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**Macroeconomic Conference**

# **Roles of SMEs**

**in Cambodian Economic  
Development and Their  
Challenges**

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**By Thy Sambath**



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I would like also to thank **Cambodia Investor Club Association (CiC)** for approving the use of such insightful data from the report of **Business Confidence and Digital Capability 2021**. That information is the key to describing the challenges that SMEs confront during the global pandemic COVID-19 in Cambodia.

Last but not least, I would like to show thankfulness to my family for always encouraging me in every circumstance and supporting me throughout the process of researching and writing this research paper.

Thy Sambath

## Abstract

As the backbone of Cambodia's economy, small and medium enterprises (SMEs) play a vital role in the economic development of the country. However, many challenges have occurred to SMEs, which have disturbed their potential as well as their expansion. Concerning this constraint, this study aims to outline the significant roles of SMEs in Cambodian economic development, along with various key challenges that SMEs have encountered during both the pre-COVID-19 and COVID-19 pandemic. This paper also described an overview of the SME sector, which reflects the current number of SMEs as well as its segmentation in Cambodia. The research was conducted based on two main sources of secondary information. The secondary data that illustrated the role of SMEs and their challenges before the COVID-19 pandemic was based on a desk review of available relevant documents, while the secondary data that defined the challenges of SMEs during the pandemic was entirely based on the findings of the Business Confidence and Digital Capability 2021 report, which has been surveyed on 103 businesses in Cambodia. The results indicated that the service sector generated the largest share of employment in Cambodia (38.4 percent), followed by the agricultural sector (35.5 percent) and the industrial sector (26.1 percent). Small and medium-sized enterprises (SMEs) contributed 58 percent of Cambodia's GDP. Small and medium-sized enterprises (SMEs) account for 70 percent of all job creation. SMEs are reported to play a significant role in reducing poverty in Cambodia. About 10 percent of Cambodia's exports are generated by SMEs. Lastly, SMEs have played a vital role in improving the living standards of Cambodian people. Besides, it is found that SMEs face several challenges, including concerns about financial access, technical skill and knowledge, insufficient facilitation and support, competition in national and global markets, and the informality of MSMEs. However, the pandemic COVID-19 has caused additional challenges for Cambodian SMEs, such as financial risk, concern about COVID-19 and mental health, supply chain issues, and human resource concerns. More than half of SMEs stated they needed help with their capacity development and marketing strategy. Almost half of them require financial assistance in the form of short- or long-term debt, as well as advice on their sale and operational strategies. Before the COVID-19 pandemic, the majority of companies concentrated on market expansion, staff capacity development, market and promotion, operational efficiency, and digital technology. During the COVID-19 pandemic, most businesses moved their investment priorities to digital technology, staff development, and owner capacity development.

## I. Introduction

Small and medium enterprises (SMEs) have played a vital role in the development, growth, and industrialization of many economies around the globe. In Cambodia, the economic growth rate is recorded to retain an average of 7.7 percent annually between 1998 and 2019, which is known as one of the fastest growing economies in the world (**The World Bank, 2021**). This positive economic growth rate is mainly generated by four key industries in the kingdom, including commerce (the export of garments and footwear), tourism, agriculture, and construction (**B2B Cambodia, 2021**). In fact, more than 90 percent of businesses in Cambodia are known as small and medium enterprises. In 2019, the number of SMEs is reported to be about 520,000 SMEs in the kingdom, according to the Ministry of Industry, Science, Technology, and Innovation, previously known as the Ministry of Industry and Handicrafts (**Khmer Times, 2019**). SMEs is like the backbone of economic development in Cambodia, and their role contributes significantly to gross domestic products (GDP), and also creates local jobs. Furthermore, it is a main contributor not only to enhancing living standards but also to alleviating poverty in the country.

Although the role of SMEs has been crucial in the economic development of many different nations, there are lots of recent studies that indicate that SMEs confront numerous obstacles that prevent them from scaling up their business. Besides the existing barriers, many small and medium enterprises around the globe have been suffering additional impacts for over a year due to the Global Pandemic COVID-19. There is no exemption for businesses in Cambodia. The impact of the pandemic COVID-19 has caused many challenges for SMEs. It is reported that some SMEs have suspended some parts of their operations, whereas some end up in bankruptcy, especially those in the tourism sector.

Based on these issues, this study aims to provide an overview of the SME sector in Cambodia and also define the roles of SMEs in Cambodian economic development as well as the key challenges that they have confronted before and during the pandemic COVID-19. This research will be conducted by addressing mainly these questions as follows:

1. What are the major roles of SMEs in economic development in Cambodia?
2. Which industrial sector generates the largest share of employment in Cambodia?
3. What are the challenges SMEs confront before and during the pandemic COVID-19?
4. What are the most necessary supports do SMEs need during the pandemic COVID-19?
5. What are the priorities that SMEs plan to implement during the pandemic COVID-19?

## **II. Research Methodology**

### **1. Research Design**

To define the roles of SMEs in Cambodian economic development as well as to identify the challenges that SMEs confronted, this study is carried out based on two types of research methodologies: secondary research and primary research. Regarding secondary research methodology is applied to gather available information relevant to the roles of Cambodian SMEs in economic development as well as their challenges before the pandemic COVID-19. Whereas primary research methodology is conducted to detect any challenges that Cambodian SMEs have faced during the global pandemic COVID-19, this insight has been retrieved from the report of Business Confidence and Digital Capability 2021, which was carried out by the Cambodia Investor Club Association (CiC).

### **2. Data Collection**

This research paper is compiled based on both primary and secondary data. The primary data was collected with the support of the Cambodia Investor Club Association through the sending of a web link, which is an online self-completion platform, to target audiences. It takes approximately 10 minutes to complete the survey. This primary research was conducted from May 7th to June 14th, 2021. Whereas the secondary data was collected based on reliable sources on the internet through online articles, books, publications, and academic journals, etc.

### **3. Sample Size and Sampling Method**

The primary research was surveyed based on 103 samples. A sample of existing Cambodia Investor Club Association members who are business owners and members of the top management team was chosen at random.

### **4. Data Analysis**

Descriptive statistics are employed as an analysis method in this study, along with a data analysis program called SPSS V25.

### III. Context of SMEs in Cambodia

#### 5. Definition of SMEs

Small and medium-sized enterprises have no worldwide definition, but it is normally categorized according to the size of the company, the number of employees, the balance sheet total, as well as turnover, whose boundaries are different from one country to another. In Cambodia, the definition of a SME is divided into three sectors, including agriculture, industry, and service and commercial. SME in each sector is defined by two criteria: the number of employees and the turnover or assets (**Office of the Council of Ministers, 2021**). It can be indicated as follows: (See table 1)

**Table 1: The Definition of SMEs in Cambodia**

| Industry             | Number of employees |         | Turnover (\$)       |                        | Asset (\$)                |                        |
|----------------------|---------------------|---------|---------------------|------------------------|---------------------------|------------------------|
|                      | Small               | Medium  | Small               | Medium                 | Small                     | Medium                 |
| Agriculture          | 5 - 49              | 50 -199 | 62 250 –<br>250 000 | 250 001 –<br>1 000 000 | 50 000 –<br>250 000       | 250 001 –<br>500 000   |
| Industry             | 5 - 49              | 50 -199 | 62 500 –<br>400 000 | 400 001 –<br>2 000 000 | Or<br>50 000 –<br>500 000 | 500 001 –<br>1 000 000 |
| Service and Commerce | 5 - 49              | 50 - 99 | 62 500 –<br>250 000 | 250 001 –<br>1 500 000 | 50 000 –<br>250 000       | 250 001 –<br>500 000   |

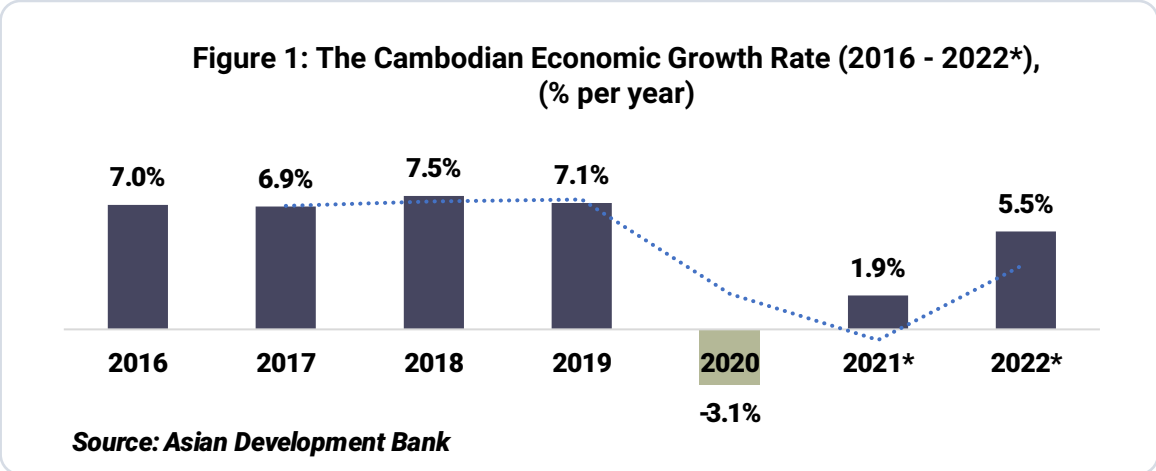
*Turnover or assets are defined based on the number that represents the highest level.*

