

Small & Medium Enterprises Development Policies in Cambodia



List of Acronyms and Abbreviations

ADB	Asian Development Bank
ASEAN	Association of South East Asian Nations
CAS	Cambodian Accounting Standards
CCC	Cambodia Chamber of Commerce
CDC	Council for the Development of Cambodia
CIB	Cambodian Investment Board
CRDB	Cambodian Rehabilitation and Development Board
CRC	Conditional Registration Certificate
CSDP	Cambodia Small and Medium Enterprise Development Program
CSES	Cambodia Socio-Economic Survey
DTA	Double Taxation Agreements
EL2009	Establishment Listing of Cambodia 2009
FRT	Financial Reporting Template for SMEs
GATT	General Agreement on Tariffs and Trade
GDI	The General Department of Industry
GDP	Gross Domestic Product
GIS	Geographic Information System
GNP	Gross National Product
IFRS	International Financial Reporting Standard
IMF	International Monetary and Fund
IP	Intellectual Property
IPR	Intellectual Property Rights
ISIC	International Standard Industrial Classification
ITC	International Trade Center
LOI	Letter of Investment
LOT	Law on Tax
MAFF	Ministry of Agriculture, Forestry and Fisheries
MEF	Ministry of Economy and Finance
MIME	Ministry of Industry, Mines, and Energy
MOC	Ministry of Commerce

NBC	National Bank of Cambodia
NIS	National Institute of Statistics of Cambodia
NSDP	National Strategic Development Plan
PWC	Price Waterhouse Coopers
QIP	Qualified Investment Projects
RGC	The Royal Government of Cambodia
RRTS	Real Regime Tax System
SCSME	Sub Committee for Small and Medium-sized Enterprises
SEZ	Special Economic Zone
SMEDF	Small and Medium Enterprise Development Framework
SMEs	Small and Medium-sized Enterprises
TPD	Trade Promotion Department
TRIPS	Trade-Related Aspects of Intellectual Property Rights
TRTA	Trade-Related Technical Assistance
UNDP	United Nations Development Program
VAT	Value Added Tax
WASM	Women's Association of Small & Medium Businesses
WHT	Withholding Tax

NOTE

Prakas : A banking or finance regulation issued by a Government, Minister or by the Governor of the National Bank of Cambodia.

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- Field Survey and Interview by: Dr. Pussadee Polsaram
Ms. Kanittha Kwanchainond
- Report by: Ms. Kanittha Kwanchainond
- List of Visited Institutions & Interviewees

Institutions	Interviewee
Ministry of Industry, Mines and Energy (MIME)	Department of Cooperation and ASEAN Affairs - Mr. Chea Dara (Director) - Mr. Nhek Virak (Deputy Director) Small Industry and Handicraft Department - Mrs. Lay Navinn (Department Director)
Ministry of Commerce (MOC)	Business Registration Department - Mr. Khuon Samnang (Deputy Director) - Mr. Kang Koy (Office Business Registration) - Mr. Sou Mang (Chief of Head office of Trade of Archives) Department of Notification & Legal Compliance - Mr. Yin Yanno (Chief of WTO Bureau)
National Bank of Cambodia (NBC)	Bank Supervision Department - Mr. Rath Sovannorak (Deputy Director) - Mr. Pou Chhiang Hong (Deputy Division Chief)
ACLEDA Bank Plc.	Credit Division - Mr. In Siphann (Senior Vice President & Head of Credit Division)

Institutions	Interviewee
Asian Development Bank (ADB)	Senior Country Economist, Cambodia Resident Mission. - Mr. Peter J. Brimble
Phnom Penh Small and Medium Industry Association (PPSMIA)	Mr. Heng Heang (Director)
Cambodian Commercial Bank (CCB)	Mr. Natthawut Chakanan (Director and General Manager)
Cambodia Chamber of Commerce (CCC)	- H.E. Nguon Meng Tech (Director General) - Mr. Keo Nimet (International Relation Manager)
Pannasastra University of Cambodia (PUC)	- Mr. Kieng Rotana, M.Ed. (Vice-President, University Relations and Student Affairs) - Mr. Chiv Ratha, M.B.A. (Dean, Faculty of Business and economic) - Mr. Hem Bonarin, M.Ed. (Association Director)

Note: Exchange rate of the local currency (Khmer Riel) per US Dollar

Source: National Bank of Cambodia (NBC)

2009 Average 4169KHR/USD

2010 Average 4231KHR/USD

The Small & Medium Enterprise Development Policies in Cambodia

Chapter 1 Overview of the SME policies

1-(1) Definition¹

The SME Sub-Committee (or Sub-Steering Committee on SME) was established by resolution No. 45 S.S.R dated August 28, 2007 and recomposed by a resolution No. 27 S.S.R dated November 14, 2008. The Committee is part of a policy and strategy mechanism of the Royal Government of Cambodia for private sector development and chaired by the Minister of Industry, Mines and Energy (MIME).

According to the SME Sub-Committee, as stated in the SME development framework, SMEs are defined based on the equivalent full-time employees. The definition of enterprise size is proposed to be applied to all industries. However, when employee number is not appropriate, the definition based on the size of total assets (excluding land) or a combination of the two should be used. Nevertheless, there is no formal definition of SME in terms of financial standing yet because different financial institutions often require different data.

The enterprises can be classified into 4 categories, i.e. micro enterprises, small enterprises, medium enterprises and large enterprises. Micro enterprises are those with less than 10 workers or with start-up capital of less than USD 50,000. Small enterprises are those with 11 to 50 workers or with start-up capital of USD 50,000 to USD 250,000. Medium enterprises are those employ 51 to 100 workers or with start-up capital from USD 250,000 to USD 500,000. Large enterprises are those with more than 100 workers with start-up capital of more than USD 500,000. The SMEs refer to any enterprises with up to 100 employees (Table 1).

¹ Source: SME Development Framework by RGC, Sub-committee on Small & Medium Enterprises, July 29, 2005. By ADB
http://www.gdi.mime.gov.kh/index.php?option=com_content&view=article&id=50&Itemid=57&lang=en

Table 1: A Definition for SMEs

	Statistical Employee number	Financial Assets excluding land (USD)
Micro	Less than 10	Less than 50,000
Small	11 – 50	50,000 – 250,000
Medium	51 – 100	250,000 – 500,000
Large	Over 100	Over 500,000

Source: ADB and RGC's Sub-committee on SME Secretariat, 2005 and 2007.

1-(2) Environment and Current Conditions of Small and Medium Enterprises

Looking at the performance of the economy, the GDP growth rate of Cambodia decreased from 10.2 percent in 2007 to 6.7 percent in 2008 as shown in Table 2. The preliminary estimate for the year 2009 of real GDP growth rate is 0.1%. The projections for 2010, 2011, 2012, and 2013 are 5%, 6.0%, 6.5% and 6.5%, respectively².

Table 2: GDP growth rates

Year	2007	2008	2009e	2010p	2011p	2012p	2013p
GDP	10.2	6.7	0.1	5	6	6.5	6.5

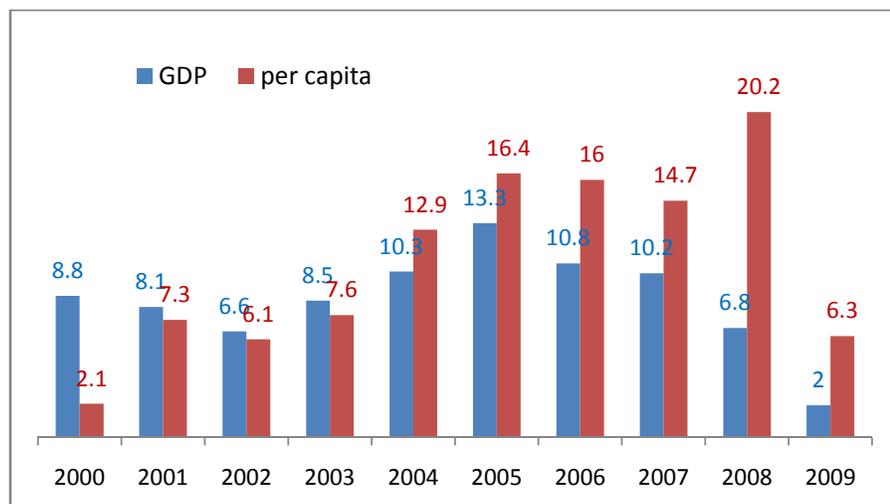
Source: Report of The Royal Government of Cambodia, 2009.

Figure 1 shows the GDP and the per capita GDP growth rates for comparison. Since the first General Elections held in 1993, the Gross Domestic Product (GDP) has increased from US\$ 2.48 billion in 1993 to US\$ 10.34 billion in 2008, and per capita GDP has increased from US\$ 248 in 1994 to US\$ 738 in 2008. The size of Cambodia's Gross Domestic Product is currently at the level of US\$ 10.3 billion. The per capita GDP is expected to reach over US\$ 1,000 by 2015.³

² Source: Chapter III: Macro-Economic Framework for NSDP Update 2009-2013

³ Source: Chapter III: Macro-Economic Framework for NSDP Update 2009-2013

Figure 1: GDP Growth Rate (%) 2000 – 2009 (2009 is projected)



Source: Ministry of Economy and Finance (MEF), Cambodia.

Upon broken down by sectors, Table 3 points to the prominent role of the industry sector with double digit growth rate up to 2006. Then it is declining. The growth rate of the agricultural sector experienced a sudden substantial increase in the year 2005 and abruptly decreased after that. The growth rate of the service sector has been considerable for the past decade and higher than other sectors for the recent past.

