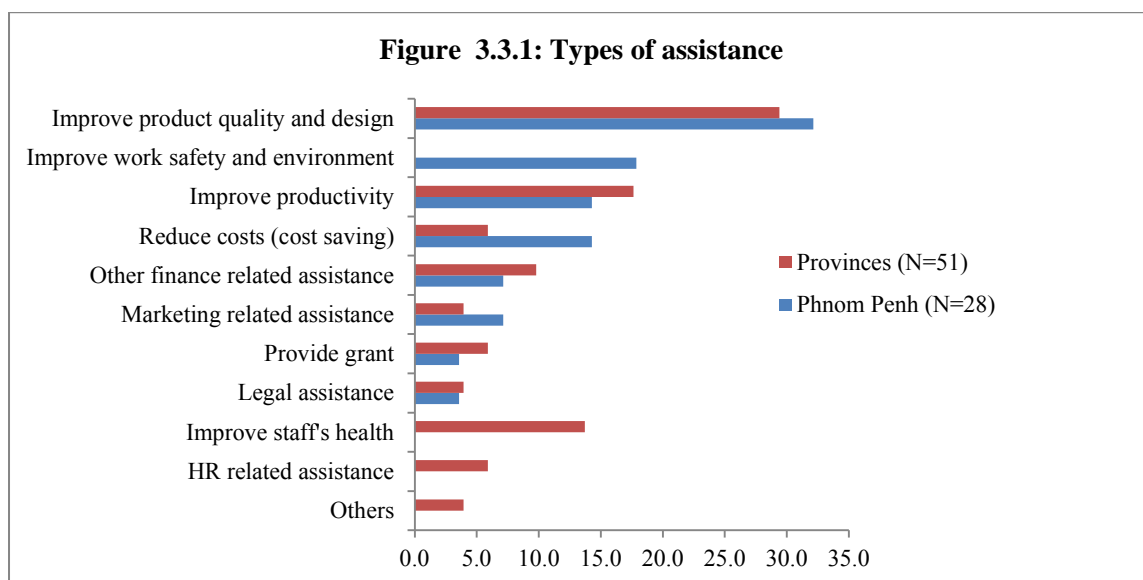
In provinces, Some SMEs need to improve their business skills, but fail to have enough information related to available training courses. Other firms also raise an issue of a

difficulty to gain access to market information useful for their businesses owing to the fact that the source of getting the information is too few and sometimes not reliable. Rice millers, for instance, need to know the demand of rice in domestic and international markets, so that they can plan their production. Hotels also need to get accurate data on number of tourists visiting their locality.

- **Global financial and economic crisis 2008:** Most SMEs interviewed have been affected by the global financial and economic crisis taking place in late 2008. However, only one of them puts this issue as the main concern constituting to company's slow down at present. The firm produces an input for local textile factories for export. Hence, the declining global demand for textiles has put the company in a difficult situation.
- **Political deadlock:** The current political situation is not very well conducive to making business and hence the need to settle political differences between the two political parties is essential.

3.3 Assistance, Needs and Further Requests

Only a few SMEs owners/managers in Phnom Penh and other provinces have received or sought outside assistance (public and private) to help them address internal constraints in production and management. The results show that only 12 % of 446 surveyed firms have received or sought outside assistance from the government, development partners and private consulting firms. Recipient SMEs have received or sought helps mainly on how to improve product quality and design, safe working environment and productivity enhancement (Figure 3.3.1). 80 % of such assistance comes from development partners indicating the limited and still insufficient support by the government and private consulting firms in terms of Business Development Services. SMEs in provinces (22 %) seem to receive more assistance from the government compared to those in Phnom Penh (10 %). Almost all surveyed firms have never sought external business support for two major reasons: (1) 70 % of them say they do not know where to seek helps and (2) 21 % think that they do not need any assistance. The results seem to indicate that there are demands for supports from SMEs owners/managers but the lack of information and inadequate awareness raising about the existence of the assistance are constraining their access.



Public support is mainly provided by Ministry of Industry, Mine and Energy and Ministry of Commerce. The government in its 2005-10 Small and Medium Enterprise Development Framework highlighted 4 pillars—regulatory and legal framework, access to finance, SME support activities and policy coordination—designed to promote friendly business environment contributing to growth, productivity and employment. The third pillar, SME support activities, aims to identify and source existing Business Development Services (BDS); to improve to domestic and export markets through better information, market research, product development and promotional activities; to improve availability and awareness among SMEs of technology and technical and managerial training; and to assist SMEs to work together and cooperate in integrated networks to improve their competitiveness and access to local and international markets (RGC 2005). The supports were also papered in the Strategic Framework (2010-15) by the General Department of Industry, Ministry of Industry, Mine and Energy. Nonetheless, actual support programmes have been slow and unsatisfactory with limited scale and scope.

The role of bilateral and multi-lateral development partners—such as the World Bank, Asian Development Bank, Japanese International Cooperation Agency, KOICA, UNIDO, UNESCAP, JETRO—and SMEs associations and federations (CAMFFA and FASMEC) has been increasingly crucial. Assurances are in the forms of finance and management. For instance, the World Bank is running a project which partly (50%) subsidises operation cost proposed by qualified and eligible SMEs. The grant is a giveaway without interest rate. One of JICA projects, which started early 2013, focuses on business consultation to SMEs owners/managers who need helps to improve efficiency and effectiveness of production and overall management. The project lasts for 2 years. Some SMEs comment:

“I have received a funding award called TDF (Technology Development Fund) from ADB-MIME project to support SMEs on technology development. The project aims to help SMEs upgrade their production technology so that productivity and production capacity can be enhanced. This is a pilot project, meaning if it is done successfully, it should be continued in the future.” (Interviewee # 6, Phnom Penh, 3 December 2013)

“I use to receive assistance from KOICA under Green Industry Programme aiming at providing technical support to SMEs. The target SMEs were those operating along the river bank because it is the most vulnerable location for environmental pollution. There many applicants (over a thousand) at the time and only a dozen were selected. I was awarded a bronze medal. They helped with technology by sending experts to train us about how to save costs, minimize environmental effects, ensure safety and make workers feel comfortable at the workplace.” (Interviewee # 13, Phnom Penh, 12 December 2013)

Support services provided by private consulting firms are hardly utilised due to the perceived high cost. This remains a challenge for owners/managers and all stakeholders who are pushing for the role of private firms in business development support.

63% and 38% of surveyed SMEs owners/managers perceive that supports they have received are very useful and useful, respectively. However, it is premature to conclude that these programmes statistically significantly help improve production and management of participating SMEs, for there has been insufficient monitoring and evaluation mechanism to systematically assess support programmes. In addition, SME owners/managers who have received such public support are medium-sized and well-established. Micro enterprises have high probability of not receiving support. Some SMEs are discouraged since their complaints to MIME have not been seriously addressed.

Figure 3.3.2 illustrates business needs that SME owners/managers perceive crucial to enhance growth and competitiveness. 23% of the needs are to have more financial resources to expand the business. Other major needs include more information on markets, technologies and laws (17%), the need for the adoption of new technology to improve productivity and reduce costs (13%) and more available sources of finance (11%). Interestingly, while many firms in Phnom Penh are in need for advanced technology, those in provinces are eager to see more available sources of finance to get access to as well as more technical assistance with low cost either from the government or development partners. This suggests that SMEs in provinces are facing more with the constraint of finance particularly for expanding their business, compared to firms in Phnom Penh. The demand for more productive workforce (10%) is another common need raised, yet such demand seems to be more prevalent among medium-sized firms in Phnom Penh.

Table 3.3.1 further illustrates the needs disaggregated by enterprise size. The demand for more financial resource seems to be common among micro enterprises (38% and 40% for micro manufacturing and services, respectively). However, Results seem to suggest that although access to available and affordable finance is still a constraint, access to finance has been improved and largely not the biggest concern among surveyed firms, at least for medium sized. The increased availability of financial resources is evident by the rise in total liquidity averaging 13% per annum between 2010 and 2012. Credit to private sector also increased by 23% annually in the same period (NBC 2010, 2011, 2012).

The two major needs for medium manufacturing enterprises are more information about markets, technology, laws and regulation (21%) and the adoption of advanced technology to improve productivity and cost reduction (28%). It is largely clear from both the qualitative interviews and the survey that majority of manufacturing SMEs still lack access to technological and managerial advancement. Most are still using conventional ways of production employing more labour and investing insufficient time and resources in Research and Development (R&D). Their competitive advantage is constrained by the inability to improve product design relative to imported goods. A few reasons explain the status quo. First factor is low education of the owner. The owner simply utilizes his limited knowledge to keep his production running. Second, there seems to be common trends among SMEs' owners/managers that R&D to improve the product design is just costly and time-consuming further increasing cost of production and making the products less competitive. Thus, evidence seems to suggest the belief that investing in R&D is not beneficial and profitable for company's expansion and survival.