**Source: Office of the Council of Ministers**

#### 6. Cambodia’s Economy and COVID-19 Impact

In the recent decade, Cambodia’s economy has grown at an average of 7.7 percent annually between 1998 and 2019, which is known as one of the fastest growing economies in the world (**World Bank, 2021**). The kingdom's favorable growth rate is primarily driven by four primary industries: commerce (garment and footwear exports), tourism, agriculture, and construction. However, the economy in the kingdom has been recently affected due to the impact of the global pandemic COVID-19. In fact, it has impacted a wide range of enterprises in Cambodia. It is

reported that the tourism and business travel sectors have witnessed extraordinary decline since international travel ceased almost totally in March 2020. Many businesses in Cambodia, particularly small enterprises, have permanently shuttered due to the economic losses caused as a result of the COVID-19 lockdowns and travel restrictions. The analysis revealed that 47 percent of tourism-related small and medium firms had suspended operations since the pandemic began, based on surveys performed with approximately 1,000 tourism-related small and medium enterprises in various parts of the country in April 2021. Only 22 percent of enterprises indicated their activities had remained unchanged when COVID-19 showed up (Asia Foundation, 2021). Due to the extended COVID-19 Pandemic, the Asian Development Bank (ADB) cut Cambodia's economic growth forecast to 1.9 percent in 2021, down from its April expectation of 4 percent. However, the country's economic growth rate will likely rebound to 5.5 percent in 2022 (Asian Development Bank, 2021). (See figure 1)



To alleviate the harmful impacts of coronavirus on Cambodia's economy, the government has implemented a variety of economic policies and administrative measures. Tax relief is one such policy measure that can help residents decrease their financial burden and maintain their purchasing power. To mitigate the consequences of COVID-19 on the labor market, the government is also giving financial aid to workers who have lost their sources of income. Small and medium enterprises are benefiting from the government's low-interest loans, which are creating prospects for economic revival. Ultimately, business and education sector digitization aim to mitigate the negative effects of social distance and movement restriction policies (Open Development Cambodia, 2020).



## 7. Overview on SMEs Sector in Cambodia

SMEs in Cambodia have been categorized into three important sectors, including the production sector (agricultural processing, manufacturing, and mining), the service sector, and the trading sector (wholesale and retail) (**Open Development Cambodia, 2020**). The SME environment in Cambodia has changed dramatically in recent years, and the Royal Government of Cambodia has taken significant initiatives to diversify the economy and boost SMEs as a main pillar of economic growth rather than relying solely on foreign direct investment (FDI). Many initiatives to boost Cambodia's SME ecosystem were launched in 2019: new SME tax and customs incentives were adopted, and several entities or programs were established under the Ministry of Economy and Finance's leadership (SME Bank, Techo Startup Center, Skills Development Fund, and Khmer Enterprise) (**Ratana, 2020**).

### 7.1. The Number of SMEs in Cambodia

The majority of SMEs can be seen in Phnom Penh (23 percent), Siem Reap (19 percent), Battambang (9 percent), and Kampong Cham (8 percent) (**International Finance Corporation, 2019**). Based on data from the Asian Development Bank (ADB), in 2014, the total number of enterprises in Cambodia was 513,759, while 512,870 were MSMEs, and another 889 were large enterprises. The number of MSME represents 99.8 percent of total enterprises in Cambodia, while its growth rate was 10.9 percent in 2014 (**ADB, 2020**). (See table 2)

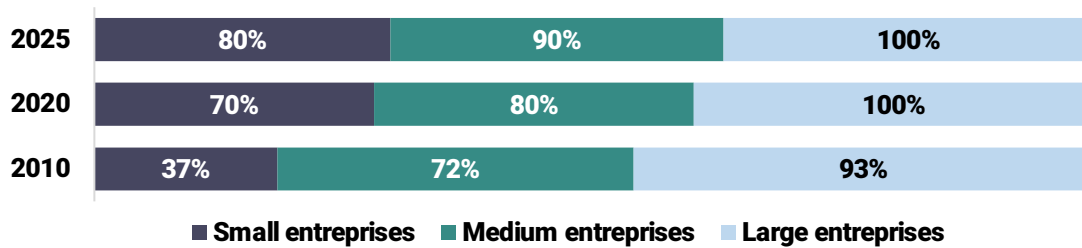
**Table 2: The Number of MSMEs in Cambodia**

| Year              | 2009    | 2011    | 2014    |
|-------------------|---------|---------|---------|
| Number of MSMEs   | 376069  | 462,582 | 512,870 |
| Number of Large   | 692     | 781     | 889     |
| Total Number      | 376,761 | 463,363 | 513,759 |
| MSME To Total (%) | 99.8    | 99.8    | 99.8    |
| MSME Growth (%)   | -       | 23.0    | 10.9    |

**Source: Asian Development Bank**

In 2010, there were 37 percent of small enterprise, 72 percent of medium enterprises, and 93 percent of large enterprises has been officially registered. By 2025, 80 percent and 95 percent of small and medium businesses are expected to be officially registered (**Royal Government of Cambodia, 2015**). (See figure 2)

**Figure 2: Share of Officially Registered Enterprises (% of total registered companies)**



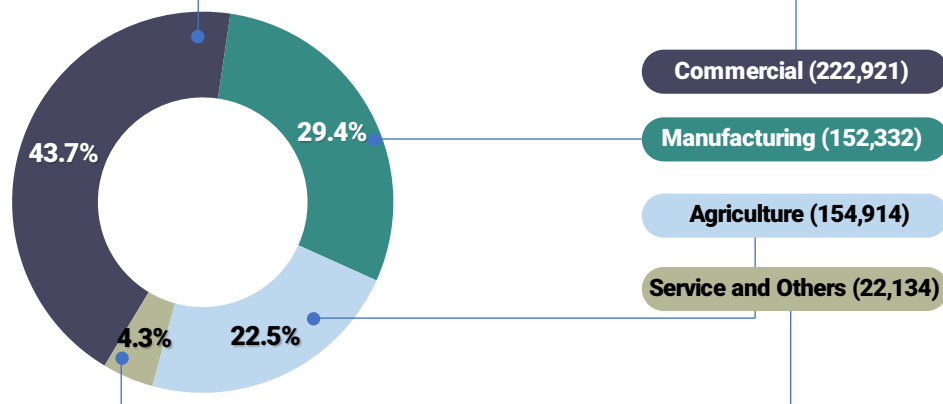
**Source: Cambodia Industrial Development Policy 2015–2025**

Nowadays, it's difficult to determine the number of businesses in Cambodia due to the large number of unregistered SMEs, particularly the number of micro firms. In addition, due to the scarcity of data on SMEs, forecasting patterns in their development is challenging. However, the number of registered SMEs has clearly grown in recent years, and this trend is likely to continue as Cambodia gets more connected to the ASEAN and global economies (**International Finance Corporation, 2010**). The overall number of registered SMEs increased to 155,745 in 2018. According to Mr. Sokong, Secretary of State at the Ministry of Industry, Science, Technology, and Innovation, **stated that the number of SMEs in Cambodia was about 520,000 in 2019**. He also mentioned that it's critical to inform SMEs about the advantages of registering with the government. Since there are only about 150,000 SMEs registered, they are all producers. (**Khmer Times, 2019**)

## 7.2. SME Segments in Cambodia

The backbone of most growing economies is small and medium-sized enterprises (SMEs). Cambodia is no different from other countries. In 2019, Cambodia reported that 40 percent of the 510,000 businesses were in commercial (retail) commerce, 30 percent were in industry and manufacturing (mainly food and beverage), 22 percent were in agriculture, and 8 percent were in services and other. Regarding SME segments in Cambodia, 43.7 percent has operated in commercial, whereas 29.4 percent were in manufacturing, followed by 22.5 percent in agriculture, and 4.3 percent were in service and others (See figure 3), according to ministry of the Ministry of Industry, Science, Technology and Innovation (**Sok & Poovenraj, 2019**).