Table 3: GDP Growth Rates by Sector and Total.

GDP Growth Rates (Percent)											
Sector	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Agriculture	5.2	2.2	-0.4	3.6	-2.5	10.5	-0.9	17.7	5.5	5.0	5.7
Industry	6.2	21.2	31.2	11.2	17.1	12.0	16.6	12.7	18.3	8.4	4.0
Service	5.0	14.6	8.9	10.8	7.6	5.9	13.3	12.7	10.3	10.1	9.0
Total	5.0	11.9	8.8	8.0	6.5	8.5	10.5	13.5	10.8	10.2	6.7

Source: NIS, Sept 2009.

The SMEs in Cambodia are divided into three sectors by MIME as follows:

- 1) Production sector including agricultural processing, manufacturing, and mining;
- 2) Service sector; and
- 3) Trading sector including wholesales and retails. ⁴

In 2009, almost all (98.46 percent) of the total of 36,116 establishments registered with MIME, are small and medium-sized numbering 35,560. The growth rate of total establishments for the year is 8.3%. The data of the establishments classified by size for 1999 to 2009 are shown in Table 4.

Table 4: Manufacturing Bases by Size.

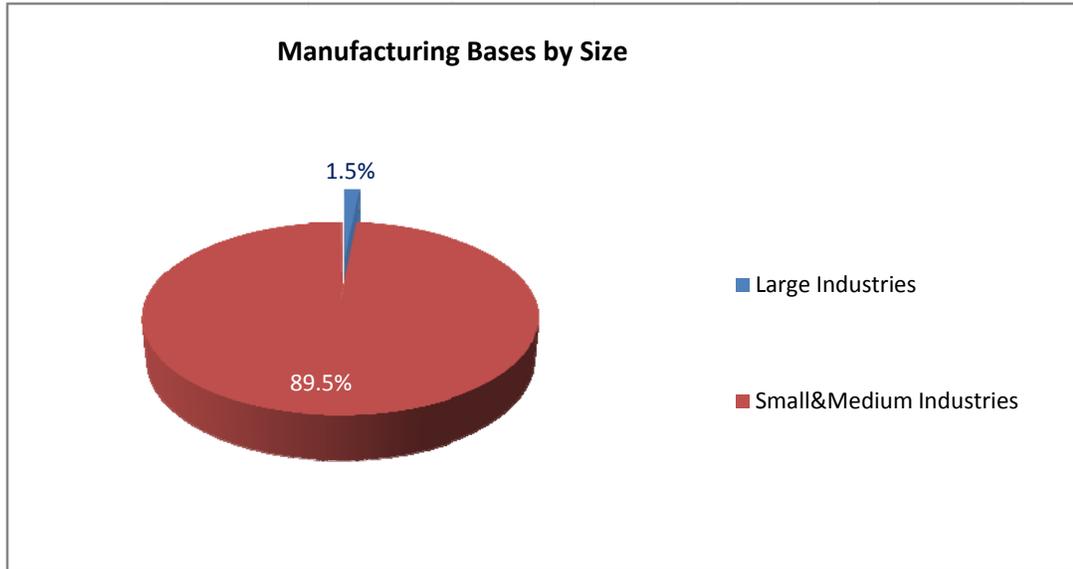
Year	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Large Industry	309	368	320	336	372	413	490	481	564	542	556
Small-Medium Industry	25,049	25,601	27,155	26,940	25,985	28,131	29,297	31,149	32,619	32,800	35,560
Total	25,358	25,969	27,475	27,276	26,357	28,546	29,780	31,630	33,183	33,342	36,116
Growth Rate	1%	2.4%	6%	-1%	-2%	8%	2%	6%	5%	0.5%	8.3%

Source: MIME, 2009.

The Small and Medium industries are local investment and domestic consumption oriented; meanwhile, large industries mostly are foreign investment and export market oriented. According to the record of the Ministry of industry, Mines and Energy, in 2009, the small and medium manufacturers in Cambodia accounted to 98.5% whereas the large industries accounted to 1.5% of the total manufacturers as shown in Figure 2.

⁴ MIME Mission, 2010

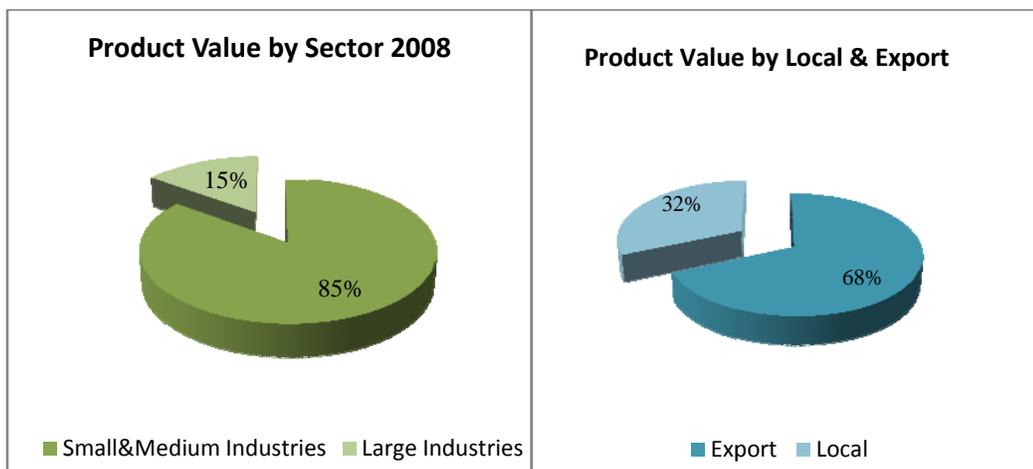
Figure 2: Manufacturing base by size, 2009



Source: MIME, 2009.

Figure 3 shows the distribution of the total production value in 2008 in million USD. The proportion of the product value was 15% from the large industries and 85% from the Small and Medium industries. The proportion of the production was 68.42 % for export and 31.58% for local market⁵.

Figure 3: Products Value by Sector & Product Value by Local & Export in 2008



⁵ Source: MIME 2010

Source: MIME, 2009.

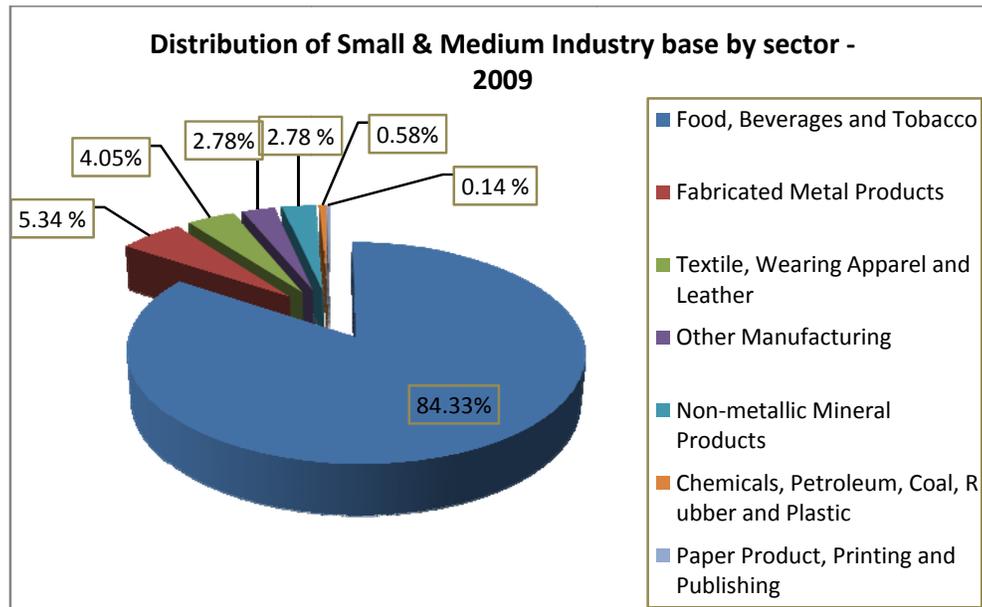
Table 5 and Figure 4 show that, in the year 2009, most of the SMEs are in food, beverages and tobacco sector (84.33%); followed by the fabricated metal products sector (5.34%); textile and wearing apparel sector (4.05%); other manufacturing industries sector (2.78%); non-metallic mineral products (2.78%); chemicals Petroleum, coal, rubber and plastic products (0.58%); and paper or paper products sector (0.14%), respectively.

Table 5: Number of Registered Factories of Manufacturing SMEs, 2002-2009.

Industrial Sector	2002	2003	2004	2005	2006	2007	2008	2009
Food, Beverages, Tobacco	21,588	20,869	21,692	23,727	25,455	26,379	26,208	29,987
Textile, Wearing Apparel and Leather industry	1,417	1,406	1,680	1,665	1,689	1,474	1,478	1,443
Manufacturing of Wood & Wood product	13	13	16	2	-	-	-	-
Manufacturing of Paper product, Printing & Publishing	15	21	27	31	33	39	43	48
Chemicals	275	96	121	153	159	177	192	203
Manufacturing of Non Metallic Mineral products except products of Petroleum & Coal	757	681	634	719	797	813	875	987
Manufacturing of Fabricated Metal products, Machinery & Equipment	1,899	1,850	2,160	2,334	2,380	2,918	3,039	1,902
Other Manufacturing Industries	976	1,049	234	666	636	819	965	990
Total	26,940	25,985	26,564	29,297	31,149	32,619	32,800	35,560

Source: MIME, 2009.