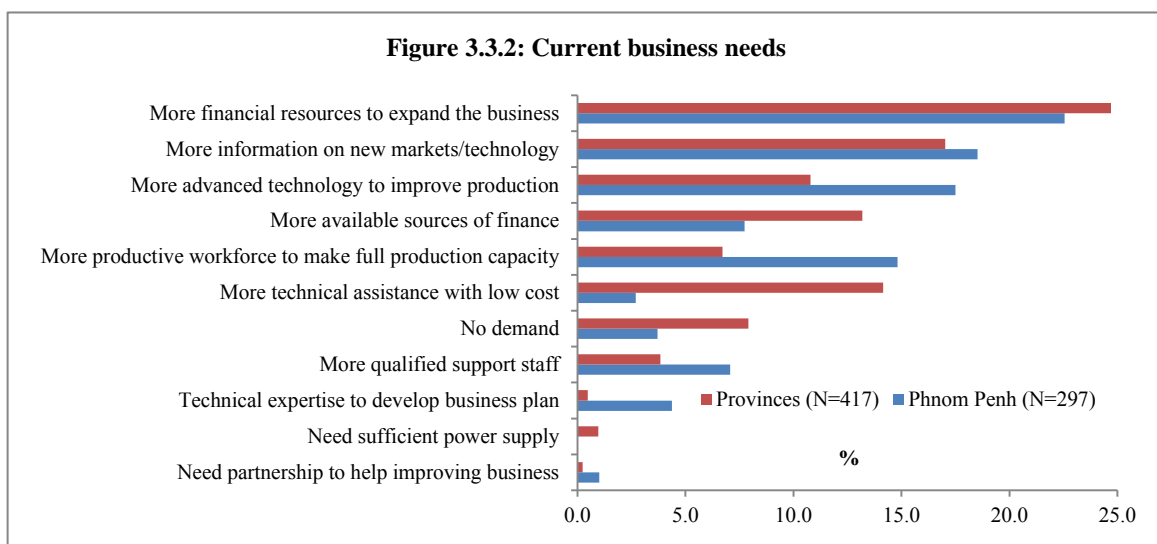


Table 3.3.1: Business needs firm type (%)

Business needs	MiM	SM	MM	MiS	SS	MS
More financial resources to expand the business	37.5	22.4	13.6	40.0	20.0	22.0
More information about new markets/technologies/laws	12.5	18.3	20.5	0.0	14.4	29.3
More advanced technology to improve productivity	12.5	13.6	25.0	20.0	10.0	7.3
More available sources of finance	14.1	10.8	11.4	5.0	9.4	9.8
More productive workforce to make full production capacity	6.3	10.5	13.6	5.0	8.9	9.8
More technical assistance with low cost	3.1	10.0	4.6	0.0	12.8	2.4
No demand	6.3	4.1	2.3	15.0	9.4	7.3
More qualified support staff	3.1	4.4	6.8	10.0	4.4	7.3
Technical expertise to develop business plans	3.1	2.06	0.0	0.0	2.2	2.4
Number of observations	64	389	44	20	180	41

Note: MiM=Micro manufacturing; SM=Small manufacturing; MM=Medium manufacturing; MiS=Micro service; SS=Small service; MS=Medium service

Table 3.3.2 highlights major requests SMEs would want the government to intervene and partake in the efforts to enhance growth and productivity.

Table 3.3.2: Further Requests from SMEs (%)

Request	All	MiM	SM	MM	MiS	SS	MS
Design more SMEs support policies	16.0	20.5	14.1	22.6	13.0	14.1	29.6
Reduce electricity tariff	13.7	19.3	13.3	17.7	17.4	12.0	9.1
Ensure fair competition among SMEs	10.0	10.8	10.6	8.1	8.7	10.4	2.3
Provide technical expertise (i.e. technology, marketing, finance, job markets, etc)	9.1	6.0	10.6	12.9	4.4	6.6	9.1
Eliminate unofficial payments	7.3	6.0	0.8	0.0	4.4	10.0	4.6
Provide more information (i.e. new market, technology, laws, etc) to SMEs	7.3	4.8	8.9	6.5	4.4	4.2	13.6
Provide grant to SMEs	5.1	8.4	6.03	3.2	4.4	3.3	2.3
Reduce electricity connection fee	3.3	4.8	3.1	4.8	0.0	2.9	4.6
Reduce tax on import and export	3.1	1.2	3.1	3.2	4.4	3.3	4.6
Reduce migration rate	3.1	0.0	3.9	1.6	0.0	3.3	2.3
Reduce electricity penalty fee	1.6	6.0	0.8	0.0	4.4	1.2	4.6
No suggestion	3.0	2.4	3.1	0.0	8.7	3.7	0.0
Number of observations	934	83	481	62	23	241	44

Note: MiM=Micro manufacturing; SM=Small manufacturing; MM=Medium manufacturing; MiS=Micro service; SS=Small service; MS=Medium service

Suggestions below are common among firms in Phnom Penh and in the provinces including:

1. The government needs to provide more supports—especially in finance, management, and technical and technological adoptions. The request seems to be common for all surveyed firms regardless of size. However, firms in the provinces reported requesting more supports than those in Phnom Penh. This seems to indicate that SMEs should have been favoured at least in the medium-term.
2. Further reduce electricity price and other electricity-related costs and minimise, or even eliminate, outages. The request is more common among surveyed firms in Phnom Penh. It has been a shared recommendation SMEs' owners/managers have echoed many times to the Ministry of Industry, Mine and Energy; satisfactory salutation has yet to be provided. This issue needs to be prioritised because the upcoming implementation of AEC (2015) will have significant competitive effects on domestic producers if high electricity price and insufficient supply continue. In addition, EDC needs to inform SMEs about planned outages because un-informed cuts-off seriously affect production and product quality. EDC also needs to work to reduce as much as possible un-planned outages. Business community, during the 17th Government-Private Sector Forum, also suggested the government to reduce electricity price to KHR500/kWh. Nonetheless, the government, in the meantime, would not be able to fulfil the demand given high production and distribution costs relative to those in Thailand, Lao PDR and Vietnam (CNV 2014). Hydro-power, coal and grids are the major sources of Cambodia's electricity supply.
3. Eliminate unofficial payments that some government officers charge from business owners/managers. The under-the-table fees simply create bottlenecks in business operation jeopardising competitiveness. Moreover, payments are made not only to one line ministry or department but numerous. The practice has almost become a tradition. This is an important factor that could potentially jeopardise firms' competitiveness and the just competition that owners/managers would demand for.
4. Continue to ensure product quality and to guarantee fair competition. MIME needs to take a tougher stance on producers who do not comply with required rules and regulations and product standards. Most SMEs' owners/managers expressed their support for the government's effort to reform tax regime and improve collection. Nonetheless, related rules and regulation have to be applied to all business enterprises to ensure that they compete on a level playing. Ministry of Commerce has recently drafted a competition law aiming at protecting consumers and ensuring competitive business practices. This is a positive move by the government, yet effective implementation remains questionable.
5. Further combat illegal products imported mainly from Vietnam. This has been a factor that constitutes unfair competition and gradually destroys good businesses.
6. The issue of migration should be addressed as this links to the shortage of labour in home country, especially in provinces.

Appendix (7) Project Activities

(7)-1 Policy formulation component

(7)-1-10~13 Prakas:

10: Planning and SME Promotion Dept.:

11: SME Dept.:

12: Handicraft Dept.:

13: NPCC:

KINGDOM OF CAMBODIA

NATION RELEGION KING

333

**Ministry of Industry & Handicraft
No. 184 MIH/2014**

PRAKAS

On

**The Organization and Functioning of the Department of Planning
And SME Promotion**

333

Senior Minister, Minister, Ministry of Industry & Handicraft

Pursuant to:

- The Constitution of the Kingdom of Cambodia;
- Royal Decree No. NS/RD/0913/903, dated September 24, 2013, on the Appointment of the Royal Government of Cambodia;
- Royal Decree No. NS/RD/1213/1393, dated December 21, 2013, on the Adjustment and Supplement component of the Royal Government of Cambodia;
- Royal *Kram* No. 02/NS/94, dated July 20, 1994, promulgating the Law on the Organization and Functioning of the Council of Ministers;
- Royal *Kram* NS/RK/1213/018, dated December 06, 2013, promulgating the law on the Establishment of the Ministry of Industry and Handicraft;
- Royal *Kram* ND/RK/0607/013, dated June 24, 2007, promulgating the law on the Standard of Cambodia;
- SubDecree No.575 SD, dated December 24, 2013, on the Organization and Functioning of the Ministry of Industry and Handicraft;
- Necessity of the Ministry;

DECISION

Article 1: This Prakas is aimed to determine the organization and functioning of the Department of Planning and SME Promotion.

Article2: This Prakas consists of the following objectives:

- Defining mission and structure of the Department of Planning and SME Promotion;
- Defining roles and responsibilities of bureaus (offices) of the Department of Planning and SME Promotion;
- Maintaining quality and efficient result of the performance of the Department of Planning and SME Promotion.

Article3: The roles and responsibilities of the Department of Planning and SME Promotion are as follows:

- Being an executive body of the Department General of SME and Handicraft on planning and SME promotion;
- Developing policy, strategy, direction and planning for SME development align with national strategic plan of the government;
- Developing law and other regulations relevant to SME development;
- Reviewing, monitoring and evaluating the implementation of policy, strategy and joint planning of SME sector;
- Collaborating with line ministries, institutions, national and international organizations and developing partners in promoting SME development;
- Cooperating with technical entities to promote and support entrepreneurship, innovation, technology, invention and initiative as well as promoting the consumption of green technology in SME sector;
- Proposing, coordinating and monitoring the implementation of public investment on SME sector;
- Executing inspection on SME and handicraft;
- Cooperating with line ministries, institutions to receive and provide data for statistical planning;
- Consolidating, compiling data and statistics and publishing bulletin for SME and Handicraft;
- And implementing other tasks assigned by the management team.