**Figure 3: Share of SME Segments in Cambodia 2019 (% of total SMEs)**



**Source: Ministry of Industry, Science, Technology and Innovation**

Cambodia has recently seen the development of high-growth medium-sized firms, many of which operate in the retail sector, as well as the creation of software startups, both of which have received a lot of attention. Overall, thanks to a strong business spirit and the dynamic environment given by the ASEAN market, Cambodian SMEs have experienced good momentum until the pandemic of COVID-19.

### **7.3. Impact COVID-19 Pandemic on SMEs and Key Supportive Measures**

COVID-19 has had a negative impact around the globe, and major industries in Cambodia have suffered consequences as a result. To avoid the spread of the coronavirus, a number of enterprises have been forced to close temporarily, and tourism has certainly continued to struggle. Tourism has been one of the most hit industries, as a result of the airline industry's influence and global visa and travel limitations. As a result of the drop in business, several Cambodian hotels, resorts, and guesthouses were providing long-term rentals. Others have chosen to close temporarily, and others may even be renovating during the COVID-19 pandemic (**B2B Cambodia, 2020**).

The Cambodian Ministry of Economy and Finance (MEF) has announced two major initiatives to safeguard the small and medium-sized enterprise sector from the economic onslaught caused by the COVID-19 pandemic. The first measure focuses on SMEs' compliance in terms of determining their ability to provide assistance, such as business consultants, lawyers, and legal consultants, as well as business registration, accounting, marketing, and technical issues. Through the SME Bank of Cambodia and the Agriculture Rural Development Bank, it promotes the development and funding of SMEs. The second measure will help SMEs by continuing to reform the regulatory framework and implementing it, promoting supported business services, supporting funding, promoting the market, driving and bolstering human resources and research and development, and promoting the conception of entrepreneurial skills (**The Phnom Penh Post, 2020**). It is reported

that during the early stages of the coronavirus pandemic, the Cambodian government issued a variety of measures to protect small and medium-sized enterprises in Cambodia. In fact, the National Bank of Cambodia supports local SMEs by introducing monetary-easing measures such as lower interest rates on the Liquidity-Providing Collateralized Operation (LPCO) and Negotiable Certificates of Deposit (NCD), as well as lower reserve requirements, reducing the liquidity coverage ratio (LCR) and postponing the Capital Conservation Buffer (CCB) implementation. The Ministry of Economic and Finance also developed a USD 200 million loan guarantee scheme, in which SME Bank, a state-owned bank, guarantees loans in partnership with other private financial institutions. A special finance package of USD 50 million was also provided to SMEs through the Rural Development Bank (**Daiju, 2021**). At least 200 impacted enterprises in the GTF (garments, textiles, and footwear) and tourist sectors received a package of tax relief, and 20,000 workers' NSSF (National Social Security Fund) contributions were suspended, according to the Asian Development Bank. 745 businesses had gotten tax relief as of November 4, 2020, and 364,823 workers' NSSF contributions had been suspended. Wage support was provided to a total of 350,817 people, surpassing the objective by 134 percent. In addition, women made up 34 percent of SME bank borrowers, surpassing the aim of 20 percent (**Asian Development Bank, 2021**). (See table 3)

**Table 3: Economic Stimulus Progress Since Baselines Were Established**

| <b>N</b> | <b>Design and Monitoring Framework Indicator (DMF)</b>   | <b>On Track</b> | <b>At Risk</b> | <b>Off Track</b> |
|----------|--|-----------------|----------------|------------------|
| <b>1</b> | <b>By June 2021, at least 70% of small and medium-sized enterprises (SMEs) that received working capital support are still in business. January 2020 baseline: 0 SMEs receiving support under government scheme.</b>         | ✓               |                |                  |
| <b>2</b> | <b>By June 2021, at least 200 impacted firms in the GTF and tourism industries receive a package of tax relief and suspended NSSF contributions for 20,000 workers. January 2020 baseline: 0 firms receiving tax relief.</b> | ✓               |                |                  |
| <b>3</b> | <b>By December 2020, of the government's \$44.5 million wage subsidy support program to the hardest hit sectors, January 2020 baseline: 0 workers received wage subsidies</b>  | ✓               |                |                  |
| <b>4</b> | <b>By June 2021, women represent at least 20% of total borrowers of working capital loans from the SME Bank. January 2020 baseline: 0 women registered; SME Bank only just established.</b>                                  | ✓               |                |                  |

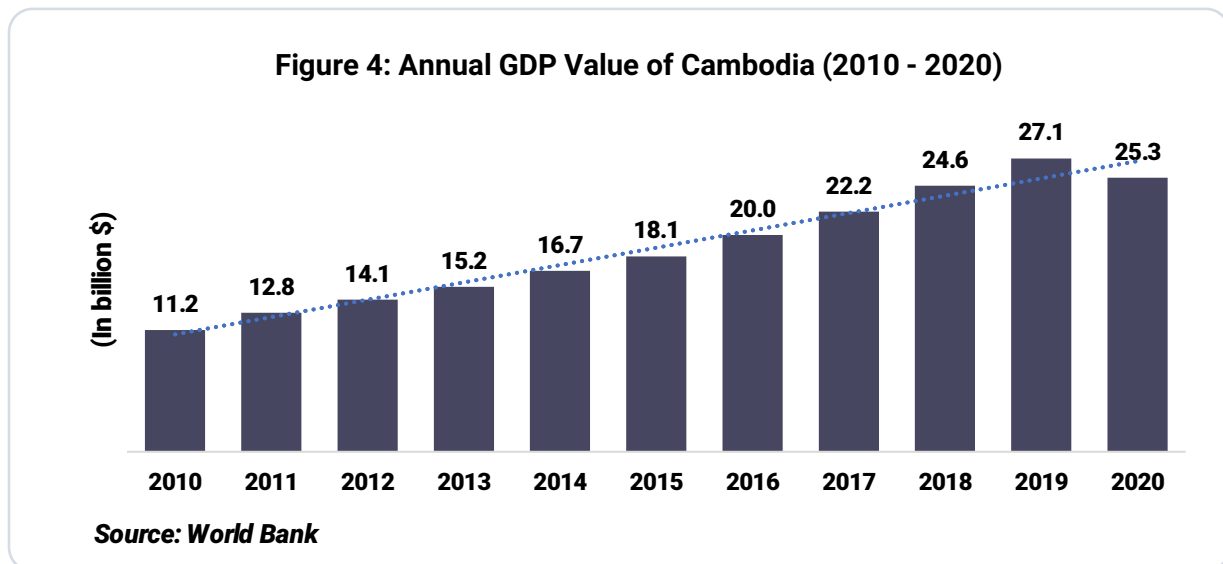
**Source: Asian Development Bank**

## IV. Results of the Research

### 8. Contribution of SMEs in Cambodian Economic Development

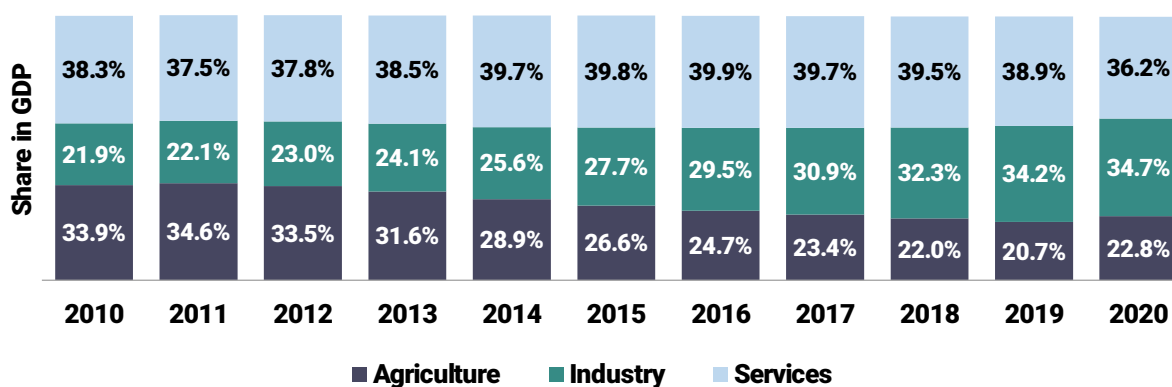
#### 8.1. The Major Contribution of SMEs to Cambodia's GDP

Cambodia's economy is dominated by the private sector. Small firms, many of which are family-owned, make up the majority of private businesses. They are the backbone of Cambodia's economy. **While SMEs account for 99.8 percent of Cambodian businesses and provide 58 percent of GDP in 2018**, according to the Ministry of Industry, Science, Technology and Innovation, previously known as Ministry of Industry and Handicrafts (Chhea, 2019). Based on the data of the World Bank, Cambodia's GDP was around 24.6 billion US dollars in 2018 (See figure 4), so with a contribution of 58 percent to GDP, SMEs have generated roughly 14.2 billion US dollars of the country's GDP. This value reflects the fact that SMEs have played a key role in Cambodian economic development (World Bank, 2021).