Figure 4: Distribution of Small and Medium Industry Base by sector -2009



Source: MIME, 2009.

Data in Table 6 show that the small and medium Industry produced only for local market in the year 2008.

Table 6: Production Value Distribution 2008

Size of Industry	Local	Export	Total
Large Industry	750	3,087	3,837
Small & Medium Industry	675	-	675
Total	1,425	3,087	4,512

Source: Ministry of Industry, Mines and Energy, 2008.

1-(3) Laws related to Small & Medium Enterprises

In Cambodia, there is no specific law to mandate SMEs. However, the RGC announced the Commercial legal framework for the period of 2005-2010 under the Ministry of Industry, Mines and Energy (MIME) and set up a Sub- Committee to Small and Medium enterprises. The procedures and formalities for establishment of factory and handicraft are enforced by Prakas No.607/Date: July 22, 2009.

Formally, all businesses engaging in commercial activities are required to register with the Ministry of Commerce. In addition, a company must also get the secure patent tax and value added tax (VAT) or identification number from the Ministry of Economy and Finance (MEF) for tax purpose. It also has to obtain the approval for its operation from the Ministry of Labor.

Since 2005, the Ministry of Commerce (MOC) has implemented measures to reform the commercial registration procedures for SMEs. The timeline required for commercial registration is reduced from 2-3 weeks to only 1 week. The documentation required to register a SME also is 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\$.⁶

The following Laws and regulations have been developed and are being implemented by the Ministry of Commerce (MOC) to gain trust of the business community in Cambodia and investors⁷

- Law on Commercial Rules and Registration Right;
- Law on the Management of Quality and Safety of Products and Services;
- The Law on Marks, Trade Names and Acts of Unfair Competition;
- The Law on Commercial Enterprises;
- The Law on Commercial Arbitration;

⁶ Chapter II: Major Achievement and Challenges in the Implementation of NSDP 2006-2010. p.59

⁷ NSDP Update 2009-2013 p.55

- The Law on Secure Transaction; and
- The Law on Insolvency

Governmental services in terms of trade and investment in Cambodia⁸ which can be applied to SMEs are as follows;

1) Ministry of Commerce

- Certificate of Commercial Registration
- Trade Marks Registration
- Export Registration Certificate under Trade Preference System and Certificate of Origin for preferential tariff system
- Relevant Certificate of Origin for Export to Asia and Oceanic Continents
- Collateral relating to registration of the notice by Filing of Notification Letter of the Insured Operation
- Exported/Imported goods inspection service
- Proof of Export Cargo to meet the requirements of the importing country (Certification of exported goods as required by applicant to meet requirements of the imported country)
- Trade Fair Coordination
- Corporate charter registration (Filing the Articles of Association)
- Issue the Business Management Certificate
- Provide Consultation on Business Transaction, and others

2) Ministry of Industry, Mines and Energy (MIME), granting approval and issuing:

- Prakas on the Establishment of Factory and Handicraft
- Certificate on Operating of Factory and Handicraft
- Objectives and criteria for certification of Target and Standard for Chemical Use
- Investments in power transmission and distribution, permission for Investing in generating-Transmitting and/or distributing electricity

⁸ Cambodia Investment Guide Book, the Council for the Development of Cambodia, January 2010 by JICA.

- Minerals registration certificate (Certificate of Mineral Resources Registration)
- Mineral extraction, quarry permits (License for Open Mining Hole and Quarry, and others)

3) Ministry of Land Management, Urban Planning and Construction

- Business Operation Certificate
- Building permit or Construction Permit

4) Ministry of Tourism

- Resort Services business license (Tourism License for Resort Service)
- License to operate road transport services for tourists (Tourism License for Road Transport Tourist Service)
- Restaurant business license, etc.(Tourism License for Restaurant Service, and others)

5) Ministry of Environment

- Environmental Protection Agreement (Environment Protection Contract)
- Waste disposal, allowing the transport of solid waste or hazardous waste (Permit for Waste Disposal or Exportation of Solid Waste or Hazardous Waste) and noise permit for the emission of poisonous substances into the atmosphere from sources in a fixed (Permit for Emission of Toxic Substance and Noise Disturbance from Stationary Source into the Atmosphere)
- Wastewater discharge permit (Permit of Discharging of Waste Water)
- Approval of Environmental Impact Assessment Report form (Approval Letter on Environmental Impact Assessment Report)
- Agreement and approval of state environmental protection (Approval Letter of Environmental Protection Contract, and others)

6) Ministry of Public Works and Transport.

- Goods and passenger transportation business license (License for Cargo and Passenger Transportation Business)
- Allow other goods and passenger transport operations (License for Goods and Passenger Transport Business Operation, and others)

7) Ministry of Agriculture, Forestry and Fisheries

- Agricultural raw materials permit trading (Trade Permit for Agricultural Material)
- Agricultural Materials Registration Certificate
- Import permit of Agricultural Material
- Licensing of Cambodia Specified Rubber (CSR Trademark)
- Registration of rubber processing factories or local laboratories, and others

8) Ministry of Education, Youth and Sports

- License for establishment of Educational Institution, and others

9) Council for the Development of Cambodia (CDC)

- Registration of Qualified Investment Projects
- Checking the Duty-exempt Import Request of Production Equipments, Construction Materials and Production Inputs Enough to Make Eligible the QIP

Generally, there are over 75 licenses that may apply to SMEs in Cambodia and these are issued across a large number of ministries. The SME Sub-Committee has set up an SME Information Portal at www.mime.gov.kh which provides information useful for SMEs and anyone interested in the SMEs sector in Cambodia. Within this Portal is a one-stop information window which provides details on all licenses affecting SMEs together with the sample of the application form and the information on where to apply.⁹

1-(4) Planning and Implementation of Small & Medium Enterprises policies

In July 2004¹⁰, the new Rectangular Strategy for Growth, Employment, Equity and Efficiency was announced to govern private sector development and job creation in Cambodia.

The four aspects of the Strategy are: (i) strengthening private sector and attracting investments (including garment and tourism sectors); (ii) **promotion of small and medium enterprises**; (iii) Job creation and ensuring better working

⁹ A Handbook of Commercial Registration by MOC, and ADB's prepared (2008)

¹⁰ Small and Medium Enterprise Development Framework by RGC, Sub-Committee on SMEs (2005)

conditions for workers and employees; improved work conditions; and (iv) establishment of social safety nets for civil servants, employees and workers.¹¹

In this strategy, small and medium enterprises (SMEs) development is given a strategic importance as one of the four missions. The RGC aims to actively promote private sector investments for expansion and diversification of manufacturing and industrial production to take advantage of the country's natural endowments. Natural-resource-based industries, in particular industries using non-metal minerals as raw materials, have been further developed to produce new industrial commodities. Agro-based industries are the highly potential ones for the developments in terms of replacing other industries that are vulnerable to any crisis.

In the strategy, the agenda emphasized on promotion of economic growth, generation of employment for all Cambodian workers, implementation of the Governance action plan, and enhancing efficiency and effectiveness in order to reduce poverty and achieve sustainable development. The core of the 'Rectangular Strategy' is good governance.

The first Phase of the rectangular strategy on the SME Development Strategic Framework was adopted by the Royal Government of Cambodia in 2005. Its implementation was focused on (a) regulatory environment, (b) SME access to finance and (c) support of business development services. The SME Development Framework (2005) has been implemented through an action plan that sets out priorities and identifies agencies charged with the responsibility to carry out actions.

The rectangular Strategy Phase II for 2010-2015 (the strategy framework of the GDI 2010-2015) built on the lessons learnt from the first framework was established subsequently. The part II of "Rectangular Strategy-Phase II" stated that the Royal Government will continue to improve the business climate for small and medium enterprises. The strategy is in line with the approaches of the national strategic development plan updated for 2009-2013, in regard to the Policy priorities for the Forth Legislature¹². The RGC has reduced minimum requirements for the registration of small and medium enterprises and the company registration fee. Accounting system and financial report mechanism have been simplified. Loans

¹¹ Small and Medium Enterprises Development Framework, 2005.

¹² Fourth Legislature is political platform of the Royal Government of Cambodia fourth legislature of the National Assembly

provided by financial institutions to small and medium enterprises have increased considerably.

In order to improve the business climate for small and medium enterprises development, four main aspects are focused as follows:

(1) Legal and regulatory framework - facilitating registration particularly via internet system, defining procedures and principles for inspection and certificate of origin for import and export, and adoption of a sub-decree on trade facilitation through risk management;

(2) Financing - creation of financial leasing companies, and strengthening governance and financial reports;

(3) Supportive actions for small and medium enterprises - promoting innovation and technology as well as financing for small and medium enterprises, and strengthening and widening other supportive services,

(4) Integrating small and medium enterprises into a global value chain and preventing all kinds of smuggling.

In addition, The Royal Government will promote implementation of new measures including: establishing the National Productivity Center to improve productivity and reduce production costs; establishing a National Standards Institute to ensure product quality conforming with regional and international standards; establishing national testing laboratories for physics, chemistry, micro-biology, and mechanism in order to evaluate quality and set prerequisite criteria for products; strengthening industrial property rights protection mechanism in order to promote innovation, adoption of new techniques and new technology; training to improve skills; and strengthening the relevant legal framework.