Article4: The Department of Planning and SME Promotion shall be governed by a Director who shall be assisted by Deputy-Directors.

Article5: The Department of Planning and SME Promotion is composed of four subordinated bureaus (offices):

- The bureau of Communication and Training
- The bureau of Planning and Statistics
- The bureau of Promotion, Support and Development
- The bureau of Inspection

Article6: Each bureau shall be governed by a chief who shall be assisted by vice-chiefs.

Article 7: The roles and responsibilities of each bureau as follow:

1).The bureau of Communication and Training

A. Roles

The bureau of Communication and Training is an executive body of the Department on administrative letter, public relations; promoting implementation, management and development of human resources, consolidating job performance and general administration.

B. Responsibilities

The responsibilities of the bureau of Communication and Training are as follows:

- Reviewing proposals/suggestions from the owners of enterprises, handicraft before submitting it to relevant technical units;
- Cooperating, promoting law, regulations relevant to the management of handicraft development to the public;
- Managing and organizing the implementation of human resources training program;
- Developing action plan and budget plan of the department
- Managing internal affair of the department, making attendance list, consolidating, evaluating job performance and the quality and capacity of officials;
- Managing library, filing documents, law, sub-decree, policies and other relevant letters;
- Managing logistics and office supply of the department;
- Consolidating report of the department;
- And executing other tasks assigned by the director of the department.

2). The bureau of Planning and Statistics

A). Roles

The bureau of Planning and Statistics is an executive body of the department on planning, statistics, study and research and development of SME and Handicraft.

B). Responsibilities

The responsibilities of the bureau of Planning and Statistics are as follows:

- Leading the formulation of policy, strategy, direction and planning of SME sector and handicraft;
- Participating in formulating law and other regulations relevant to the development of SME and Handicraft;
- Leading the preparation of planning, priority and monitoring and evaluation of the implementation of SME and handicraft aligned with the national strategic plan and public investment of the government;
- Reviewing, monitoring and evaluating the implementation of policy, strategy, and implementing joint planning of SME and handicraft;
- Consolidating and compiling date, statistics of SME and handicraft;
- Identifying, cooperating, organizing program and national and international cooperation projects in promoting the development of SME and handicraft;
- Researching the situation and progress of SME and handicraft in the country, region and in the globe to develop strategic plan for promotion;
- Developing and updating homepage of the Department General of SME and Handicraft;
- Organizing and compiling text to promote homepage or by other means;
- And executing other tasks assigned by the director of the department.

3). The bureau of Promotion, Support and Development

A). Roles

The bureau of Promotion, Support and Development is an executive body of the department on promotion, supporting and developing SME and handicraft.

B). Responsibilities

The responsibilities of the bureau of Promotion, Support and Development are as follows:

- Collaborating in promoting, supporting the implementation of capacity building program on Entrepreneurship, innovation, technology, invention, initiatives, productivity, competitiveness, marketing and access to finance as well as promoting the consumption of green technology in SME and handicraft;
- Organizing training on management and development of SME and handicraft;
- Coordinating with line ministries, institutions, public and private sector, associations, centers, educational and training institutions at all level in supporting and promoting entrepreneurship of SME and handicraft;
- Promoting, enhancing and mainstreaming SME and handicraft in school curriculum in each public and private educational institutions;
- Promoting, enhancing and advertising products and publishing bulletin of SME and handicraft;
- And executing other tasks assigned by the director of the department.

4). The bureau of Inspection

A). Roles

The bureau of Inspection is an executive body of the department on the inspection of SME and handicraft.

B). Responsibilities

The responsibilities of the bureau of inspection are as follows:

- Organizing inspection program in each SME and handicraft;
- Identifying and defining risk of SME and handicraft and priority products for inspection;
- Strengthening inspection performance in compliance with law and regulations of SME and handicraft;
- Cooperating, settling and coordinating business issues of SME and handicraft;
- Cooperating, settling all irregularities of SME and Handicraft;
- And executing other tasks assigned by the director of the department.

Article 8: The appointment of each officials in the Department of Planning and SME Promotion is mandated by the director of the department.

Article 9: Prakas No. 194 MIME/DSIH, dated February 22, 2011 on the Organization and Functioning of the Department of Small Industry and Handicraft and any provision contrary this law shall be abrogated.

Article 10: Director of Cabinet of Minister, Directors General, Directors of Directorate, Director of Institute, and Director of the Center, Directors of the Department of Planning and SME Promotion and all subordinated entities of the ministry shall implement this Prakas effectively from the date of signature.

Phnom Penh, March 24, 2014
Senior Minister

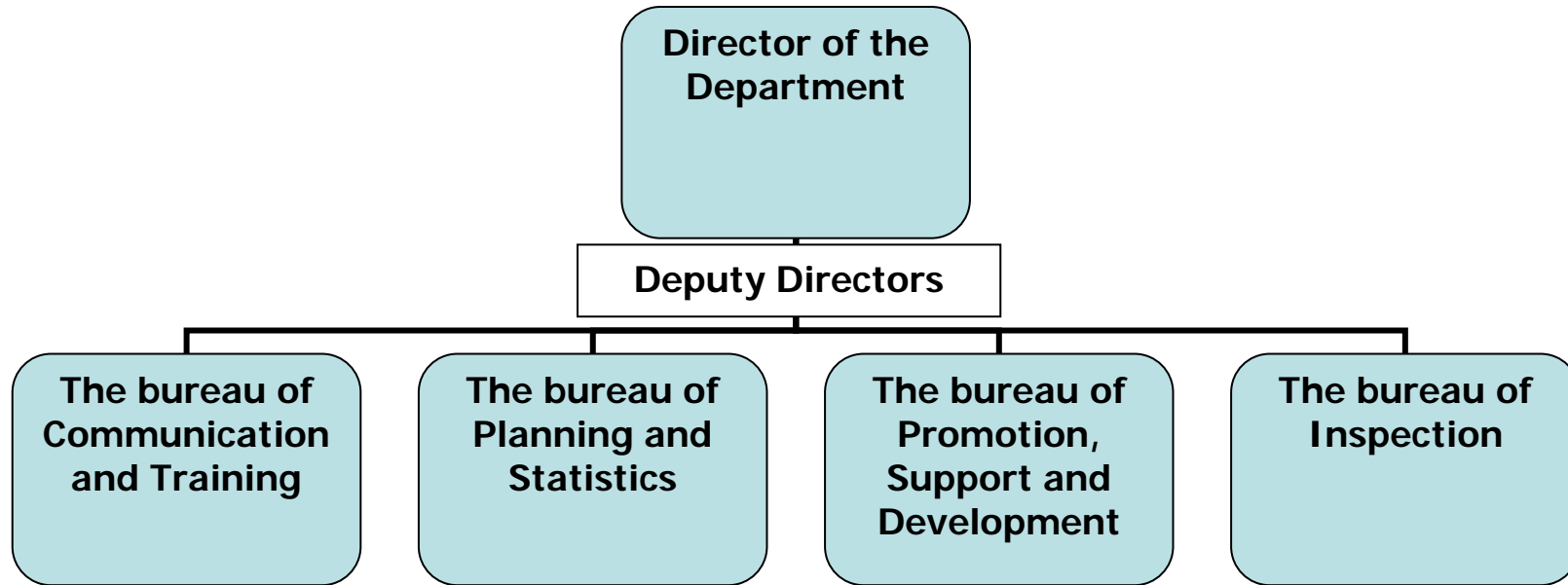
(Signed and sealed)

CHAM PRASIDH

CC:

- Council of Ministers
- Ministry of Economy and Finance
- Ministry of Public Service
- Relevant Ministries/Institutions
- "For information"**
- As stated in Article 10
- "For Implementation"**
- Document-Archive

Organizational Chart of the Department of Planning and SME Promotion
(Appendixes of Prakas No.184 MIH/2014, dated March 24th, 2014)



KINGDOM OF CAMBODIA

NATION RELEGION KING

333

**Ministry of Industry & Handicraft
No. 185 MIH/2014**

PRAKAS

On

**The Organization and Functioning of the Department of Small Medium
Enterprise (SME)**

333

Senior Minister, Minister, Ministry of Industry & Handicraft

Pursuant to:

- The Constitution of the Kingdom of Cambodia;
- Royal Decree No. NS/RD/0913/903, dated September 24, 2013, on the Appointment of the Royal Government of Cambodia;
- Royal Decree No. NS/RD/1213/1393, dated December 21, 2013, on the Adjustment and Supplement component of the Royal Government of Cambodia;
- Royal *Kram* No. 02/NS/94, dated July 20, 1994, promulgating the Law on the Organization and Functioning of the Council of Ministers;
- Royal *Kram* NS/RK/1213/018, dated December 06, 2013, promulgating the law on the Establishment of the Ministry of Industry and Handicraft;
- Royal *Kram* ND/RK/0607/013, dated June 24, 2007, promulgating the law on the Standard of Cambodia;
- SubDecree No.575 SD, dated December 24, 2013, on the Organization and Functioning of the Ministry of Industry and Handicraft;
- Necessity of the Ministry;

DECISION

Article 1: This Prakas is aimed to determine the organization and functioning of the Department of Small Medium Enterprise.