According to the World Bank, Cambodia's gross domestic product (GDP) is made up of three economic sectors, including agriculture, industry, and services. Agriculture generated 22.8 percent of Cambodia's gross domestic product in 2020, while industry contributed 34.7 percent and the services sector contributed 36.2 percent. It highlights the fact that businesses that operate in the service sector contribute the largest share of Cambodia's GDP (World Bank, 2021). (See figure 5)

**Figure 5: Share of Economic Sectors in Cambodia's GDP (2010 - 2020), (% of total GDP)**

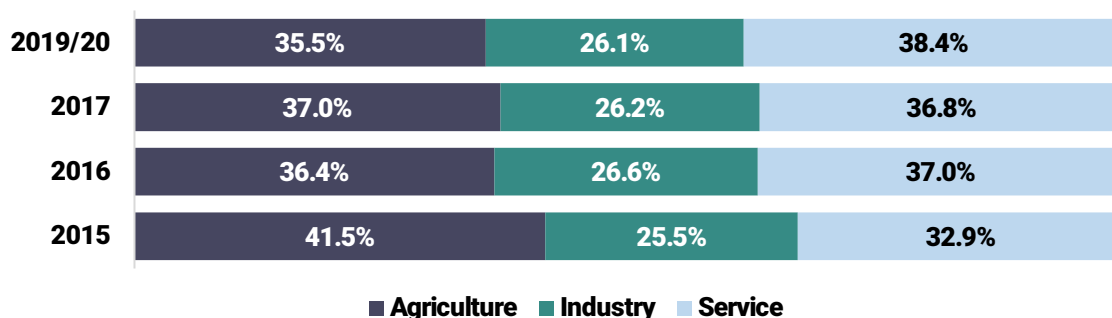


Source: World Bank

## 8.2. Contribution of SMEs to Local Job Creation

Small and medium-sized businesses (SMEs) have long been seen as a key engine of economic development in developing countries. One of the major roles of SMEs is to help create jobs all around the country. Due to an increase in the number of SMEs, employment migrated to neighboring countries, and the unemployment rate has reduced dramatically. In 2017, approximately one million jobs were created by MSMEs. According to the Annual Report 2018 of Ministry of Industry, Science, Technology, and Innovation, SMEs employed approximately 3.5 million to 4 million people, **contributed 70 percent of employment in Cambodia (Sok & Poovenraj, 2019)**. SMEs utilized 13 percent of the labor force, whereas micro firms employed 58 percent and big enterprises employed 28 percent (**International Finance Corporation, 2019**). Cambodian employment is classified into three main sectors: agriculture (primary), industry (secondary), and services (tertiary), according to the Cambodia Socio-Economic Survey. In 2020, the service sector accounted for 38.4 percent of total employment, followed by 35.5 percent for agriculture sector and 26.1 percent for the industry sector. (See figure 6)

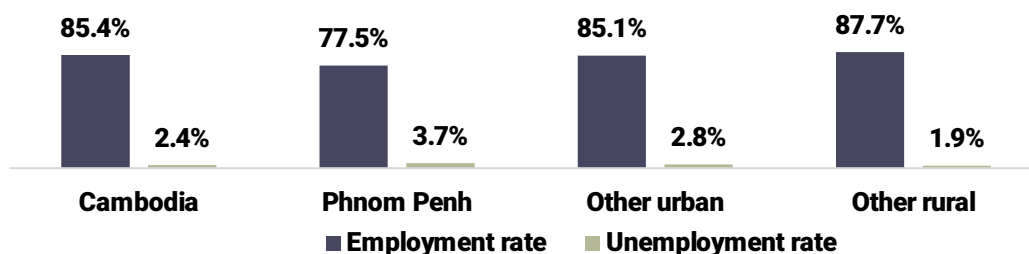
**Figure 6: Share of Employment by Industrial Sector (2015 - 2020), (% of employed population)**



Source: Cambodia Socio-Economic Survey 2019/20

The statistic above reflects that service sector generated the largest share of employment in 2019/20, it accounted for 38 percent of employment in Cambodia. Also, Cambodia's employment rate was recorded to be 85.4 percent, while the country's unemployment rate was merely 2.4 percent in 2020. In Phnom Penh, there is 77.5 percent employment rate and 3.7 percent unemployment rate. The employment rate was likewise high in both other urban and rural regions, but the unemployment rate in both categories was low, at less than 3 percent, according to Cambodia Socio-Economic Survey 2019/2020, (National Institute of Statistics, 2020). (See figure 7)

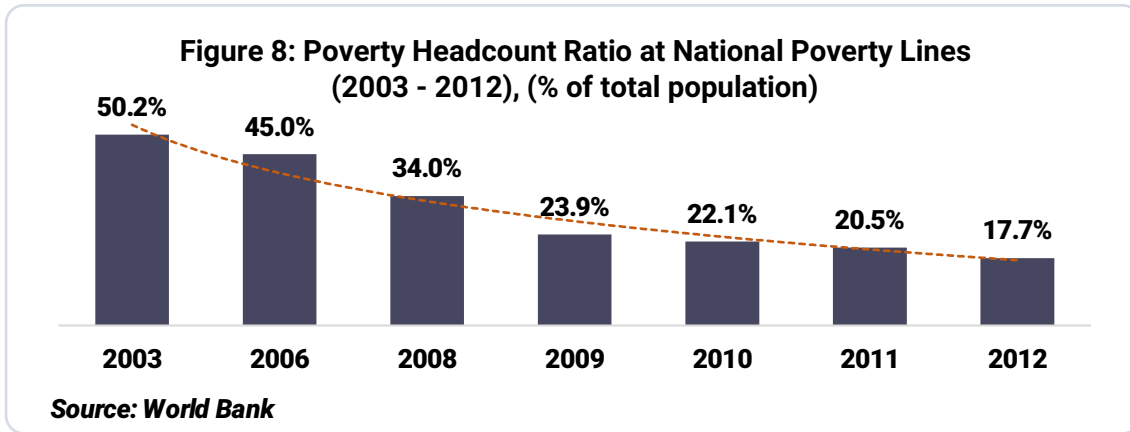
**Figure 7: Employment and Unemployment Rate in Cambodia 2019/20 (% of employed population)**



Source: Cambodia Socio-Economic Survey 2019/20

### 8.3. SMEs' Role in Local Poverty Alleviation

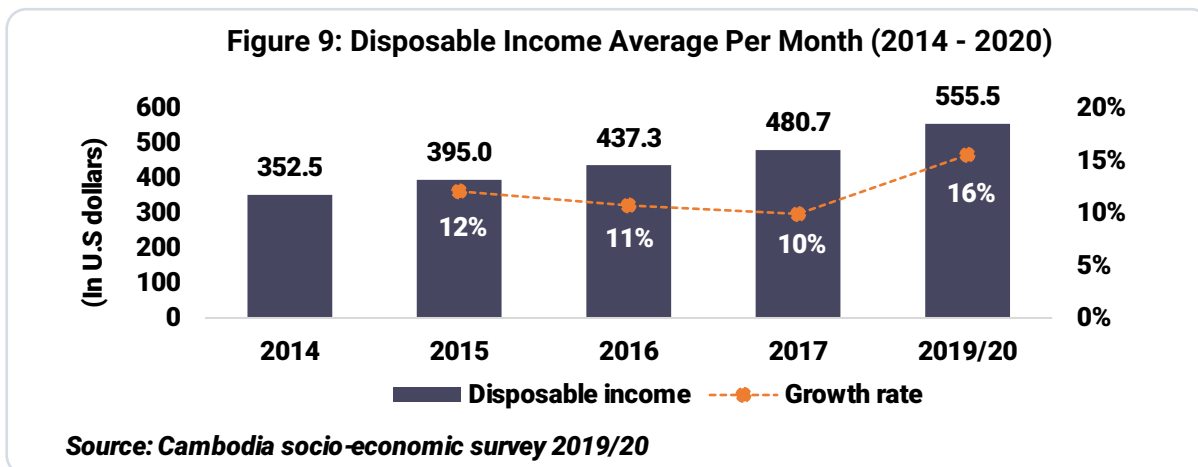
One of the important roles of SMEs is to generate income for low-income people and vulnerable populations in Cambodia. The international poverty lines are set at \$1.25 and \$2.00 per capita per day. In 2012, the poverty rate at the national poverty line for Cambodia was 17.7 percent. Between 2003 and 2012, poverty rate at national poverty line of Cambodia was declining at a moderating rate to shrink from 50.2 percent in 2003 to 17.7 percent in 2012 (World Bank, 2021). (See figure 8)



The number of SMEs in Cambodia keeps increasing annually, while the poverty rate in Cambodia has significantly declined every year. It reflects the vital role of SMEs in reducing the poverty rate in the kingdom. However, the impact of COVID-19 appears to have marginally raised Cambodia's poverty rate. The UNDP predicts that COVID-19 will increase poverty rates by 17.6 percent in 2020, with 1.34 million people falling back into poverty (UNDP, 2020).