The RGC will continue to promote the "one village-one product" movement by encouraging inventions, entrepreneurship, and self-confidence in rural areas. This movement provides a comprehensive network linking production to the market, helps maintain regional identity, and encourages new initiatives for product diversification. The Royal Government will promote technical training for special products within some regions in the context of strengthening quality and expanding markets which are critical for further support to and participation in this movement.

To implement the RGC's prioritised 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. Developing Private sector and attracting investment.
- iv. Building human resources capacity and technology transfer.

These objectives will be achieved through the implementation of the following eight programmes:¹³

- 1) Programme 1: Strengthen institutional capacity and improve the quality and efficiency of public service delivery.
- 2) Programme 2: Strengthen quality and efficiency of the enforcement of the Law on the Management of Factories and Handicraft Workshops.
- 3) Programme 3: Strengthen partnerships with private sector and development partners.
- 4) Programme 4: Formulate policies to support industry and SMEs
- 5) Programme 5: Promote the national products to be in compliance with national and international standards.
- 6) Programme 6: Enhance the productivity and capabilities of Cambodian industrial producers.
- 7) Programme 7: Formulate and implement policies to strengthen works on industrial property rights.
- 8) Programme 8: Formulate and implement policies to strengthen works on metrological issues.

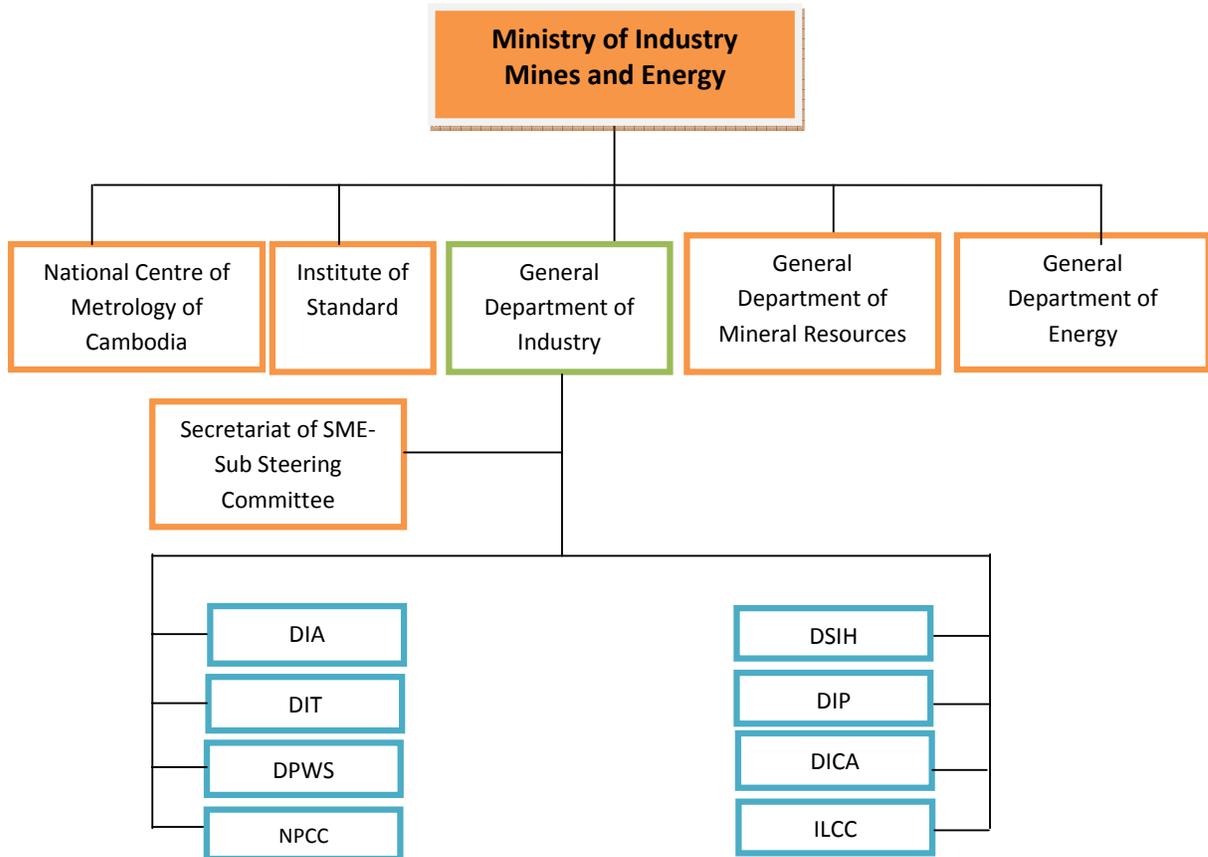
The General Department of Industry (GDI) is a primary agency under the Ministry of Industry Mines and Energy responsible for formulating and implementing government policy and development strategies in industry sector. It has core mandate to implement the RGC's Development Policy and Strategy in industry and SME sectors as articulated in the Rectangular Strategy Phase II.

The General Department of Industry (GDI) main areas of responsibility include regulatory function over manufacturing industry and secretariat to SME Sub-Committee which is responsible for overall coordination of cross cutting policy and strategy development in Small and Medium Enterprise sector. The GDI plays very

¹³ Chapter IV: Key Policy Priorities and Actions: 2009-2013 p.161

important role in driving the development of a dynamic industry sector and in promoting efficiency, equity, employment and growth.

The Organizational structure of the General Department of Industry (GDI)



Source: MIME

The General Department of Industry (GDI) consists of nine departments and a secretariat¹⁴. Under the responsibilities of GDI, the Department of Small Industry and Handicraft (DSIH) is responsible for developing, regulating and implementing government policy on SME in the manufacturing sector and handicrafts.

Eight departments and a secretariat are as follows:

- 1) Department of Industrial Affairs (DIA)
- 2) Department of Industrial Techniques (DIT)
- 3) Department of Potable Water Supply (DPWS)

¹⁴ <http://www.gdi.mime.gov.kh/en/government/about-us.html>

- 4) National Productivity Center of Cambodia (NPCC)
- 5) Department of Small Industry and Handicraft (DSIH)
- 6) Department of Industrial Property (DIP)
- 7) Department of Cooperation and ASEAN Affairs
- 8) Industrial Laboratory Center of Cambodia (ILCC)
- 9) Secretariat of SME Sub Steering Committee

The Secretariat role is to be an administrative support office of GDI working in close collaboration with Secretariat of SME Sub-Committee to provide full coordination and administrative facilitation of GDI's operations and projects.

The Strategy 2015 aims to promote diversified industries of which small and medium enterprises are an integral part to meet the poverty reduction strategy and rectangular strategy of the Royal Government of Cambodia.

GDI's core areas of intervention under strategy 2015 will be in five approaches: (i) business enabling environment, (ii) skill development and technology adoption, (iii) investment promotion and SME's access to finance, (iv) business development services, and (v) economic linkage and industry clustering.¹⁵ These approaches are elaborated as follows:

1) Business Enabling Environment

The regulatory framework will be improved through implementation of good practice regulation; ensuring effective enforcement of rules of law and regulations; reducing red-tape by reviewing and streamlining existing administrative procedures, licenses and registrations; encouraging entry and diversification, in particular through easing the cost of starting and doing business and reducing regulatory uncertainty.

2) Skill Development and Technology Adoption

A policy and strategic framework on technology adoption will be established and implemented. The target included; creating opportunities for SMEs to develop skills through workshops and trainings under various cooperation projects and programs, raising SME awareness about technology adoption and innovation, organizing general and tailor made trainings for SMEs, and promoting R&D activities and building linkages with industries and support business associations to build up their capacity and institution.

¹⁵ The Strategic Framework of the General Department of Industry 2010-2015

3) Investment Promotion and SME Access to Finance

GDI and SME Sub-Committee will develop effective mechanism and legal instruments to support and provide incentives to potential SME sectors. Such policy mechanism will aim at addressing the issues of SMEs formality and fiscal and non-fiscal incentive schemes for global or specific sector.

4) Business Development Services

The GDI will promote Business Development Services (BDS) activities through championing its BDS services to SMEs and raising awareness about it. GDI will concentrate its BDS activities in areas of entrepreneurship and productivity to increase SME business performance.

5) Economic Linkage and SME Clustering

GDI plans to promote industrial and SME clusters in Cambodia initially through a study to identify issues, challenges and opportunities for cluster formation and then developing policy for promoting SME and industry clustering. Under this framework GDI will also implement program on policy advocacy and industry awareness about economic benefits of the identified industrial clusters, and assist industries and SMEs to form appropriate clusters.

The National Strategic Development Plan Update 2009-2013 is adopted to further develop the small and medium enterprises, with the aims to benefit rural communities in processing, to add value to products, to create employment, and to create important link with the trade sector as well as with larger enterprises. The plan would focus on three main aspects being: 1) legal framework and procedural improvement, 2) financing support, and 3) SMEs supportive services.

The SME Sub-Committee was established to encourage participation and dialogue with a wide range of stakeholders and to consider implementing a mechanism for formal and informal consultation with significant groups and institutions. Among the most important bodies with which the SME Sub-Committee should maintain close contact include:

- (i) SME and private sector associations and representative groups;
- (ii) Other Ministries not represented on the SME Sub-Committee; and
- (iii) Women's groups (particularly those representing female entrepreneurs).

Furthermore, based on the Development Framework (2005), the SME Sub-Committee should coordinate activities with donors.