Article2: This Prakas consists of the following objectives:

- Defining mission and structure of the Department of SME
- Defining roles and responsibilities of bureaus (offices) of the Department of SME;
- Maintaining quality and efficient result of the performance of the Department of SME.

Article3: The roles and responsibilities of the Department of SME are as follows:

- Being an executive body of the Department General of SME and Handicraft on SME affairs;
- Implementing policy, strategic plan for SME development align with national strategic plan of the government;
- Collaborating with other countries, institutions, national and international organizations in promoting SME development;
- Cooperating with technical entities to promote and support entrepreneurship, innovation, technology, invention and initiative as well as promoting the consumption of green technology in SME sector;
- Disseminating and developing SME sector;
- Reviewing, evaluating and approving on private sector investment projects of SME;
- Managing and monitoring the registration and operation of SME;
- Preparing Prakas on establishment and certificate on the operation of SME;
- Preparing and registering SME products;
- Certifying that category and quantity of raw-materials used by SME shall be complied with technical standard;
- Issuing any certificates relevant to SME production;
- And implementing other tasks assigned by the director of the department.

Article4: The Department of SME shall be governed by a Director who shall be assisted by Deputy-Directors.

Article5: The Department of SME is composed of four subordinated bureaus (offices):

- The bureau of Communication and Training
- The bureau of Regulation
- The bureau of Planning and Statistics
- The bureau of Consultation and Information

Article6: Each bureau shall be governed by a chief who shall be assisted by vice-chiefs.

Article 7: The roles and responsibilities of each bureau as follow:

1).The bureau of Communication and Training

A. Roles

The bureau of Communication and Training is an executive body of the Department on administrative letter, public relations; promoting implementation, management and development of human resources, consolidating job performance and general administration.

B. Responsibilities

The responsibilities of the bureau of Communication and Training are as follows:

- Reviewing proposals/suggestions from the owners of enterprises, handicraft before submitting it to relevant technical units;
- Cooperating, promoting law, regulations relevant to the management of handicraft development to the public;
- Managing and organizing the implementation of human resources training program;
- Developing action plan and budget plan of the department
- Managing internal affair of the department, making attendance list, consolidating, evaluating job performance and the quality and capacity of officials;
- Managing library, filing documents, law, sub-decree, policies and other relevant letters;
- Managing inventory and office supply of the department;
- Consolidating report of the department;
- And executing other tasks assigned by the director of the department.

2). The bureau of Regulation

A). Roles

The bureau of Regulation is an executive body of the department of SME on regulation and management of the operation and function of SME.

B). Responsibilities

The responsibilities of the bureau of Regulation are as follows:

- Formulating law and regulations relevant to SME management;
- Evaluating, consulting and checking name on private investment project of SME;
- Certifying that category and quantity of raw-materials used by SME shall be complied with technical standard;
- Preparing Prakas on establishment, and certificate on the operation of SME;
- Preparing and registering SME products;
- Managing, monitoring, reviewing and regulation in compliance with the law on Manufacturing and Handicraft Management and other relevant supporting documents;
- And executing other tasks assigned by the director of the department.

3). The bureau of Planning and Statistics

A). Roles

The bureau of Planning and Statistics is an executive body of the department on planning, information technology management, statistics and data of SME.

B). Responsibilities

The responsibilities of the bureau of Planning and Statistics are as follows:

- Collaborating with line ministries, institutions, national and international organizations in promoting SME development;
- Cooperating with technical entities to promote and support entrepreneurship, innovation, technology, invention and initiative in SME sector;
- Developing strategic plan in developing SME;
- Collecting and managing statistics, list of SME products;
- Making reports and disseminating statistics and SME data;
- Classifying data based on the category of SME;
- Consolidating reports on performance evaluation and on the progress of SME;
- Managing and updating information technology system and database;
- Coordinating in creating SME cluster, SME community and SME federation in developing SME;
- Monitoring the implementation of decentralization and deconcentration on SME affair;
- And executing other tasks assigned by the director of the department.

4). The bureau of Consultation and Information

A). Roles

The bureau of Consultation and Information is an executive body of the department on the consultation and information on SME affairs.

B). Responsibilities

The responsibilities of the bureau of Consultation and Information are as follows:

- Disseminating and developing SME;
- Reviewing and creating enabling environment for the establishment of SME;
- Preparing and fulfilling the application form of the establishment of SME;
- Being capable of receiving training, accessing to finance, market, technique and technology for SME;
- Resolving and cooperating with relevant entities to facilitate business operation to SME;
- And executing other tasks assigned by the director of the department.

Article 8: The appointment of each officials in the Department of SME is mandated by the director of the department.

Article 9: Prakas No. 194 MIME/DSIH, dated February 22, 2011 on the Organization and Functioning of the Department of Small Industry and Handicraft and any provision contrary this law shall be abrogated.

Article 10: Director of Cabinet of Minister, Directors General, Directors of Directorate, Director of Institute, and Director of the Center, Directors of the Department of SME and all subordinated entities of the ministry shall implement this Prakas effectively from the date of signature.

Phnom Penh, March 24, 2014
Senior Minister

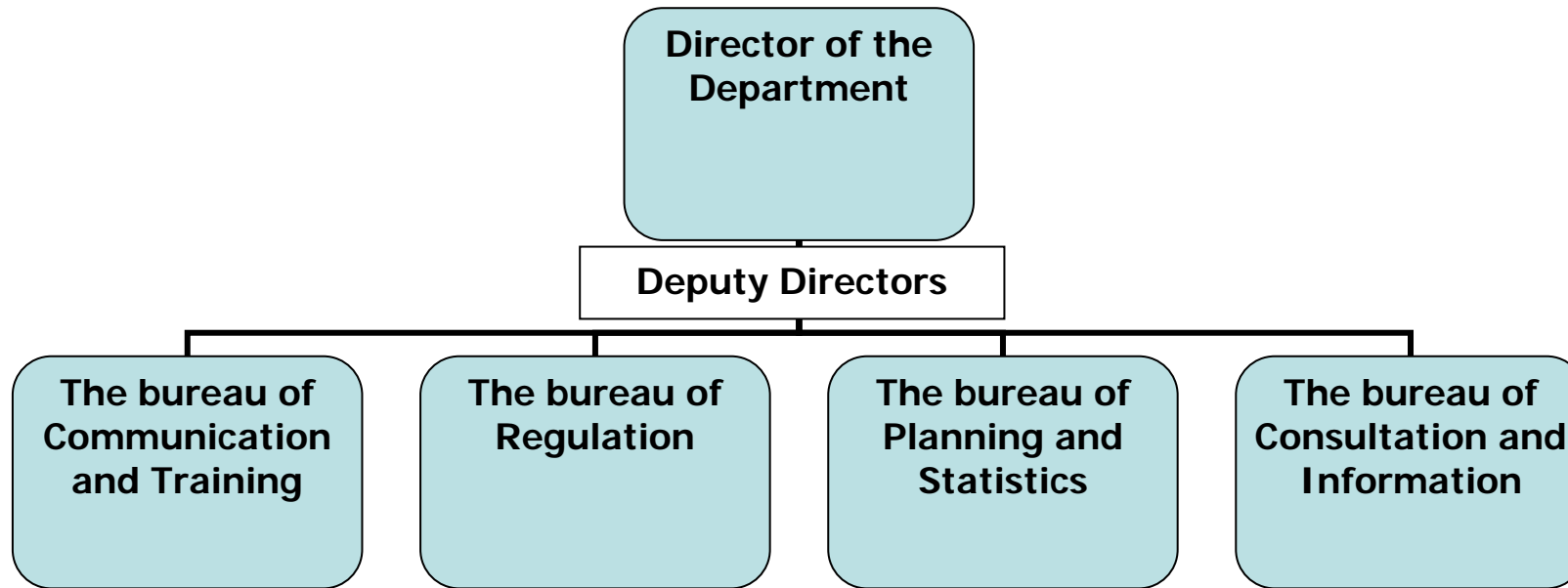
(Signed and sealed)

CHAM PRASIDH

CC:

- Council of Ministers
- Ministry of Economy and Finance
- Ministry of Public Service
- Relevant Ministries/Institutions
 "For information"
- As stated in Article 10
 "For Implementation"
- Document-Archive

Organizational Chart of the Department of SME
(Appendixes of Prakas No.185 MIH/2014, dated March 24th, 2014)



KINGDOM OF CAMBODIA

NATION RELEGION KING

333

**Ministry of Industry & Handicraft
No. 183 MIH/2014**

PRAKAS

On

The Organization and Functioning of the Department of Handicraft Affairs

333

Senior Minister, Minister, Ministry of Industry & Handicraft

Pursuant to:

- The Constitution of the Kingdom of Cambodia;
- Royal Decree No. NS/RD/0913/903, dated September 24, 2013, on the Appointment of the Royal Government of Cambodia;
- Royal Decree No. NS/RD/1213/1393, dated December 21, 2013, on the Adjustment and Supplement component of the Royal Government of Cambodia;
- Royal *Kram* No. 02/NS/94, dated July 20, 1994, promulgating the Law on the Organization and Functioning of the Council of Ministers;
- Royal Kram NS/RK/1213/018, dated December 06, 2013, promulgating the law on the Establishment of the Ministry of Industry and Handicraft;
- Royal Kram ND/RK/0607/013, dated June 24, 2007, promulgating the law on the Standard of Cambodia;
- SubDecree No.575 SD, dated December 24, 2013, on the Organization and Functioning of the Ministry of Industry and Handicraft;
- Necessity of the Ministry;

DECISION

Article 1: This Prakas is aimed to determine the organization and functioning of the Department of Handicraft Affairs.