#### 8.4. Role of SMEs in Enhancing Living Standard

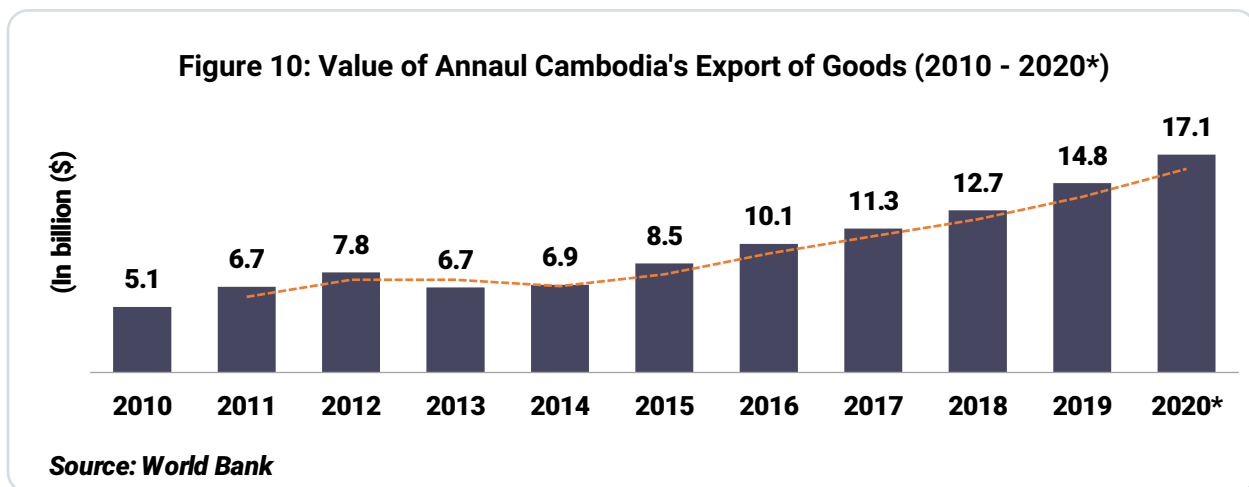
SMEs are reported to contribute to the improvement of livelihoods for many people in Cambodia. It can be described by the annual growth rate of SMEs as the monthly average disposable income of Cambodian people keeps increasing every year. In 2019/20, the disposable income was 555.5 US dollars on average per month with the annual growth rate of 16 percent. It shows that the living standards of Cambodian people have improved every year due to the contribution of SMEs (National Institute of Statistics, 2020). (See figure 9)





## 8.5. SMEs' Contribution to Cambodia's Exports

Cambodia's exports are dominated by textile goods, which account for around 70 percent of total exports. Other exported products include vehicles, footwear, natural rubber, and fish. Cambodia's main export partners are the United States, Hong Kong, Singapore, Canada, Germany, and the UK (Trading Economics, 2021). In 2019, SMEs accounted for a mere 10 percent of Cambodia's exports (ADB institute, 2020). In 2019, Cambodia's export of goods totalled 14.8 billion US dollars (Figure 10), with SMEs accounting for approximately 1.48 billion US dollars of Cambodia's export.



## 9. Challenges for SMEs in Cambodia

### 9.1. Challenges before the Pandemic COVID-19

- **Internal Aspect**

1. *Concerns about financial access*

Small businesses still have a hard time getting financing. Access to finance remains a barrier for 66 percent of Cambodian businesses, with the biggest challenge for MSMEs being accessed to working capital. Despite the fact that financial services have been more widely available in recent years, about a third of the population is still unable to utilize them (Open Development Cambodia, 2020). This dilemma is accepted to exist since some SMEs do not record appropriate financial information, making it impossible to demonstrate the performance of their businesses. This problem is linked with uncertain operational management as well as an unidentified market size, which creates a barrier for SMEs that prevents them from obtaining finance access.

## ***2. Technical skills and knowledge***

Technical skills and knowledge are in short supply. The country's lack of human capital, such as qualified and skilled workers, technicians, and engineers, makes it difficult for it to absorb and use contemporary technologies for industrial development. Dealing with a labour shortage, low productivity, skills mismatches, and rising salaries is a significant barrier for Cambodia's future growth (**Open Development Cambodia, 2020**). Also, the capability of SME owners to accomplish the company's goal remains inadequate, requiring the development of management and leadership abilities.

- **External Aspect**

## ***3. Insufficient facilitation and support***

Inadequate assistance and facilitation from appropriate institutions discourages growth and fails to address rising SME problems. A monitoring mechanism should be established to increase pressure on responsible institutions and government agencies to take action and enhance the business environment for SMEs (**Open Development Cambodia, 2020**).

## ***4. Competition through regional and global market expansion***

Through the industrial revolution and globalization, competition is increasing through regional and worldwide market expansion. Starting a business, operating a business, and ending a business in Cambodia is relatively expensive. Cambodia is at a competitive disadvantage in comparison to its neighbours due to an inadequate electricity supply (**Open Development Cambodia, 2020**).

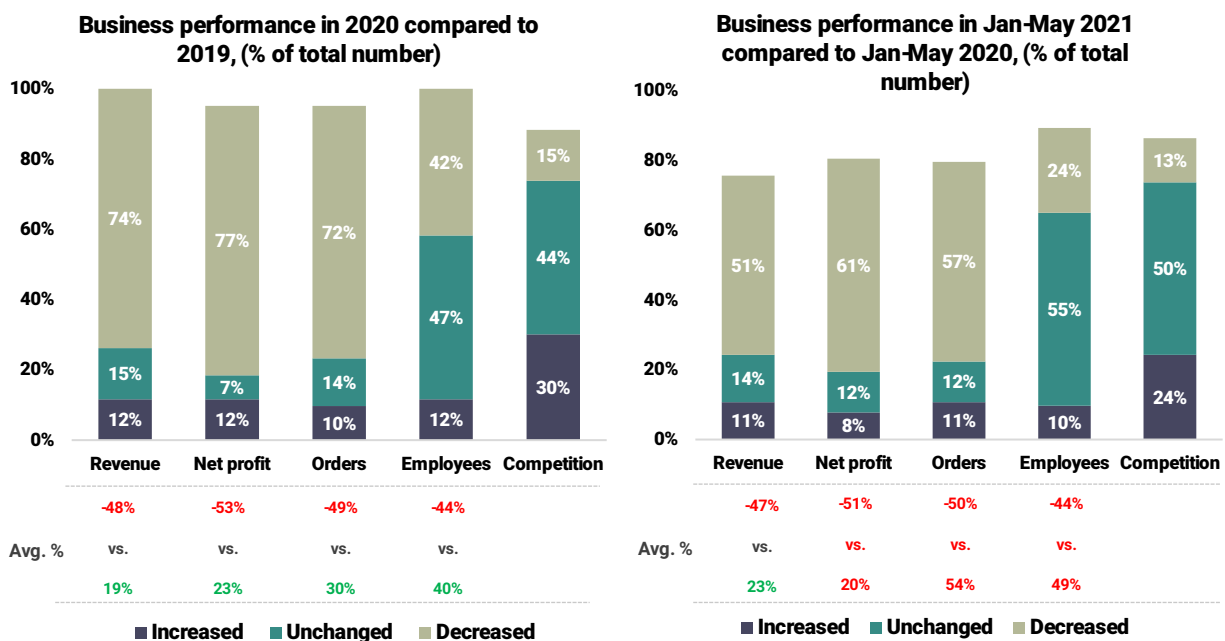
## ***5. MSMEs' informality***

MSMEs, particularly micro businesses, are remarkable for their informality. Micro enterprises are usually family-owned businesses that operate informally, making it difficult for the government to collect taxes and establish and implement support policies to help MSMEs progress up the value chain (**Open Development Cambodia, 2020**). This difficulty also makes it difficult for SMEs to compete fairly. Since informal SMEs do not have to pay taxes, only registered SMEs do.