The promotion of small and medium enterprises has contributed to benefiting rural communities in processing, and adding value to products, as well as creating an employment. It has also created an important link with the trade sector, also with larger enterprises. The planned work ahead will focus on three main aspects as follows:

(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.¹⁶

¹⁶ Chapter II: Major Achievements and Challenges in the Implementation of NSDP 2006-1010

1-(5) Financial Support for Small & Medium Enterprise Policy

In 2005,¹⁷ two institutions play key roles in the microfinance sector. These institutions are the National Bank of Cambodia (NBC) and the Ministry of Economy and Finance (MEF). The National Bank of Cambodia (NBC) is the country's central bank. The Ministry of Economy and Finance (MEF) which is the policies provider is the regulator controller. The commercial banks involved in both small-enterprise lending and their traditional large-scale lending are the Association of Local Economic Development Agencies (ACLEDA), and the Rural Development Bank (RDB), which are established by the Royal Government of Cambodia as commercial bank and specialized bank, respectively. Their tasks are to support and strengthen microfinance services in rural areas, including the development, promotion and financing of Small and Medium Enterprises (SMEs). ACLEDA Bank is providing a financial support to customers according to customers' needs. It understands well about the needs and improvement of customers at all levels from micro business loan to small business loan and from small business loan to medium business loan customers.

Cambodian formal financial institutions, under the National Bank of Cambodia control, comprise 4 groups; Commercial Banks; Specialized Banks; Micro finances institutions (MFIs); and Representative Offices. All of them operate both credit and debt activities based on the Banking Law under the Ministry of Economy and Finance of Cambodia. In regard to monetary policy of the National plan 2009-2013, the National Bank of Cambodia (NBC), the monetary authority, will continue to implement "Financial Sector Development Strategy 2006-2015" to: (i) maintain price stability with an inflation target of under 5%; (ii) ensure the continued soundness of the financial sector by responding in a proactive manner to emerging internal and external developments; (iii) continue to manage a floating exchange rate regime with a target of around 4,100 CR per US dollar; and (iv) maintain foreign reserves to finance at least three months of imports.

¹⁷ Prime Minister conference on Role of Government in Grassroots Economy Development and Poverty Eradication

The Government's financial support to SMEs is to promote product exportation, reduce and streamline SME registration procedures, ease the business doing such as reducing the capital required in order to register a SME. It may be stated that the financial support for SMEs Promotion activities comes from 4 sources:

- 1) The Royal Government of Cambodia (RGC)
- 2) Government agencies
- 3) Financial institutions
- 4) Non-governmental organizations (NGOs)

1-(6) Breakdown of Responsibilities for Central and Regional Governments

In 2006¹⁸, the Royal Government of Cambodia has committed to take actions to achieve four goals for administrative reform. These goals are (i) make public institutions more efficient; (ii) transfer responsibilities to local governments; (iii) improve management of the civil service; and (iv) select civil servants to carry out reforms quickly. To improve local production and increase consumer confidence in local products as well as to support export, there would be institutions in Cambodia capable of controlling food standards, safety standards etc.

In 2007¹⁹, the Ministry of Commerce (MOC) has established a Commercial registration office at its provincial branch in BattamBang Branch to serve businesses in BattamBang, Pursat, Bantay Meachay, and PaiLin Province. Plans to open commercial registration offices in other provinces include: a) in 2010, a commercial registration office in Preah Sihanouk province for trade facilitation in Preah Sihanouk, Takeo, Kampot, and KohKong Provinces, b) in 2010, a commercial registration office in the Kratie Branch for trade facilitation in Kratie, Stoeng Treng, Mondol Kiri, and Rotanakiri Province, c) in 2012, a commercial registration office in the Siem Reap Branch Office for trade facilitation in Siem Reap and Oddar Meanchey Province, and d) in 2013, the Ministry of Commerce will develop an electronic system for facilitating business registration.

¹⁸ SMEs Annual Report 2006, Sub-Committee or SME Secretariat

¹⁹ The NSDP Update 2009-2013 p.53-p.54

1-(7) Cooperation and Coordination with Donors

There are many SME development programs in Cambodia assisted by donors. More than 19 major donors including ADB, GTZ, USAID, IFC, UN agencies and World Bank, have been implementing private sector development activities covering wide-ranging aspects from policy issues, regulatory framework, to infrastructures, capacity-building and financing.

The SMEs Sub-Committee would be responsibilities for coordinating activities with donors. The Government-Donor Coordination Committee (GDCC) has been established to coordinate with the Technical Working Groups (TWGs) and to provide policy guidance in Cambodia. Several Working Groups under the Cambodia Government mechanism have been in operation since 1999 to monitor progress on specific policy issues. The Council for the Development of Cambodia (CDC), which is a part of the Ministry of Economy and Finance, is responsible for overall donor coordination in Cambodia. There are 18 bilateral donors, 16 UN agencies, the World Bank (WB), the IMF, and the Asian Development Bank (ADB) providing assistance to Cambodia.

Chapter 2 Specific Schemes of SME development policies

2-(1) Financial

- **Financial structure:**

Cambodian formal financial institutions under the National Bank of Cambodia control can be classified into 4 groups i.e., Commercial Banks, Specialized Banks, Microfinance institutions (MFIs) and Representative Offices. All of them operate both credit and debt activities based on the Banking Law under the Ministry of Economy and Finance of Cambodia. Banking service is regulated by National Bank of Cambodia (NBC) and Insurance service is regulated by Ministry of Finance (MEF). The banking system in Cambodia consisted of 24 commercial banks; 7 specialized banks; 2 representative offices of foreign branches; 21 microfinance institutions, four of which are licensed for public deposit taking; and 27 rural credit operators registered with the NBC. In addition, there were also around 60 NGOs providing informal financial services in various areas throughout the countries. For the operation of banking and finance in Cambodia, US dollar is the major currency of transaction (70%+) with full convertibility of the Riel and stability of the local currency combined with a multi-currency environment (THB, EUR, etc.)²⁰.

With regard to the Microfinance institutions, their total assets increased by 78% in 2007. Loan delinquency was reported at below 1% in March 2008. There are 17 licensed and 26 registered microfinance institutions (MFIs) with total assets equivalent to 2% of GDP in 2007 employing a total staff of 3,511 persons (40% increase from 2006) to serve the poor. Bank deposits and Domestic Credit to private sector from 2000 to 2008 had increased in value in millions of USD while non-performing loan or NPL ratio has decreased since 2007.

The Sub-committee on Small and Medium Enterprises has drawn up a framework for the major two-phase economic development. Phase I (2005-2007) focuses on enhancing intermediation through competition and phase II (2008-2010) aims to promote efficiency through integration and reorganization. The players in financial system in Cambodia are listed under dominance of banking system and the

²⁰ ACLEDA Bank Plc. Phnom Penh, Cambodia

central bank or a decentralized banking system, consisting of MFIs and a number of NGOs operating in the rural finance.²¹

Banking Sector²²

The key objectives of the FSDP 2006-2015 are to address issues relating to the preconditions for banking operations and supervision, relating especially to developing systems to deal with problem bank resolution and insolvency, and developing an effective, efficient and safe national payment and settlement system.

Insurance Sector²³

There are 5 insurance companies - Forte, Asia Insurance, Caminco, Infinity Insurance, Long Pac Insurance; and one reinsurance company is on progress of re-operating. In relation to capital markets based on Pensions, in line with the suggestions in Insurance, three pillar pension systems will be developed similar to those of other countries particularly in Asia. In addition, Cambodia may consider developing an appropriate framework to support on Securitization.

2-(2) Tax system

There is **no specific tax law** or provisions for SMEs in Cambodia. The taxation system in Cambodia is relatively new and is characterized by numerous taxes and frequently changing legislation, which is often unclear, contradictory, and subject to interpretation. The Law on Taxation, the Sub-Decree on Value Added Tax, the Prakas on Profit Tax, the Prakas on VAT and associated tax regulations have been implemented by the Cambodian Tax Department (TD).

In Cambodia, the highest authority in the tax administration is the Minister of the Ministry of Economy and Finance (MEF). The Law on Tax was promulgated in 1997, and amended on 31 March 2003. The Cambodian taxation system is divided into three taxation regimes.²⁴ Each regime imposes different tax obligations on taxpayers. These taxation regimes are as follows.

²¹ Dr. Hang Chuon Naron, Secretary General Ministry of Economy and Finance, Cambodia 2007.

²² NBC Annual report 2009 on blueprint 2006-2015 English

²³ Economic Development Policy, Dr. Hang Chuon Naron, 2009

²⁴ 39473-CAM-DPTA:Asian Development Bank, 2008

- (i) the real regime tax system (RRTS);
- (ii) the estimated regime: and
- (iii) the simplified regime.

The basic Laws of taxation in Cambodia are as the following;²⁵

- Taxation of resident enterprises,
- Tax on Profit,
- Prepayment of Profit Tax
- Minimum Tax
- Withholding Taxes
- Double Taxation Agreements
- International Agreements
- Cambodian Tax Incentives.

Table 7: Cambodia Rates of Tax on Profit

Tax	Tax Rate %
Standard tax rate	20%
Preferential rate	9% (to be phased out by 2010)
Oil and gas, and certain mineral exploitation activities	30%
Insurance activities	5% (on gross premium income)
Resident individuals	0% - 20%

Profit Tax Returns or Prepayment of Profit Tax

- Monthly tax return for prepayment of profit tax is at the rate of 1% of the turnover (inclusive of all taxes except for VAT)
- Yearly tax return must be filed in the form prescribed by the tax administration no later than 3 months after the end of the tax year.