Article2: This Prakas consists of the following objectives:

- Defining mission and structure of the Department of Handicraft Affairs;
- Defining roles and responsibilities of bureaus (offices) of the Department of Handicraft Affairs;
- Maintaining quality and efficient result of the performance of the Department of Handicraft Affairs.

Article3: The roles and responsibilities of the Department of Handicraft Affairs are as follows:

- Being an executive body of the Department General of SME and Handicraft on handicraft affairs;
- Implementing policy, strategic plan for SME development align with national strategic plan of the government;
- Executing collaboration with relevant ministries, institutions, national and international organizations in promoting Handicraft development;
- Cooperating with technical entities to promote and support entrepreneurship, innovation, technology, invention and initiative as well as promoting the consumption of green technology in Handicraft sector;
- Disseminating and developing Handicraft sector;
- Reviewing, evaluating and approving on private sector investment projects of handicrafts;
- Managing and monitoring the registration and operation of handicrafts;
- Preparing Prakas on establishment and certificate on the operation of handicrafts;
- Preparing and registering handicraft products;
- Certifying that category and quantity of raw-materials used by handicraft shall be complied with technical standard;
- Issuing any certificates relevant to handicraft production;
- Managing and developing salt fields;
- And implementing other tasks assigned by the management team.

Article4: The Department of Handicraft shall be governed by a Director who shall be assisted by Deputy-Directors.

Article5: The Department of Handicraft Affairs is composed of five subordinated bureaus (offices):

- The bureau of Communication and Training
- The bureau of Regulation
- The bureau of Planning and Statistics
- The bureau of Consultation and Information
- The bureau of Managing and developing salt fields.

Article6: Each bureau shall be governed by a chief who shall be assisted by vice-chiefs.

Article 7: The roles and responsibilities of each bureau as follow:

1).The bureau of Communication and Training

A. Roles

The bureau of Communication and Training is an executive body of the Department on administrative letter, public relations; promoting

implementation, management and development of human resources, consolidating job performance and general administration.

B. Responsibilities

The responsibilities of the bureau of Communication and Training are as follows:

- Reviewing proposals/suggestions from the owners of enterprises/handicrafts before submitting it to relevant technical units;
- Cooperating, promoting law, regulations relevant to the management of handicraft development to the public;
- Managing and organizing the implementation of human resources training program;
- Developing action plan and budget plan of the department
- Managing internal affair of the department, making attendance list, consolidating, evaluating job performance and the quality and capacity of officials;
- Managing library, filing documents, law, sub-decree, policies and other relevant letters;
- Managing logistics and office supply of the department;
- Consolidating report of the department;
- And executing other tasks assigned by the director of the department.

2). The bureau of Regulation

A). Roles

The bureau of Regulation is an executive body of the department of SME on regulation and management of the operation and function of handicrafts.

B). Responsibilities

The responsibilities of the bureau of Regulation are as follows:

- Formulating law and regulations relevant to handicraft management;
- Evaluating, consulting and checking name on private investment project of handicrafts;
- Certifying that category and quantity of raw-materials used by handicrafts shall be complied with technical standard;
- Preparing Prakas on establishment, and certificate on the operation of handicrafts;
- Preparing and registering handicraft products;
- Managing, monitoring, reviewing and regulation in compliance with the law on Manufacturing and Handicraft Management and other relevant supporting documents;
- And executing other tasks assigned by the director of the department.

3). The bureau of Planning and Statistics

A). Roles

The bureau of Planning and Statistics is an executive body of the department on planning, information technology management, statistics and data of handicrafts.

B). Responsibilities

The responsibilities of the bureau of Planning and Statistics are as follows:

- Executing collaboration with line ministries, institutions, national and international organizations in promoting handicraft development;
- Cooperating with technical entities to promote and support entrepreneurship, innovation, technology, invention and initiative in handicraft sector;
- Developing strategic plan in developing handicrafts;
- Collecting and managing statistics, list of handicraft products;
- Making reports and disseminating statistics and handicraft data;
- Classifying data based on the category of handicrafts;
- Consolidating reports on performance evaluation and on the progress of handicraft;
- Managing and updating information technology system and database;
- Coordinating in creating handicraft cluster, handicraft community and handicraft federation in developing handicraft;
- Monitoring the implementation of decentralization and deconcentration on handicraft affairs;
- And executing other tasks assigned by the director of the department

4). The bureau of Consultation and Information

A). Roles

The bureau of Consultation and Information is an executive body of the department on the consultation and information on handicraft affairs.

B). Responsibilities

The responsibilities of the bureau of consultation and information are as follows:

- Disseminating and developing handicrafts;
- Creating enabling environment for the establishment of handicrafts;
- Preparing and fulfilling the application form of the establishment of handicrafts;
- Being capable of receiving training, accessing to finance, market, technique and technology for handicrafts;
- Resolving and cooperating with relevant entities to facilitate business operation to owners of handicrafts;
- And executing other tasks assigned by the director of the department.

5). The bureau of Managing and Developing salt fields

A). Roles

The bureau of managing and developing salt fields is an executive body of the department on management and development of salt fields.

B). Responsibilities

The responsibilities of the bureau of Managing and Developing salt fields are as follows:

- Preparing, creating and managing inventory list of salt fields;
- Preparing, creating and updating map of salt fields;
- Developing strategic plan for sustainable development of salt fields;
- Cooperating, supporting and implementing program of capacity building, technique, technology, competitiveness, market and access to finance for salt production;
- Doing research on the situation and progress of salt field community in enhancing product quality and capacity of salt production;
- And executing other tasks assigned by the director of the department.

Article 8: The appointment of each officials in the Department of Handicraft affairs is mandated by the director of the department.

Article 9: Prakas No. 194 MIME/DSIH, dated February 22, 2011 on the Organization and Functioning of the Department of Small Industry and Handicraft and any provision contrary this law shall be abrogated.

Article 10: Director of Cabinet of Minister, Directors General, Directors of Directorate, Director of Institute, and Director of the Center, Directors of the Department of Handicraft Affairs and all subordinated entities of the ministry shall implement this Prakas effectively from the date of signature.

Phnom Penh, March 24, 2014
Senior Minister

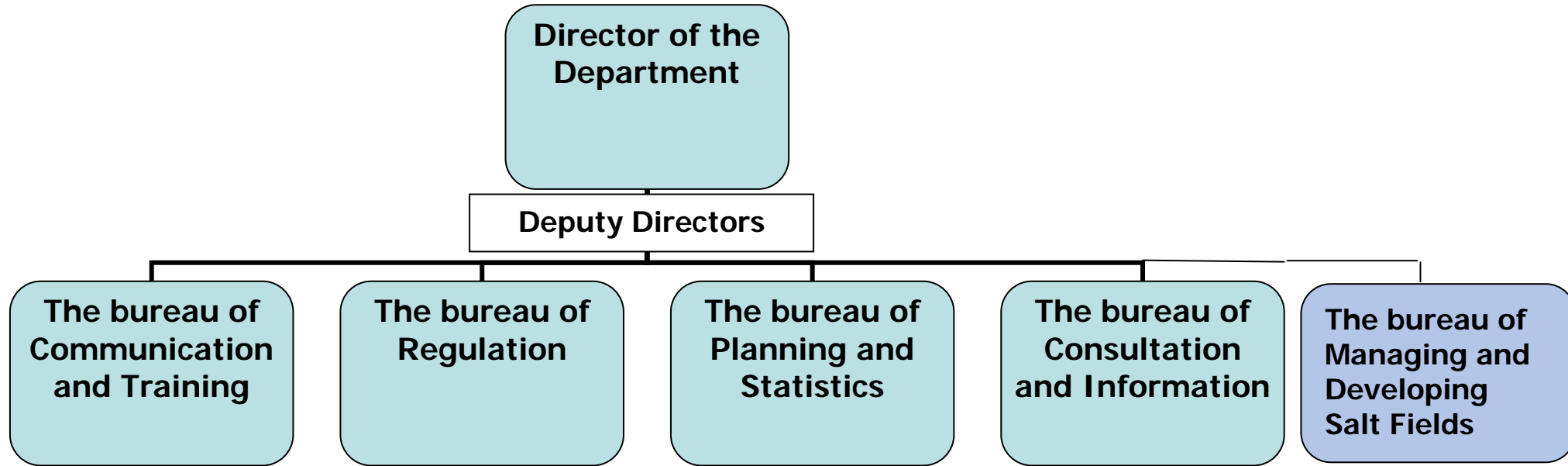
(Signed and sealed)

CHAM PRASIDH

CC:

- Council of Ministers
- Ministry of Economy and Finance
- Ministry of Public Service
- Relevant Ministries/Institutions
- "For information"**
- As stated in Article 10
- "For Implementation"**
- Document-Archive

The Organizational Chart of the Department of Handicraft Affairs
(Appendixes of Prakas No.183 MIH/2014, dated March 24th, 2014)



KINGDOM OF CAMBODIA

NATION RELEGION KING

333

**Ministry of Industry & Handicraft
No.**

PRAKAS

On

The Organization and Functioning of National Productivity Center of Cambodia

333

Senior Minister, Minister, Ministry of Industry & Handicraft

Pursuant to:

- The Constitution of the Kingdom of Cambodia;
- Royal Decree No. NS/RD/0913/903, dated September 24, 2013, on the Appointment of the Royal Government of Cambodia;
- Royal Kram NS/RK/1213/018, dated December 06, 2013, promulgating the law on the Establishment of the Ministry of Industry and Handicraft;
- Royal Decree No. NS/RD/1213/1393, dated December 21, 2013, on the Adjustment and Supplement component of the Royal Government of Cambodia;
- SubDecree No.575 SD, dated December 24, 2013, on the Organization and Functioning of the Ministry of Industry and Handicraft;
- Necessity of the Ministry;

DECISION

Article 1: This Prakas is aimed to determine the organization and functioning of the National Productivity Center of Cambodia.