## **9.2. Impact of COVID-19 Pandemic on Business Performance**

The information contained in this section has been entirely retrieved from the report of Business Confidence and Digital Capability 2021, which was produced by Cambodia Investor Association. It is found that the majority of companies had worse performances in 2020 and 2021. As shown in the figure 11, all key indicators, including revenue, net profit, number of orders, and employees, have decreased, while about one-third of the companies saw an increase in their level in 2020 and 2021. Less than 15 percent of the companies expected a better performance in 2021 compared to 2020. Even though the majority of companies had less revenue, they tried to retain their employees. As evidence, about half of companies remained with the same number of employees. (See figure 11)

**Figure 11: Comparison of Business Performance (2020 - 2021)**



Source: Business Confidence & Digital Capability

### 9.3. Challenges during the Pandemic COVID-19

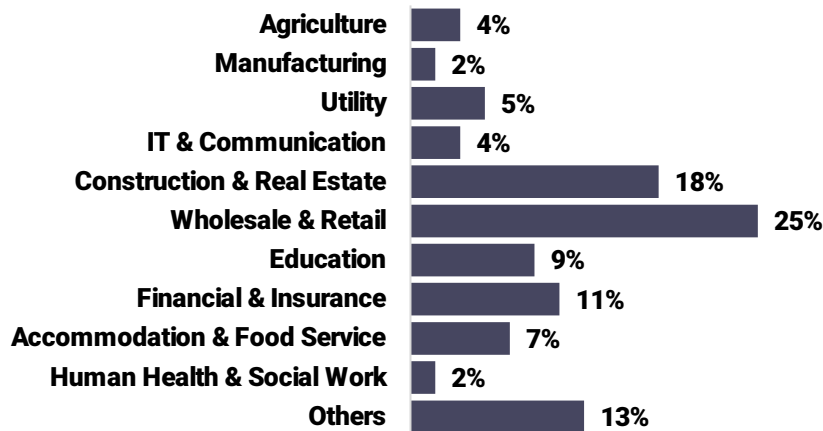
According to the report, there are also some insights that particularly reflect key challenges SMEs have encountered during COVID-19. Those challenges can be described as follows:

- **Internal Aspect**

1. **Financial risk**

Financial issues remain a major concern for many Cambodian SMEs during the global pandemic COVID-19. Based on the report of Business Confidence and Digital Capability 2021, **74 percent of SMEs revealed that they confronted decreased revenue.** Moreover, **53 percent of them have had a problem with shortage of cash flow** (See figure 13). However, this issue occurs in many SMEs from various industries. There are 25 percent of SMEs in wholesale and retail sector, and 18 percent of them in construction and real estate represented the two businesses sector that have been encountering with the most cash flow issues, while another sectors including agriculture, manufacturing, utility, information technology and communication, education, accommodation and foodservice, as well as human health and social work, all suffered cash flow problems, but the statistic claimed that less 10 percent of them did. (See figure 12)

**Figure 12: Business Sector with Shortage of Cash Flow, (% of total number)**



**Source: Business Confidence & Digital Capability 2021**

## *2. Concern about COVID-19 and mental health*

The global pandemic COVID-19, in addition to endangering people's physical health, has also had a significant influence on human mental health. There is no exemption for Cambodia. Many people were anxious and distressed as a result of the COVID-19 impact. The result of the study has confirmed that **62 percent of SMEs owners concerned about another wave of COVID-19 pandemic**, since if there is another wave occurred, their business operation would be forced to suspend which affected dramatically on their revenue. **Whereas 47 percent of them stated that they have increased stress and worry about the impact of COVID-19 pandemic** (See figure 13). They have no idea what will happen the next day because the situation with the COVID-19 pandemic is still unpredictable.

## *3. Lack of human resources*

Human resources are still an issue for Cambodian SMEs. The impact of COVID-19 has increased the pressure on human resource management, which affects the operations of many Cambodian businesses, particularly SMEs. The statistics of Business Confidence and Digital Capability 2021 report found that **16 percent of SMEs encountered a shortage of workers to fulfil the operations of their companies** (See figure 13). It indicated that the lack of human resources remains a main challenge for Cambodian firms. Besides, **only 1 percent of them have difficulty in retaining employees**.

- **External Aspect**

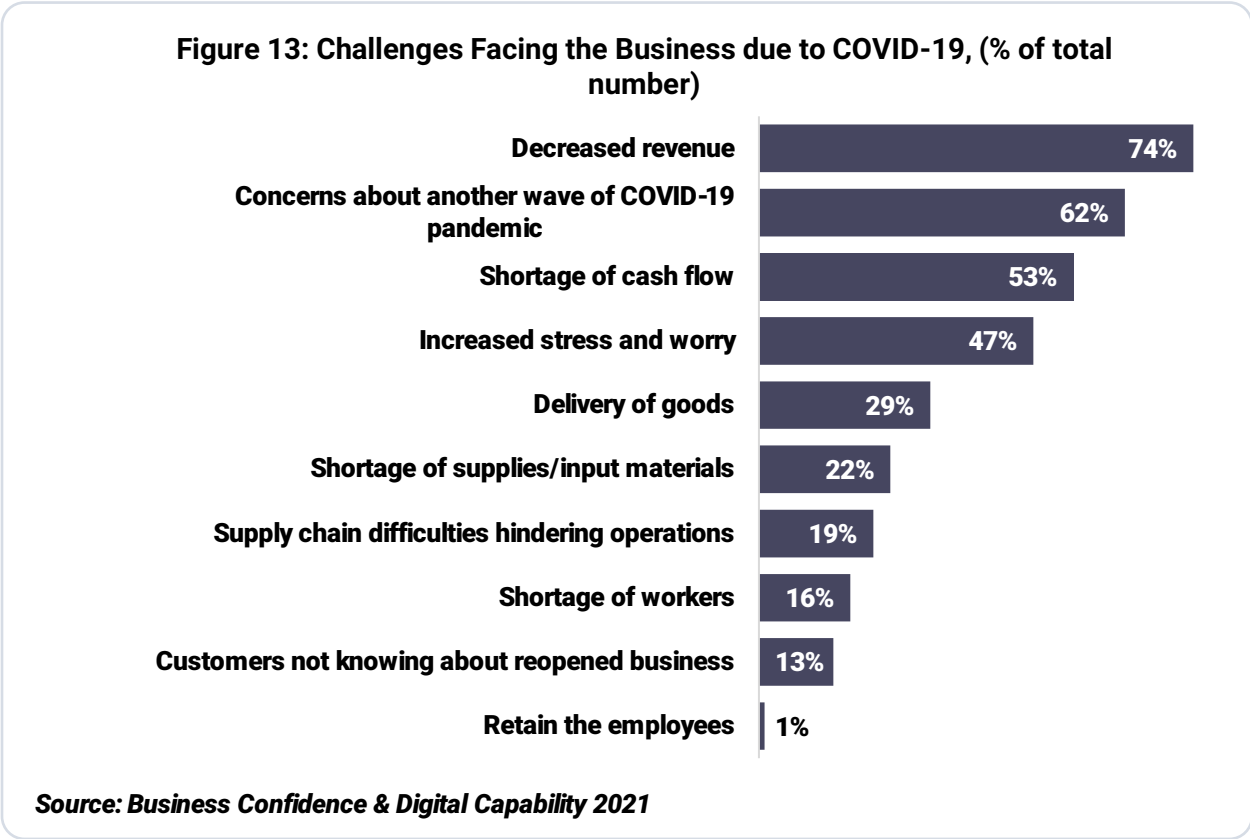
## *4. Supply chain issues*

COVID-19 has caused widespread disruption in all economic sectors and industries around the

world. The COVID-19 lockdown measures have resulted in production halts, restrictions on people and goods movement, border closures, logistical constraints, and a slowdown in trade and business activity. The supply chain plays a significant role in improving the business performance of many companies in Cambodia. However, the impact of the COVID-19 pandemic has disrupted the supply chains of numerous local businesses. According to the findings of the Business Confidence and Digital Capability 2021 report, **29 percent of SMEs experienced trouble delivering their goods. While 22 percent of them were experiencing supply or input material shortages. Whereas 19 percent of them had supply chain issues that affected operations** (See figure 13). This reflects that supply chain issues have become an obstacle for businesses in Cambodia amid the COVID-19 pandemic.