Minimum Tax

Real Regime taxpayers are subject to a separate Minimum Tax. The Minimum Tax is an annual tax with a liability equal to 1% of turnover inclusive of all taxes

²⁵ Tax System and Measures in Response to the Global Financial Recession, General Department of Taxation, MEF

except VAT, and exemption has been provided for QIPs. As a separate tax to the Tax on Profit, Minimum Tax is due irrespective of the taxpayer's profit or loss position.²⁶

Under the Law on Taxation ²⁷(LoT), its provisions are applied to entities having "a fixed place of business or a resident agent in the Kingdom of Cambodia through which a non-resident person carries out business, wholly or partially, in the Kingdom of Cambodia". A permanent establishment includes also any other association or connection or mean through which a non-resident person engages in economic activity in the Kingdom of Cambodia". The Law on taxation states that a permanent establishment includes the following forms of business activity in Cambodia:

- A place of management;
- A branch of a foreign enterprise;
- An office of a foreign enterprise;
- A warehouse;
- A factory;
- A workshop;
- A mine, or any other place of extraction, of natural resources;
- A building site, a construction project or an assembly project, or supervisory activities connected to site or project.
- The furnishing of services including consultancy services by the employees or other personnel of a foreign enterprise where such activities continue within Cambodia for period aggregating more than six months in any 12 month period.

Persons or juristic persons of any size are treated the same under the tax law. There are some tax incentives for investment in special economic zones or underdeveloped regions, or investment in priority fields through an investment priority plan, but these are not limited to small and medium enterprises.

²⁶ Cambodia Pocket Tax Book 2007, PricewaterhouseCoopers (Cambodia) Ltd.

²⁷ 39473-CAM-DPTA: Cambodian Tax System and Tax Reform of Leasing, ADB, 2008.

The business taxes in Cambodia which involved with SMEs are follows:

- Sales Tax,
- Corporate Tax
- Patent Tax
- Personal Income Tax
- Tax on Profit
- Valued Added Tax (VAT)
- Specific Tax on Certain Merchandise and Service
- Turn Over Tax.

The Law on Taxation includes the Sub-Decree on Value added Tax No. 114 (1999) (VAT Sub-Dcree), Prakas on Tax on Profit No.1059 PK/MEF/DF (2003) (Prakas TOP), and Prakas on VAT No. 1031 PK.SHV.PD (1998) (Prakas VAT)

Financial Reporting Template:²⁸

The Ministry of Economy and Finance introduced to SMEs a standard financial reporting template in June 2006 called "Financial Reporting Template (FRT) for Small and Medium-Sized Enterprises". The intention was to provide SMEs a tool to assists them in applying for financing from banks and financial institutions, or other needs requiring financial statements and in accordance with laws and regulations in force. SMEs are encouraged by the National Accounting Council to use the FRT template as a basis for preparing financial statements, for both internal management purposes and for presentation to banks to support an application for a loan. An SME is deemed to be any enterprise carrying on business activities, which is not subject to the obligation of preparing financial statements in accordance with Cambodian Accounting Standards, and based on its declaration data or examination, meeting two of the three following criteria:

1. Total maximum workers-employees from 11 to 100.
2. Annual turnover is from KHR 100 million to less than KHR 250 million.
3. Total assets are from KHR 100 million to KHR 250 million

²⁸ A Handbook on Commercial Registration (2008) by MOC, ADB's prepared

2-(3) Information Services, Human resources Training for existing SMEs

Information Services²⁹:

The Ministry of Commerce has provided market information only through the Ministry's News Letter and Television. To improve market information, in 2008, the Ministry developed an Electronic Market Communication System (EMCS) which is expected to provide better and faster information. The EMCS can now be accessed by mobile phones to check price information of agricultural products, food products, exchange rate, and other market demands.

Capacity Building and Human Resources Development:

The "growth" angle of Rectangular Strategy covers significant social sectors as follows: (1) strengthening the quality of education; (2) ensuring enhanced health services; (3) implementation of gender policy; and (4) implementation of population policy. Cooperation and coordination mechanisms among various stakeholders had started even before introduction of the Technical Working Groups (TWGs) mechanism in late 2003.

The Sectoral strategies for Education and health sectors are now well developed and are being implemented, and progress is being monitored on a regular basis in a timely manner. Strengthening the quality of education has been and remains a high priority of the RGC. It is recognized as a necessary and critical element for human development and poverty reduction. The RGC encouraged the use of a sector wide approach (SWAp) by building partnerships to carryout joint planning and programming for education sector. For the Trade Sector Wide Approach (Trade SWAp), a Ministry of Commerce (MoC) Department of International Cooperation-led and multicolor-funded initiative to organize trade facilitation efforts, offers an important new framework for USAID-funded activities in the area of economic growth and trade related policy reform. The Trade SWAp program will support systematic reforms along three pillars: reforms and crosscutting issues for trade development; product and service sectors export development; and capacity building and management for trade development.

²⁹ Chapter III: Major Achievements and Challenges in the Implementation of NSDP 2006-2010

The Education Strategies Plan (ESP) 2006-2010 has contributed to enhancing equitable access to education for all Cambodian children, assisting them to become good students, good children, and good citizens, which will be able to productively contribute to socio-economic development of Cambodia in the future.

Training³⁰:

In 2007 and 2008, the Ministry of Labour and Vocational Training (MLVT) has been providing employment placement services to assist job seekers in finding employment in private sector businesses in the country and overseas. The MLVT was also providing technical and vocational training programmes through 258 training centres (primary, secondary, tertiary) of which 58 centres belong to MLVT. There were 113,648 students (of which 53,903 were female). In addition, at the end of 2008 the Ministry was using the Special Fund of Samdech Prime Minister (31.2 billion riels) for short-term training programmes for workers who have lost jobs and unemployed (40,140 in total of which 22,586 were female students). The training programmes were conducted in the Capital and 23 provinces focusing on two important skills: (1) agricultural skills and (2) manufacturing skills, handicraft skills, and services skills. The MLVT also has provided trainings to 4,510 apprentices and workers (of which 4,082 were female) in 69 factories. The National Employment Agency (NEA) is established to assist the trainees after they have finished their technical and vocational training in finding jobs. This establishment of the NEA constitutes a connection to labour market and a link between labour forces and training institutions.

2-(4) Supports for Obtaining Management Resources for Existing SMEs

Some training are offered to the micro and small enterprise sector but there is little information about the firm level training because of the lack of training and R&D center. Some organizations, on the other hand, provided necessary on-the-job training, but less concern with skill improvement or capacity-building of the employees. The Ministry of Education, Youth and Sport (MOEYS), the Ministry of Labour and Vocational Training (MLVT) and the Ministry of Industry, Mines and

³⁰ The NSDP update 2009-2013

Energy (MIME) have addressed the issue in Social Economic Development Program II (SEDP II) and committed to expand workplace-based training. The Cambodia Chamber of Commerce is also planning to be more active in providing on and off-the job training and technical expertise development for employees and labours to support business community and SMEs Development. There are many services to support for obtaining management resources for existing SMEs. They are Small and Medium Industries Association of Cambodia (SMI) and Private Sector Promotion in Rural Areas (PSP) or (PSP-GTZ); GTZ provided the management for IT-Support, and ISO 9001:2000 Certification and Measures for Development of SMEs.

2-(5) New Business / Venture Support

The Royal Government of Cambodia has reduced minimum requirements for the registration of small and medium enterprises and the company registration fee. Accounting system and financial report mechanism have been simplified. Loans provided by financial institutions to small and medium enterprises have increased considerably. The Ministry of Commerce (MOC) has been working on streamlining the procedures for new business registration, providing market information, organizing product associations, implementing "better factories"³¹ programme, trade facilitation and promotion, and enforcement of intellectual property laws. The Ministry of Commerce (MoC) established a commercial registration office at its provincial branch in BattamBang Branch to serve businesses in BattamBang, Pursat, Bantay Meachay, and Pailin Province, and also plan to open commercial registration office in other provinces within 2010-2013 to facilitate registration of new business.

The Council for the Development of Cambodia (CDC) comprises three important executive boards: The Cambodia Investment Board (CIB), the Cambodia Rehabilitation and Development Board (CRDB) and the Cambodia Special Economic Zone Board (CSEZB). The Cambodia Investment Board deals with all private sector applications, led by Secretary General, the authority of the country's new Investment law. The CIB is a one stop service for private investment. The Cambodia Rehabilitation and Development Board (CRDB), headed up by Secretary General, deals with infrastructure planning and all public sector projects. The CRDB also

³¹ NSDP 2009-2013 (Strengthening the private sector and attracting investment)

liaises with aid bodies and many non-governmental organizations working for a better Cambodia.

To reduce barriers to seeking for approvals from line ministries and agencies, , the Royal Government has created in 2009 a "Single Window"³² mechanism through which investors can receive a complete set of approvals of the investment applications. This "Single Window" mechanism is administered and managed by the Cambodia Investment Board of the Council for the Development of Cambodia (CIB/CDC). To shorten the duration of time required for the approvals of applications for investments of less than 2 million US\$ and provide facilitation to investors, the RGC has decentralized the authority to review and approve the investment projects to the Provincial Investment Sub-commissions. The CIB/CDC has also established an "Investor Aftercare" mechanism and an "Investor Tracing System" to deal with challenges faced by investors and to monitor the progress in the implantation of the approved investment projects.