Article2: This Prakas consists of the following objectives:

- Defining mission and structure of National Productivity Center of Cambodia;
- Defining roles and responsibilities of bureaus (offices) of the National Productivity Center of Cambodia;
- Maintaining quality and efficient result of the performance of the National Productivity Center of Cambodia.

Article3: The roles and responsibilities of the National Productivity Center of Cambodia are as follows:

- Developing and implementing policy, strategy and action plan aiming to develop productivity sector supporting social economy align with national strategic plan of the government;
- Managing and leading national productivity task;
- Cooperating, coordinating and promoting productivity movement in the Kingdom of Cambodia;
- Monitoring on the implementation of policy/program for productivity, quality and efficiency improvement to both national and sub-national level activities;
- Performing and fulfilling the obligations of being a member of Asian Productivity Organization (APO);
- Communicating, collaborating with other country members of APO, ASEAN and other developing partners;
- Cooperating with APO to develop procedure and implement national productivity improvement projects and encourage outstanding organizations/individual in productivity work in Cambodia;
- Reviewing, evaluating and promoting benchmarking on productivity level of public institutions, enterprises, and private sector to speed up the productivity improvement;
- Coordinating with relevant entities and private sector to promote productivity;
- Developing procedure, standard on productivity concept following the trend of socio-economic development;
- Being an executive body of the National Productivity Council;
- Providing training and consultation on productivity;
- Furthering outstanding organizations/individual in productivity work in Cambodia;
- Fostering productivity, quality particularly productivity culture and competitive capacity;
- Doing research, compiling statistics and productivity indication and disseminating productivity information;
- Incorporating productivity notion in the society both national and sub-national level via educational sector and other sectors;
- Consolidating reports, job performance evaluation and progress in productivity to the general department of industry
- And implementing other tasks assigned by the ministry.

Article4: The National Productivity Center of Cambodia shall be governed by a Director who shall be assisted by Deputy-Directors.

Article5: The National Productivity Center of Cambodia is composed of five subordinated bureaus (offices):

- The bureau of Productivity Coordination
- The bureau of Productivity Promotion
- The bureau of Productivity Research and Development
- The bureau of Productivity Training and Consultation
- The bureau of Productivity Information and Cooperation.

Article 6: Each bureau shall be governed by a chief who shall be assisted by vice-chiefs.

Article 7: The roles and responsibilities of each bureau as follow:

1). The bureau of Productivity Coordination

A. Roles

The bureau of Productivity Coordination is a direct executive body assisting NPCC management on administrative letter, personnel, consolidating and managing inventory list.

B. Responsibilities

The responsibilities of the bureau of Productivity Coordination are as follows:

- Managing internal work and personnel of NPCC, consolidating and evaluating job performance of officials;
- Promoting gender mainstreaming task;
- Managing inventory and office supply for NPCC;
- Preparing action plan and budget plan based on NPCC policy;
- Coordinating work with other bureaus of NPCC;
- Consolidating reports, job performance evaluation and productivity progress;
- Managing outgoing and incoming letters and documentation;
- Organizing venue, handouts, hospitality and meetings;
- And executing other tasks assigned by the director of NPCC.

2). The bureau of Productivity Promotion

A). Roles

The bureau of Productivity Promotion is a direct executive body assisting NPCC management on productivity.

B). Responsibilities

The responsibilities of the bureau of Productivity Promotion are as follows:

- Disseminating productivity movement to the public via mass media;
- Building and strengthening partnership with organizations, enterprises, and private sector in both national and sub-national level;
- Cooperating with APO, relevant entities, national and international organizations to prepare and implement program for national productivity development and encouraging outstanding organizations/individual in productivity work in Cambodia
- Disseminating research findings regarding productivity and quality;

- Proposing and implementing the productivity promotion program;
- And executing other tasks assigned by the director of NPCC.

3). The bureau of Productivity Research and Development

A). Roles

The bureau of Productivity Research and Development is a direct executive body assisting NPCC management on policy formulation, research and development.

B). Responsibilities

The responsibilities of the bureau of Productivity Research and Development are as follows:

- Developing/proposing policy, and action plan relevant to productivity movement align with socio-economic development policy of the Royal Government of Cambodia;
- Promoting benchmarking on productivity level of public institutions, enterprises, and private sector to speed up the productivity improvement;
- Doing research on the demand for productivity method in order to promote productivity and quality of organizations, enterprises and private sectors;
- Developing plan, and strategy to improve work efficiency and enhance capacity of technical officials of NPCC;
- Doing research and study of productivity concept and quality for filing and supporting productivity work;
- Developing productivity development plan to promote productivity improvement tradition in productivity development culture and cooperating with the administration office to give information supporting NPCC homepage;
- Translating and filing documents relevant to productivity and quality concept;
- Compiling statistics and productivity indication and productivity information;
- And executing other tasks assigned by the director of NPCC.

4). The bureau of Productivity Training and Consultation

A). Roles

The bureau of Productivity Training and Consultation is a direct executive body assisting NPCC management on training and consultation on productivity improvement method.

B). Responsibilities

The responsibilities of the bureau of Productivity Training and Consultation are as follows:

- Developing plan and training program, productivity methodology to organizations, enterprises and private sector;

- Providing training and consultation services on productivity and quality improvement to organizations, enterprises and private sector;
- Collaborating in organizing seminars, trainings and meetings at national and international level;
- Giving recommendation on policy, program for productivity, quality improvement and work efficiency for national activity level;
- Reviewing, evaluating productivity work of relevant entities, enterprises and private sectors to speed up productivity improvement;
- Communicating and cooperating with APO and other productivity organizations to gain experiences and new methodology for improvement of training and consultation services;
- Collaborating and coordinating with experts on consultation area , who are assigned by APO to Cambodia aiming to strengthen and enhance quality of consultation service;
- Proposing and implementing projects associated with training on productivity and quality methodology and taking part in local and oversea study tour;
- And executing other tasks assigned by the director of NPCC.

5). The bureau of Productivity Information and Cooperation

A). Roles

The bureau of Productivity Information and Cooperation is a direct executive body assisting NPCC management on cooperation with ASEAN and other developing partners to promote national productivity development.

B). Responsibilities

The responsibilities of the bureau of Productivity Information and Cooperation are as follows:

- Disseminating productivity movement to the public via mass media;
- Orienting and cooperating on productivity affair with APO, relevant institutions, national and international organizations to promote national productivity development;
- Coordinating and cooperating with relevant bureaus/institutions for the implementation of productivity projects;
- Coordinating, compiling data/information associated with productivity work via IT system and other means serving productivity work;
- Collaborating, conducting E-learning with relevant bureaus;
- Giving recommendations in selecting candidates to attend meetings, seminars, trainings at national and international level;
- And executing other tasks assigned by the director of NPCC.

Article 8: The appointment of each officials in NPCC is mandated by the director of NPCC.

Article 9: Prakas No. 471 MIME/NPCC, dated June 05, 2008 on the Organization and Functioning of NPCC and any provision contrary this law shall be abrogated.

Article 10: Director of Cabinet of Minister, Directors General, Directors of Directorate, Director of Institute, and Director of the Center, Director of NPCC and all

subordinated entities of the ministry shall implement this Prakas effectively from the date of signature.