**5. Concern about losing customer**

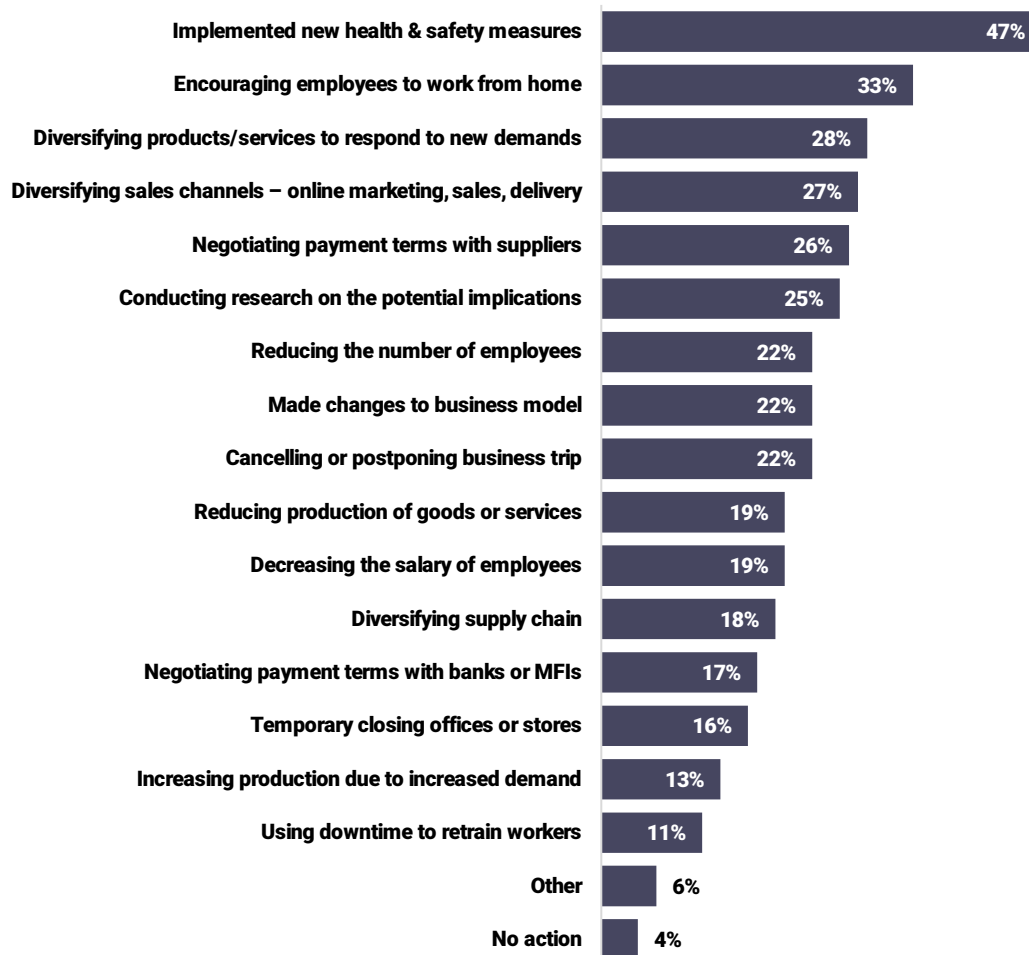
Many businesses in Cambodia have been forced to temporarily suspend operations in order to prevent the spread of the COVID-19 disease. This measure created an interruption in the relationship between business and consumer for a while. Based on the finding, **13 percent of SMEs owners concerned that their customer might be unaware of the reopened business**, resulting in a drop in demand for their products or services (See figure 13). Furthermore, COVID-19 has generated a phenomenon that shows a shift in consumer demand, since consumers are increasingly making online purchases rather than offline purchases. The market's movement has changed throughout time, so SMEs have to be adaptable in order to meet demand on time.



## 10.SMEs’ Actions to Tackle the Challenges

According to the report of Business Confidence and Digital Capability 2021, many business owners have implemented various measures to sustain their business and also to tackle the challenges during the pandemic COVID-19. To address the operational issues caused by the pandemic, nearly half of the surveyed companies implement health and safety measures, as well as work-from-home policies. Less than one-third of businesses attempt to diversify their products and services in order to meet market demands. It also appears that they attempted to use an online channel for marketing and sales. As sales fell, **approximately 26 percent of companies attempted to negotiate payment terms with suppliers. About 56 percent of them claimed to be moderately or extremely effective. Negotiation with banks and MFIs emerged as a solution during this time period, with 47 percent of them claiming to be effective.** (See figure 14)

**Figure 14: Actions Taken in Response to the COVID-19 pandemic, (% of total number)**

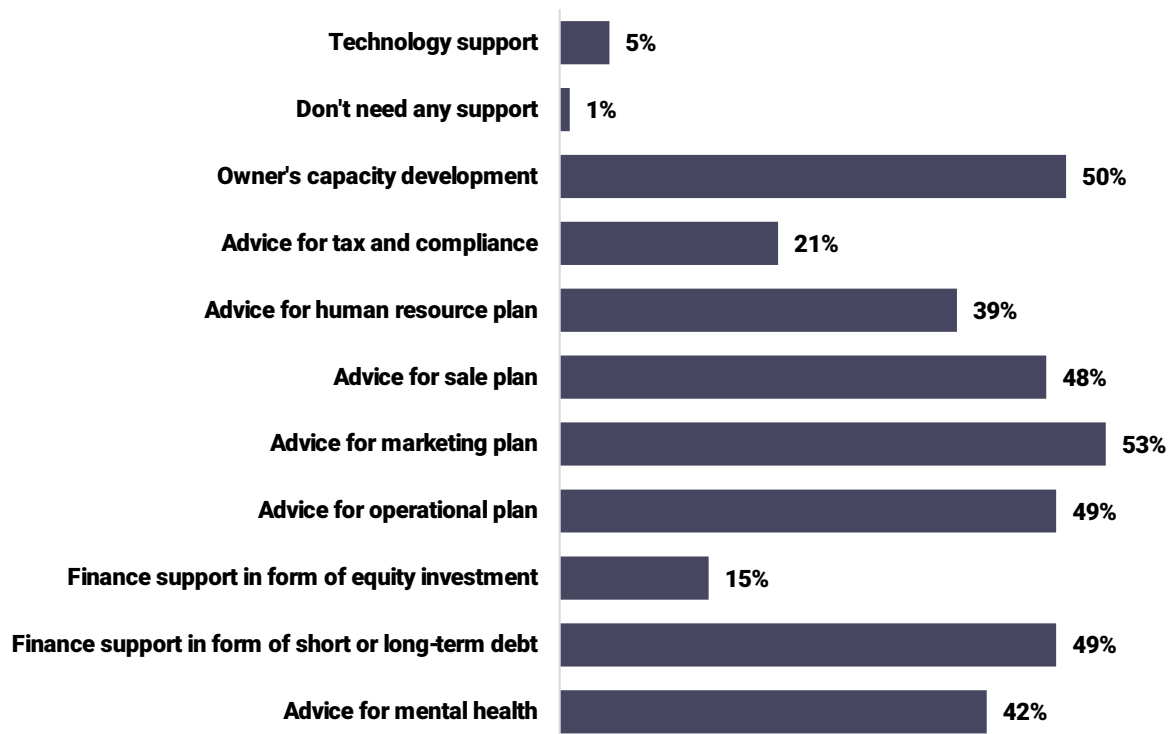


Source: Business Confidence & Digital Capability 2021

## 11. The Support Required by SMEs amid COVID-19 Pandemic

The consequence of COVID-19 has had a significant impact on the private sector in Cambodia. Many business owners have been looking for any support they can get to help their company survive and thrive during the pandemic. **It is found that more than half of SMEs owners stated that they need supports for their capacity development and marketing plan. While almost half of them need finance support in term of short- or long-term debt as well as advice for their sale plan and operational plan**, according to the report of Business Confidence and digital Capability 2021 (See figure 15). Most businesses experienced a significant decline in sales as a result of the COVID-19 epidemic, which is why so many business owners want marketing advice in order to increase demand for their products and services in the market. Aside from that, the majority of them take advantage of the circumstance by focusing on the development of their personal and staff capacity in order to increase their ability to meet market demand when the business environment returns to normal.