The Royal Government determined to ensure transparency, accountability and effectiveness in the delivery of services to investors. A high priority is to continue to streamline and improve the delivery of investor services by strengthening the technical capabilities of officials, in particular at the mid levels, at the national and sub-national levels. It is recognized that Special Economic Zones (SEZs) are an important part of the country's economic development because SEZs bring infrastructure, jobs, skills, enhanced productivity and the prospect of poverty reduction in rural areas. Location of the SEZs is vitally important to the increase of employment and the poverty reduction. A sub-decree on the Establishment and Management of Special Economic Zones (to include export processing zones and free trade zones) was adopted in December 2005.

2-(6) Promotions of fair Dealing and Maintenance of Markets for SMEs

The Ministry has actively implemented the Sub-Decree on Trade Facilitation through Risk Management which was adopted in March 2006³³ and executed the

³² Part II "Rectangular Strategy-Phase II" <http://www.snec.gov.kh/policies/rectangular-strategy.html?start=1>

³³ National Strategic Development Plan Update 2009-2013 (Promotion on Small and Medium Enterprises)

Export Market Access Fund supported by the World Bank. It has organized "Trade fairs" to promote local products and organized several business meetings with foreign trade partners for individual products to solve the problem of product congestion and to facilitate the flow of products to the world market.

The RGC has reduced the costs of doing business and expanded market access, reduced in-country transportation costs and improved safety through better basic infrastructure that also promotes integration of urban and rural economies. The progress made towards achieving these priorities has significantly contributed to the recent developments in other sectors and to the enhancement of socio-economic conditions of rural population especially the poor.

The government has initiated specific measures to promote business, especially small and medium-sized businesses, by reducing costs and the time required for business registration and by establishing a number of committees for business promotion and trade facilitation.

To strengthen private sector for trade and economic development and promoting local business, the MOC has set up 11 Provincial Chambers of Commerce in 2006 and 2007 in the Bantam Bang, Siem Reap, Pursate, Bantay Meanchey, Kanda, Takeo, Kampot, Sihanoukville, Koh Kong, Kampong Speu, and Kampong Cham provinces. In 2008, Cambodia's Chamber of Commerce was organized to represent Cambodia's private sector in business negotiations and to attract foreign direct investment into Cambodia. Phnom Penh Chamber of Commerce that was established in 1995 has been providing training for trainers, as well as supporting the Provincial Chambers of Commerce. To maintain competitiveness of the Garment sector in the world market, the MOC in collaboration with the MLVT has been implementing the 'Better Factories' programme. It is to ensure that better working conditions in the sector meet international standards, to provide training to workers and unions on Labour Law associated with terms of trade, and to encourage fashion design in order to promote the export of commodities processed in Cambodia.

To Promote integration in the region, in 2008³⁴, a Cambodia-Vietnam Cross Border Market Committee has been organized to develop the blue print for cross border market construction along Cambodian-Vietnam border in Memot and to

³⁴ Chapter II: Major Achievements and Challenges in the Implementation of NSDP 2006-2013

prepare agreement on tariff free exports of Cambodia agricultural products to Vietnam.

2-(7) Regional SME Policies

The Royal Government of Cambodia continues to promote the "one village-one product" (OVOP) movement by encouraging inventions, entrepreneurship, and self-confidence in rural areas. This movement provides a comprehensive network linking production to the market, helps maintaining regional identity, and encourages new initiatives for product diversification. The Royal Government will promote technical training for special products within some regions in the context of strengthening quality and expanding markets which are critical for further support to and participation in this movement.

The objectives of the OVOP are as follows:

- Promotion of local products and services
- Increase of the value-addition to local products
- Promotion of market-linkages from regional to international

The Royal Government of Cambodia has determined the composition, organizational structure, role and responsibilities, and functions of the National One Village One Product Committee. The National OVOP Committee has the duty to assist the government to be successful in the promotion of OVOP movement in consistent with the government's policy platform to reduce poverty.

The One Village One Product (OVOP) National Committee of the Kingdom of Cambodia was established by Royal Decree dated January 27, 2006 and Sub Decree dated June 26, 2006. The OVOP National Committee has the following composition:

- 1- Samdech Hun Sen Chairman
- 2- Excellency Sok An Vice Chairman
- 3- Excellency Son Koun Thor Secretary General

The members of the OVOP National Committee are representatives of relevant ministries and institutions. The OVOP National Committee was created by Royal Decree No. NS/RKT/0106/043 dated January 27, 2006, and the Sub-decree No.

436 dated June 26, 2006 to outline the organization and functioning of the “One Village One Product National Committee”.

Subsequently, a number of institutions have initiated movements with activities and directions similar to OVOP movement such as:

- "One Province One Product" movement initiated by the Ministry of Commerce.
"One Association or One Community One Product" initiated by the Association/Community of Small and Medium Enterprises to enhance productivity and quality of local Cambodia products to supply to both local and foreign markets, especially the tourism sector.

The OVOP Policies are as follows³⁵:

- 1) To seek means of production suited to the real situation in the village environment and according to market demand.
- 2) To facilitate and provide incentives to producers such as market accession, providing credit, transferring technology, and offering seeds as well as raw materials.
- 3) To improve management skills and human resource development.
- 4) To facilitate the establishment of a Farmer Cooperative to guarantee the price of the products.

2-(8) Supporting the Internationalization of SMEs

The private sector investment from both domestic and foreign sources has been the main drivers of the sustained high rates of economic growth achieved. In accordance with National Development plan update 2009-2013, the Royal Government has signed 24 bi-lateral agreements on the promotion and protection of investments and is negotiating with other countries within the framework of ASEAN, APEC, USA, Europe, and Middle East to promote further development of private sector with 7 neighboring countries, and 17 agreements with other countries in the Middle East, East Asia, and Europe.

The international Institutions that support Cambodia as development partners include United Nations Development Fund for Women (UNIFEM); East and

³⁵ www.ovopcambodia.com

Southeast Asia Regional Office; three International Financial Institutions including World Bank, IMF and ADB; twelve United Nation Agencies, ten Associations from European Unions, and ten countries that are Bilateral Development Partners.³⁶

2-(9) Employment / Work Policies for SMEs

Based on Cambodian Labour Law (1997), the Ministry of Labor and Vocational Training (MLVT) is responsible for the standards. The MLVT has been providing employment placement services to assist job-seekers in finding employment in private sector businesses in the country and overseas. The Ministry of Social Affairs, Veterans and Youth Rehabilitation (MOSAVY) is responsible for monitoring and enforcing compliance, training and rehabilitation youth.

In addition to the registration with the MOC in Phnom Penh, registration with the general department of labor or provincial labor department is necessary if the registered office business intends to operate in Phnom Penh or another province. After the approval from the Labor Inspection Department in Phnom Penh has been received, it is necessary to apply for the work permit for expatriate staff and the labor books for the Cambodia staff with the Department of Manpower and Employment at MLVT.

In order to reduce the gap between demand and supply for jobs, the government continues to implement the vocational training policy linking with labor market in close cooperation with relevant parties through the following measures:

- 1) provide basic skills training to people in rural areas to increase income;
- 2) provide training or skill improvement to factory workers in cooperation with employers;
- 3) continue to expand technical and vocational training to provinces/municipalities, including entrepreneurship training program; and
- 4) establish National Agency for Profession and Employment, and Employment Centers in provinces/municipalities as a mechanism for dissemination of labor market information. (Source:Part II "Rectangular Strategy-Phase II")

³⁶ http://www.cdc-crdb.gov.kh/cdc/other_link/development_partners.htm

The training programmes were conducted in the Capital and 23 provinces focusing on two important skills: 1) agricultural skills and 2) manufacturing skills, handicraft skills, and services skills. The MLVT also has provided trainings to 4,510 apprentices and workers (of which 4,082 were female)³⁷ in 69 factories and has established a National Employment Agency (NEA) to assist the trainees after they have finished their technical and vocational training in finding jobs. This could constitute a connection to labour market and a link between labour forces and training institutions. The Ministry is working on drafting the Law on Trade Union³⁸ through a tripartite mechanism comprising of representatives from the RGC, worker/employee organization and employer organization.

2-(10) SMEs Organizations and Networks

At the country level, the economic linkage is needed among different key economic sectors; agriculture, industry and services, in order to gain full benefit of potential and comparative advantages. Economic linkage and regional cooperation and integration have big potential for Cambodia to accelerate its industrialization and growth. It can improve Cambodia's possibilities for growth by expanding trade and joint investment with its neighbors, strengthening transport and information connections, and improving information and communication technology.

Developing clusters, business associations and value chains are key ways for SMEs to foster business linkage and increase market access. Cluster development is occurring organically in Cambodia and with the help of business associations. The Organizations that help networking of SMEs are GTZ, UNIDO, and USAID.

The GTZ assisted in the works of PSMIA and WASMB. With the support of GTZ, the PSMA established an IT-enabled Business Information Center to provide a wide range of information services to members and all other SMEs.

The GTZ supports the WASMB to help develop the association's business plan and set up the necessary information and communication technology infrastructure for its business information center.

³⁷ Major Achievements and Challenges in the Implementation of NSDP 2006-2010

³⁸ The Labour Ministry will finalise law on trad union in March 2011

The Cambodia Organic Agriculture Association was founded with the assistance of the GTZ Trade Promotion Cambodia Project for improving value chains in another way to improve linkages for SMEs.

The USAID micro, small and medium enterprise (MSME) project is working in Kratie, Kampong Cham, Svay Rieng and Prey Veng, using a value chain approach. The vision of the MSME project is to promote new ways of thinking and acting among local business people that emphasize “non-zero sum” or “win-win” situation.