Phnom Penh,, 2014
Senior Minister

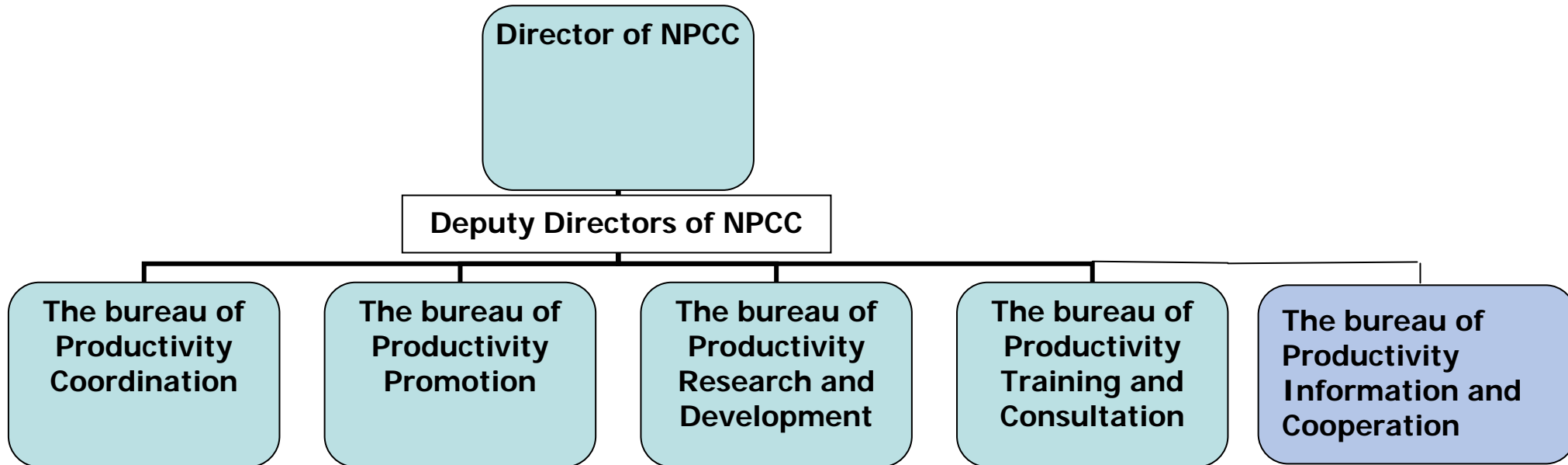
(Signed and sealed)

CHAM PRASIDH

CC:

- Council of Ministers
- Ministry of Economy and Finance
- Ministry of Public Service
- Relevant Ministries/Institutions
 "For information"
- As stated in Article 10
 "For Implementation"
- Document-Archive

Ministry of Industry and Handicraft
Organizational Chart of National Productivity Center of Cambodia
Appendixes of Prakas No...



Appendix (7) Project Activities

(7)-1 Policy formulation component

(7)-1-14 Guideline for Policy Structure:

(National Coat-of-Arms)
KINGDOM OF CAMBODIA
Nation Religion King

(Logo)

Council of Ministers

No. ...433 N.....

Phnom Penh, April 07, 2011

Deputy Prime Minister, Minister of Council of Ministers
To
Your Excellency, Deputy Prime Ministers,
Senior Ministers, Ministers of all Ministries and Directors of all public
institutions

Subject: *The formulation of policies, strategic plans and action plans.*

With regard to above subject, I would like to inform Your Excellency that so far the council of ministers has noticed that policy, the structure of strategic plan and action plan submitted by each ministries were inconsistent yet.

Therefore, in order to ensure the consistency in the structure of these documents, the council of ministers had called for an inter-ministerial meeting on the explanation of policies, strategic plans, and action plans of all ministries/institutions and agreed on the common points and definitions of some terminologies as stated in each attached files.

Please, Your Excellency, accept the reassurance of our highest regard.

Deputy Prime Minister, Minister of Council of Ministers

(Signed and stamped)

SOK AN

CC:

- Cabinet office of Prime Minister
- All subordinate entities to council of ministers
- Records-Archives



ព្រះរាជាណាចក្រកម្ពុជា
ជាតិ សាសនា ព្រះមហាក្សត្រ

លេខ: ៧២
ថ្ងៃ: ១១
ខែ: ១១
ឆ្នាំ: ២០១១

ទីស្តីការគណៈរដ្ឋមន្ត្រី
លេខ: ៤៣៣ កសណ

រាជធានីភ្នំពេញ ថ្ងៃទី ០៧ ខែ ១១ ឆ្នាំ ២០១១

ឧបនាយករដ្ឋមន្ត្រី រដ្ឋមន្ត្រីទទួលបន្ទុកទីស្តីការគណៈរដ្ឋមន្ត្រី
សូមគោរពជូន
ឯកឧត្តម លោកជំទាវ ឧបនាយករដ្ឋមន្ត្រី ទេសរដ្ឋមន្ត្រី
រដ្ឋមន្ត្រីក្រសួងកសិកម្ម រុក្ខាប្រមាញ់ និងនេសាទ

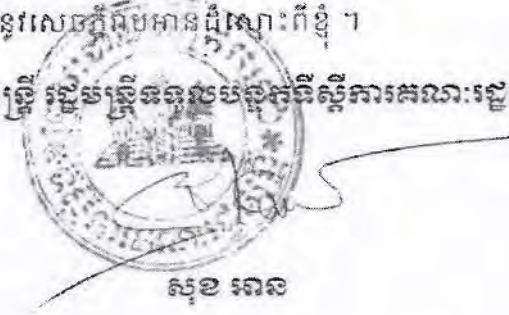
កម្មវត្ថុ: ការរៀបចំតាក់តែងគោលនយោបាយ ផែនការយុទ្ធសាស្ត្រ និងផែនការសកម្មភាពនានា។

សេចក្តីដូចមានចែងក្នុងកម្មវត្ថុខាងលើ ខ្ញុំសូមជម្រាបឯកឧត្តម លោកជំទាវមេត្តាជ្រាបថា រយៈកាលកន្លងមកទីស្តីការគណៈរដ្ឋមន្ត្រីបានពិនិត្យឃើញថា គោលនយោបាយ ផែនការយុទ្ធសាស្ត្រ និងផែនការសកម្មភាពនានា ដែលក្រសួងស្ថាប័នបានតាក់តែងនិងផ្សព្វផ្សាយហើយនោះ នៅពុំទាន់ឯកភាពស៊ីចង្វាក់គ្នាពិទ្ធច្រងនៅឡើយ ។

ដើម្បីឲ្យឯកសារទាំងនេះមានការឯកភាពគ្នា ទីស្តីការគណៈរដ្ឋមន្ត្រីបានប្រជុំអន្តរក្រសួងពិភាក្សាបកស្រាយគោលនយោបាយ ផែនការយុទ្ធសាស្ត្រ និងផែនការសកម្មភាពនានារបស់ក្រសួង ស្ថាប័នដែលមានកន្លងមក ហើយបានរៀបចំឲ្យមានភាពរលូនជាមួយគ្នា ឯកភាពគ្នាលើចំណុចគោលដែលត្រូវតាក់តែង និងនិយមន័យនៃពាក្យពេជ្រសំខាន់ៗខ្លះ ដូចមានទម្រង់នៃប្រភេទឯកសារនីមួយៗជូនភ្ជាប់មកស្រាប់ ។

សូមឯកឧត្តម លោកជំទាវមេត្តាជ្រាប និងអនុវត្តតាមការគួរ ។
សូមឯកឧត្តម លោកជំទាវមេត្តាទទួលនូវសេចក្តីជឿជាក់ពីខ្ញុំ ។

ឧបនាយករដ្ឋមន្ត្រី រដ្ឋមន្ត្រីទទួលបន្ទុកទីស្តីការគណៈរដ្ឋមន្ត្រី


សុខ អាន

បង្គោលជូន:
យុទ្ធសាស្ត្រ គោលនយោបាយកសិកម្ម
គ្រប់មជ្ឈភាពចំពោះទីស្តីការគណៈរដ្ឋមន្ត្រី
ឯកសារ គោលប្បវត្តិ



គោលនយោបាយ

(POLICY)

១- សេចក្តីផ្តើម (INTRODUCTION)

២- ចក្ខុវិស័យ (VISION)

៣- គោលបំណងនិងគោលដៅ (GOALS and OBJECTIVES)

៤ យុទ្ធសាស្ត្រ (STRATEGIES)

៥- ផែនការសកម្មភាព (ACTION PLAN)

- ការបង្កើតយន្តការ (ORGANISATIONAL MECANISM)
- ការបង្កើតក្របខណ្ឌគតិយុត្ត (LEGAL FRAMEWORK)
- ការគាំទ្រហិរញ្ញវត្ថុ (FINANCIAL SUPPORT)
- ការបណ្តុះបណ្តាលធនធានមនុស្ស (CAPACITY BUILDING)
- ដំណើរការអនុវត្តគម្រោង (PROJECT IMPLEMENTATION)
- ។ល។ (etc.)

៦- ការតាមដានត្រួតពិនិត្យ និងការវាយតម្លៃ (MONITORING and EVALUATION)

៧- សេចក្តីសន្និដ្ឋាន (CONCLUSIONS)

៨- សទ្ទានុក្រមបូករៀបរយ (ប្រសិនបើមាន) (LEXICON or VOCABULARY (if any))



ផែនការយុទ្ធសាស្ត្រ

(STRATEGIC PLAN)

១- សេចក្តីផ្តើម (INTRODUCTION or BACKGROUND)

២- ចក្ខុវិស័យ (VISION)

៣- បេសកកម្ម (MISSION)

៤- គោលបំណងនិងគោលដៅ (GOALS and OBJECTIVES)

៥- ក្របខណ្ឌយុទ្ធសាស្ត្រ (STRATEGY FRAMEWORK)

- ការវិភាគយុទ្ធសាស្ត្រ (STRATEGIC ANALYSIS)

- ទិសដៅយុទ្ធសាស្ត្រ (STRATEGIC OBJECTIVES)

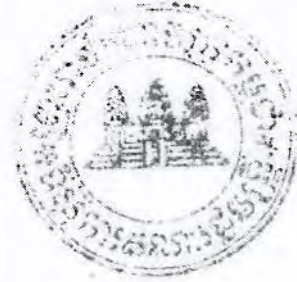
- យុទ្ធសាស្ត្រ (STRATEGIES)

៦- សកម្មភាពការងារ (ACTIVITIES)

៧- ធនធានហិរញ្ញវត្ថុ (FINANCIAL RESOURCES)

៨- ការតាមដានត្រួតពិនិត្យ និងការវាយតម្លៃ (MONITORING and EVALUATION)

៩- សេចក្តីសន្និដ្ឋាន (CONCLUSIONS)



ផែនការសកម្មភាព (ACTION PLAN)

១- សារធាន (BACKGROUND)

១.១- គោលនយោបាយ (POLICY)

១.២- ស្ថានភាព (SITUATION)

១.៣- បញ្ហាអាទិភាព (PRIORITIES ISSUES)

២- យុទ្ធសាស្ត្រ (STRATEGIES)

៣- ផែនការសកម្មភាព (ACTION PLAN)

៣.១- បរិយាយសង្ខេបអំពីវិសាលភាពផែនការ (SUMMARY SCOPE OF PLANNING)

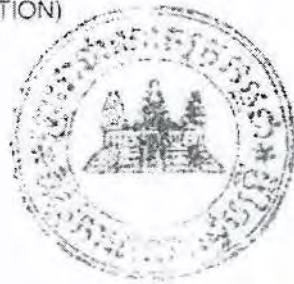
៣.២- តារាងអនុវត្តការងារ (MATRIX)

៤- កាលវិភាគរៀបចំសេចក្តីប្រាប់ច្បាប់-លិខិតបទដ្ឋានគតិយុត្ត (LAW and REGULATION DRAFTING SCHEDULE)

៥- ចំណេញចំណាយ (EXPENDITURE)

៦- ការតាមដានត្រួតពិនិត្យនិងវាយតម្លៃ (MONITORING and EVALUATION)

៧- សេចក្តីសន្និដ្ឋាន (CONCLUSIONS)



គោលនយោបាយ (policy) : ដំណើរការគោលការណ៍នៃសកម្មភាពដែលបានអនុម័តឬស្នើឡើងដោយ ក្រសួង ស្ថាប័ន គណៈបក្ស ក្រុមហ៊ុន ឬបុគ្គលណាម្នាក់ៗ។

ចក្ខុវិស័យ (vision) : ការគិតទុកឬការប្រមើលមើលទៅមុខនូវផែនការឬអ្វីៗដែលកើតមានឡើងនៅថ្ងៃអនាគត។

គោលបំណង (goal) : អ្វីៗដែលយើងសង្ឃឹមថាសម្រេចបាន។

គោលដៅ (objective) : អ្វីៗដែលយើងសាកល្បងធ្វើឲ្យសម្រេចបាន។

សម្គាល់ : គោលដៅកើតចេញពីការកំណត់និងស្រែងចេញតាមរយៈសកម្មភាពឬការអនុវត្ត ហើយវាមានលក្ខណៈ ជាវត្ថុវិស័យ។ រីឯគោលបំណងវិញ គឺគ្រាន់តែជាការបំបែកទុក ហើយមានលក្ខណៈជាប្រធានវិស័យ។

យុទ្ធសាស្ត្រ (strategy) : សិល្បៈនៃការរៀបចំឬការដឹកនាំដើម្បីសម្រេចកិច្ចការឲ្យស្របតាមគោលបំណងនិង គោលដៅដែលបានកំណត់។

ផែនការសកម្មភាព (action plan) : ការគ្រោងទុកនូវកិច្ចការចាំបាច់ដែលត្រូវធ្វើ ហើយទាក់ទងទៅនឹង ការបង្កើតយន្តការ ការបង្កើតក្របខណ្ឌគតិយុត្ត ការគាំទ្រហិរញ្ញវត្ថុ ការបណ្តុះបណ្តាលធនធានមនុស្ស ការអនុវត្ត គម្រោង(សាកល្បង)។



Policy: a process or principle of activities approved/proposed by a ministry, institution, political party, company or a person, etc.

Vision: forethought or foresee of a plan or something that will happen in the future.

Goal: Something that we hope to achieve.

Objective: Something that we try to succeed in.

Note*: **Objective** is determined and realized by carrying out activities or implementation and it is objectivity. While **Goal** is what we wish, and it's subjectivity.

Strategy: is the art of organizing or leading to achieve a task in line with fixed goal and objective.

Action plan: a planning of necessary task to carry out, and it relates to create mechanism, to develop legal framework, to give financial support, and to train human resources, and to implement pilot project (pilot).

Appendix (7) Project Activities

(7)-1 Policy formulation component

(7)-1-15 Self-evaluation Sheet:

Self-Evaluation for DSIH

August 21, 2013/ JICA SME Team

name		date	
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- | | Yes, very
much | Yes | Can't say
Y or N | Not
really | No.
Not at all |
|---|-------------------|-------|---------------------|---------------|-------------------|
| 1. Policy objectives (Overall) | | | | | |
| 1-1. (Overall vision) Do you have a clear vision or an idea how to promote SME in Cambodia? | ----- | ----- | ----- | ----- | ----- |
| 1-2. (The way to realize the vision) Do you have a clear vision or an idea of the concrete steps to realize the promotion of SME in Cambodia? | ----- | ----- | ----- | ----- | ----- |
| 1-3. (description) If you are not familiar with the issues above or you put marks on "Not at all", "Not really" or "Can't say Yes or No", please explain the reasons. Please describe any other things relating to overall policy objectives. | | | | | |

- | | | | | | |
|---|-------|-------|-------|-------|-------|
| 2. Policy formulating function (Policy process) | | | | | |
| 2-1. (Understanding of the policy process) Do you have a clear idea how to formulate a policy and/or measures to promote SME? | ----- | ----- | ----- | ----- | ----- |
| 2-2. (Working environment) Do you have sufficient accesses to necessary information and data to back-up policy process (ex. drafting policy and/or measures)? | ----- | ----- | ----- | ----- | ----- |
| 2-3. (Inputs from daily works) Do you make use of issues you learned from your day to day tasks (ex. call-center, communication with SME, etc.) in terms of improving substance of policy/measures? | ----- | ----- | ----- | ----- | ----- |
| 2-4. (description) If you are not familiar with the issues above or you put marks on "Not at all", "Not really" or "Can't say Yes or No", please explain the reasons. Please describe any other things relating to overall policy objectives. | | | | | |

- | | | | | | |
|---|-------|-------|-------|-------|-------|
| 3. Coordination function | | | | | |
| 3-1. (Understanding of coordination) Do you have a clear idea how the effective coordination could be made for the policy and/or measure formulation ("who, for what, when, where, why, how and to whom" for the specific level of policy development)? | ----- | ----- | ----- | ----- | ----- |
| 3-2. (Network of contacts for coordination) Do you have an efficient network of contacts for the coordination of policy... | | | | | |
| -within GDI? | ----- | ----- | ----- | ----- | ----- |
| - with other relevant ministries? | ----- | ----- | ----- | ----- | ----- |
| - with relevant international developing partners? | ----- | ----- | ----- | ----- | ----- |

Yes, very much Yes Can't say Y or N Not really No. Not at all

- with private business? |-----|-----|-----|-----|
- with academia and experts? |-----|-----|-----|-----|

3-3. (Functionability of communication) Do you have an efficient platform of communication with the contacts indicated above in terms of official policy coordination? |-----|-----|-----|-----|

3-4. (description) If you are not familiar with the issues above or you put marks on "Not at all", "Not really" or "Can't say Yes or No", please explain the reasons. Please describe any other things relating to overall policy objectives.

4. Policy reviews (monitoring) function

4-1. (Review opportunities) Do you have sufficient opportunities to review the existing policies implemented related to SME promotion? |-----|-----|-----|-----|

4-2. (Review mechanism) Do you have a sufficient system(s) and/or instrument(s) to review the existing policies implemented related to SME promotion? |-----|-----|-----|-----|

4-3. (Understanding of the process) Do you have a clear idea on the reviewing steps to monitor and modify policy? |-----|-----|-----|-----|

4-4. (description) If you are not familiar with the issues above or you put marks on "Not at all", "Not really" or "Can't say Yes or No", please explain the reasons. Please describe any other things relating to overall policy objectives.

5. Research function

5-1. (Working environment) Do you have sufficient accesses to necessary information and data to back-up the policy process (ex. drafting policy and/or measures)? |-----|-----|-----|-----|

5-2. (Network of contacts for research assistance) Do you maintain an sufficient network of contacts for research assistance for policy issues including individual experts to consult with? |-----|-----|-----|-----|

5-3. (Individual research skills) Do you think you have sufficient skills and knowledge of gathering and analyzing information and data for policy formulation? |-----|-----|-----|-----|

5-4. (description) If you are not familiar with the issues above or you put marks on "Not at all", "Not really" or "Can't say Yes or No", please explain the reasons. Please describe any other things relating to overall policy objectives.

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