The United Nations Industrial Development Organization (UNIDO) is assisting development of clusters in Cambodia; the Ministry in charge is Ministry of Industry, Mines and Energy (MIME) and some associations of trade being the Chamber of Professionals & Micro-Enterprises Association, and Women's Association of Small & Medium Business.

2-(11) Development Policies for Small Scale SMEs

Small scale enterprises are those with less than 50 employees in Cambodia. Small scale enterprises dominate economic activity and account for substantial part of employment. The sector is made up mostly of unregistered farmers and agricultural enterprises. Women constitute about 52 % of the economically active population of which approximately 45% are self-employed, primarily in the informal sector. In 2005, the Ministry of Industry, Mines and Energy (MIME), through its annual survey of industrial enterprises, determined that there were 28,747 small industrial establishments with fewer than 50 employees. Women's role in SMEs Development is small scale and microenterprise; they are important sources of employment. In Cambodia, with \$5 million from USAID; Micro, Small and Medium Enterprise (MSME) project is systematically strengthening for all sectors, except retail sales, of the production/marketing chain for pigs, pond aquaculture, and tile-making in four relatively poor Cambodian South Eastern provinces³⁹. The project covers 25 tile makers in the three target provinces. These are small scale enterprises with less than 50 employees, and an average of just over \$ 90,000 in capital investment.⁴⁰

³⁹ USAID Cambodia, 2007. Evaluation of the Cambodia Strengthening Micro, Small and Medium Enterprise Program and capacity building and management for trade development.

⁴⁰ USAID, Evaluation of the Cambodia Strengthening Micro, Small and Medium Enterprise Program, 2007

2-(12) Safety Net

A number of the RGC institutions are currently delivering social protection and safety net programmes to assist individuals, households, and communities to better manage risks. The Ministry of Labour and Vocational Training (MOLVT) has put into operation the National Social Safety Fund (NSSF) for workers/employees that was established in 2008. The Ministry of Social Affairs, Veterans and Youth Rehabilitation (MOSAVY), Ministry of Labour and Vocational Training (MOLVT) and the Ministry of Women's Affairs (MOWA) are all mandated to deliver social services to the population and to protect specific vulnerable groups against risks.

Specific Safety net interventions have been delivered by other RGC institutions such as the Ministry of Health (MOH), the Ministry of Education, Youth and Sport (MOEYS), the Ministry of Rural Development (MRD) and the Ministry of Economy and Finance (MEF). These organizations are delivering programmes to address some major causes of vulnerabilities through health fee waivers, scholarships and exemptions that have helped households deal with health costs. Other safety net interventions include food distribution, labour-intensive public works, and targeted transfers.

The programmes of the MOSAVY are focused on reducing vulnerability of the poor, assisting the most disadvantaged people, providing moral and material support, and strengthening and developing Cambodia's social security system. According to the National plan as of 2009-2013, there are six areas to implement RGC's priority policies to strengthen social protection and safety nets by the Ministry's work⁴¹ as follows.

Priority 1: Strengthen and Expand Social Welfare Services for the Vulnerable Poor

Priority 2: Strengthen and Expand Child Welfare Services and Youth Rehabilitation

Priority 3: Strengthen and Expand Welfare and Rehabilitation Services for Disabled People

Priority 4: Strengthen and Expand the Social Security System and Welfare Services for Elderly, Civil Servants and General Citizens

Priority 5: Strengthen and Expand Social Security System and Welfare Services for Veterans

⁴¹ Key Policy Priorities and Actions:2009-2013

Priority 6: Strengthen and Expand Institutional Capacity, Partnership and Fund
Raising Capacity to Increase Effectiveness of Social Services

The MOLVT provides fund to private sector employees: employment injury coverage (workmen's compensation); health insurance; and pension coverage. The Employment Injury Scheme has already started in December 2008, while the Health Insurance and Pension Schemes are scheduled to start in 2010 and 2012, respectively. All firms that have more than eight employees will be required to enroll in these schemes. As of February 2009, the NSSF had enrolled roughly 400 firms in the Employment Injury Scheme, about 250 of which are garment factories, covering a total of roughly 300,000 workers. Employers participating in the Fund are required to make a monthly contribution equal to 0.8 percent of the employee's salary. The benefit is partly in kind and in cash. The covered employees received full medical assistance, plus 70 percent of the salary in order to compensate the forgone income during treatment.

The RGC is taking urgent measures to put in place safety nets through subsidies and targeted labor intensive work programmes, like food for work programmes, to protect the most vulnerable and the poor from the negative impact of external developments on the Cambodian economy. The MOC has been enforcing the Laws on Intellectual Property Rights to prevent production, import and distribution of fake products. Camcontrol officers regularly conduct market surveillance and carry out inspections at border check points to prevent the importation and selling of unsafe products which could have negative effect to the health and well being of the consumers.

Creation of Social Safety Nets:⁴²

To continue to implement social security policies, the Royal Government will give priority to improve working conditions for workers and employees, enforce Social Security Law, implement the principle of benefit and pension scheme for people with disabilities and their dependents, ensure protection of those covered by the Labor Law, and make available to all employees an insurance coverage against workplace accidents. The Royal Government will continue to strengthen support to people with disabilities and families of veterans who sacrificed their lives for the nation.

⁴² Part II "Rectangular Strategy-Phase II" no. 90

Chapter 3 Challenges of and Suggestions on Promotion of SMEs in Cambodia

The business activities in Cambodia are still developing in response to the growing economy. There is an urgent need for increasing financial services. Currently, there are many banks introducing credit and financial services which will assist SMEs to start business and e-business. These include Cambodia marketplace online with the tourism and handicraft sectors leading the way and the transactions of both B2B and B2C types covering foreign consumers abroad. This is a positive example of the expanding business environment in Cambodia.

3-(1) Current Problems of SMEs

From the survey and information review, it can be concluded that the current problems of SMEs in Cambodia are as follows;

1) Limited access to financing.

Banks and Micro Financial Institutions do not set priority on SME's business plan. SMEs lack information about how to access finance. The cost for processing lending documents remains very high and it takes a long time.

2) Limited access to market information.

The market information is underdeveloped. The provision of information to SMEs related to product specifications or other information related to market channels, demand and pricing still need to be improved.

3) Human development and technical capacity.

Technologies, including telecommunications and mass media sector, are major challenges for SMEs in Cambodia. The cost of internet use is still high. New technology and supports in technical training for special products in the regions, are needed.

4) Regulations related to hiring by SMEs.

No specific regulation for hiring is applicable to SMEs group, the lack of specialized commercial court limits the ability to seek judicial remedies.

5) Smuggling and trade facilitation.⁴³

⁴³ Small and Medium Enterprise Annual Report, August 31, 2006

One of the reasons for the difficulty to export SME's products is the prevalence of smuggling. Consequently, there is an urgent need for the improvement of trade facilitation. Any such improvement would increase SMEs access to inputs and the export markets and, thus remove the incentive for smuggling. Another reason in the lack of promotion on the 'one village one product' movement that could be encouraging inventions, entrepreneurship in the rural areas.

3-(2) Cooperation with Japan

Currently, Japan organizations cooperate with Cambodia as follows:

- i. Development of social and economic infrastructure;
- ii. Improvement of basic social services like health and medical care
- iii. Promotion of agriculture and rural development;
- iv. Human resources development.

Because Cambodia has its status as a Least Developed Country (LDC) and its past political instability, Japan has not extended any Yen loans to Cambodia since 1968.

The Institutions of Japan in Cambodia

Cambodia-Japan Cooperation Center (CJCC)

The Japan Center was established in 2004 to train and enhance human resource development in Cambodia for the qualities of its human resources. The CJCC is managed by the cooperation between the Government of Cambodia and Japan under the two-phase technical cooperation project through the Japan International Cooperation Agency (JICA). The phase 1 was operated from April 2004 to March 2009. The phase 2 is from April 2009 until March 2014. The CJCC aims to giving priority to human resource development and providing a base station for information to everyone who is interested.

Royal University of Phnom Penh (RUPP)

The RUPP associates with Japan in the field of Research Centers and Institutes by CJCC's connection. The assistance is in terms of human resource

development to promote the market economy by applying Japanese experience and knowledge to the Cambodian context with strong links to Japan. The CJCC provided funding in terms of Japan's Grant Aid in collaboration with the Technical Cooperation Project.

Japan International Cooperation Agency (JICA)

JICA established its office in Cambodia in 1993. It has focused on providing living infrastructures and basic support for health and education as well as training human resources. JICA has committed in providing a long-term support to Cambodia as well as working in cooperation with aid agencies and non-governmental organizations from other countries. The Japan International Cooperation Agency is also working in the area of technology upgrading by providing technical extension services for bottled drinking water manufacturers in Phnom Penh and Siem Reap. Furthermore, it has worked to improve dissemination of information on industrial standards and legal metrology. JICA is working with MIME's Quality Improvement Working Group to provide various technical extension services to SMEs through seminars and various capacity development exercises.

3-(3) Suggestions on Promotion of SMEs

Although Cambodia has great potential for diversifying its industry, it seems to lack an effective mechanism to support domestic producers or processors. Local SMEs are unlikely to enjoy government- provided incentives like garment factories.

Thus, RGC should initiate new incentive schemes in order to develop the potential of SME sectors and to encourage investment of specific sectors, rather than the 'one size fit all' policy. In addition, if the reach of financial system can be expanded into rural areas, the rural production sectors and its population will have more opportunities to take part in the country's economic growth.

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