**Figure 15: The Support Required by SMEs in the Face of the COVID-19 Pandemic (% of total number)**

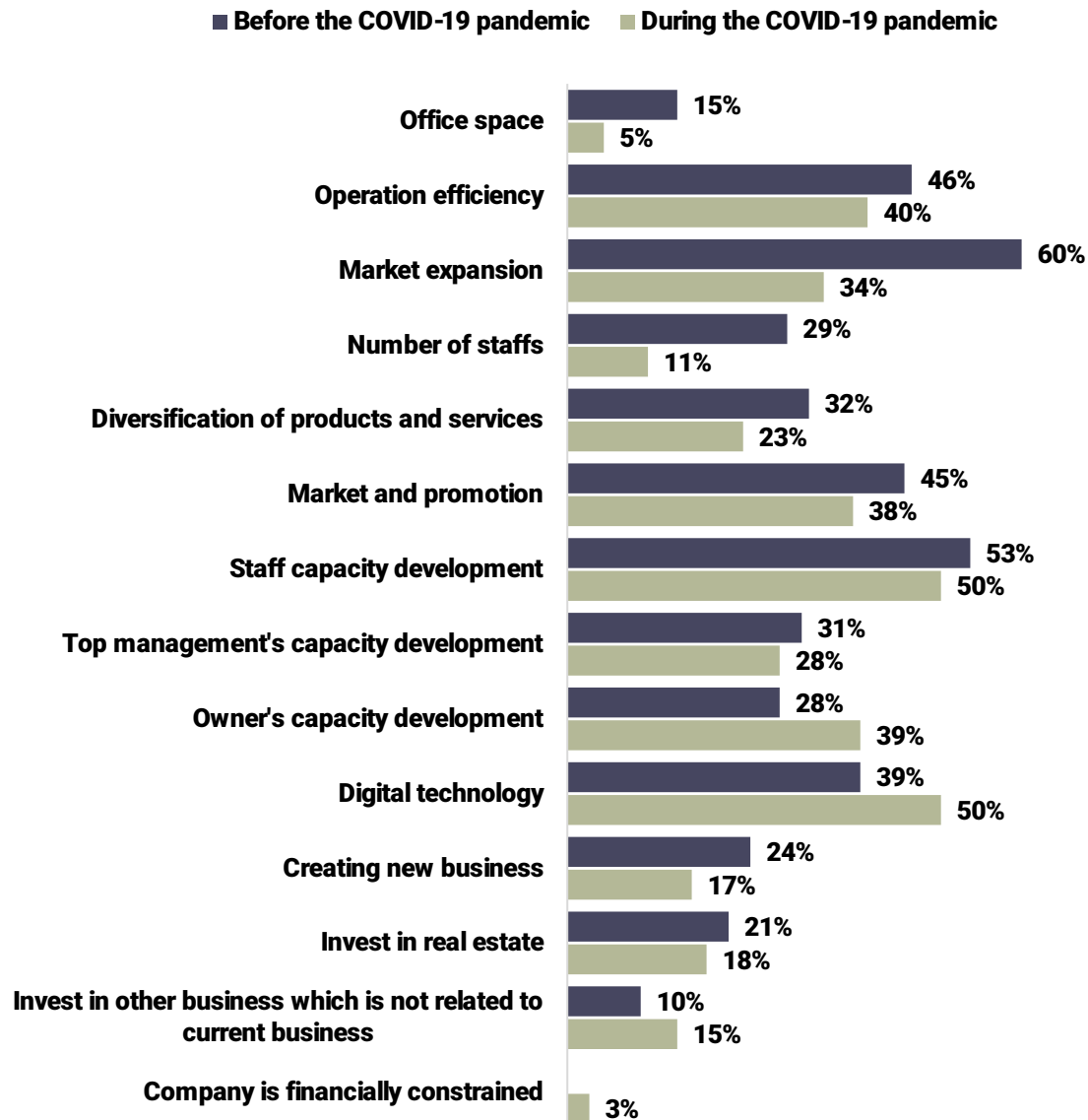


**Source: Business Confidence & Digital Capability 2021**

## 12. Priority Investment Area before and during the COVID-19 Pandemic

Before COVID-19 pandemic, most of the company focus on market expansion, staff's capacity development, market and promotion, operation efficiency and digital technology. During COVID-19 pandemic, **most of the companies shifted its the priority investment areas toward digital technology, staff and owner capacity development**. At the same time, the operation efficiency also remains important for business (See figure 16).

**Figure 16: Priority Areas to Invest in Before and During the COVID-19 Pandemic, (% of total number)**



Source: Business Confidence & Digital Capability 2021



## V. Conclusion and Implications

### 13. Conclusion

Cambodia's economy has been estimated to grow at a rate of 7 percent each year on average. However, the global pandemic COVID-19 has had a negative impact on the economy, causing numerous serious challenges to the kingdom's core sectors. and the economic growth rate has shifted from positive to negative. In 2020, Cambodia's economic growth rate was (-3.1 percent). However, it is expected to rebound favorably in 2022, with an economic growth rate of 5.5 percent, according to the Asian Development Bank.

This research mainly highlights the major roles of SMEs in Cambodia as well as the key challenges that SMEs encountered during the global pandemic COVID-19. SMEs have contributed significantly to economic development in Cambodia. This research has detected five roles of SMEs in Cambodian economic development. SMEs contributed 58 percent of Cambodian GDP. There are 70 percent of employment is generated from SMEs. SMEs is reported to play a significant role in reducing poverty in Cambodia. About 10 percent of Cambodia's exports are generated by SMEs. Lastly, SMEs have played a vital role in improving the living standards of Cambodian people. Besides, it is found that service sector generated the largest share of employment in Cambodia (38.4 percent), followed by agricultural sector (35.5 percent) and industrial sector (26.1 percent). Despite the fact that SMEs have played a critical role in the economic development of Cambodia, SMEs were reported to face numerous challenges, including concerns about financial access, technical skills and knowledge, insufficient facilitation and support, and MSMEs' informality. Moreover, the impact of the global pandemic has created additional obstacles for SMEs in Cambodia. Based on the findings of this research, SMEs recently faced four key challenges during the pandemic period, including financial risk, concern about COVID-19 and mental health, supply chain issues, and concerns about human resources. On the other hand, this research also illustrates the most necessary support that SMEs need amid the pandemic COVID-19. More than half of SME owners seek support with their capacity development and marketing strategy. Almost half of them require financial support in the form of short-term or long-term debt, as well as advice on their sale and operational strategies. Before the COVID-19 epidemic, the majority of companies concentrated on market expansion, staff capacity development, market and promotion, operational efficiency, and digital technology. During the COVID-19 epidemic, most businesses moved their investment priorities to digital technology, staff development, and owner capacity development. While operational efficiency remains a necessity, most businesses take it into consideration.

Last but not least, SMEs are considered Cambodia's economic backbone. It plays a vital role in Cambodia's economic development. Hence, SMEs do require comprehensive support from both the public and private sectors in order to reinforce their development and also to sustain the robust economic growth in Cambodia.

## 14. Implications

Although the Cambodian government has supported SMEs through various measures, the findings of this study found that the majority of SMEs remain struggling with financial issues and are also concerned about the uncertain situation caused by the COVID-19 pandemic. Based on these problems, there are several recommendations have been formulated specifically for both business owners and policymakers in order to strengthen and support SMEs sector in Cambodia during the global pandemic COVID-19.

- Business-level

So as to sustain the business operation, it is in essence for business owner in Cambodia to be prepared with regard to 3 elaborated scenarios of recovery:

Scenario 1 “Serious lasting market disruption”: it is urgent and crucial to focus cash-flow management to survive in the uncertainty while adapt the business operation in new environment.

Scenario 2 “Slow progression toward recovery”: more than cash-flow management, it is important for those in tourism related business (Siem Reap economic pillar) to reshape the business model in response to local market segment of short-terms survival. In addition, industry consolidation could be in need to enhance business efficiency as well as to maximize the chance of survival.

Scenario 3 “Return to pre-crisis trend”: other than cash-flow management, it is of interest to follow the trend to survive with existing business model in short terms while being to innovate existing business to maximize the efficiency since the imagined situation would be still fragile with the given fundamental economic issues in the province. Furthermore, entrepreneurs could look forward to diversifying business given new opportunities driven by economic diversification policies in the province.

- Nation-level

Firstly, the business community plays a key role in supporting SMEs during this pandemic situation. Stand-alone businesses may find it very difficult to address any challenges that are provoked by the impact of COVID-19, and some may end up in bankruptcy. In contrast, SMEs that attend in a business community can receive instant support, both in terms of finance and advice, from relevant stakeholders. Besides, the business community is a source of mutual support among SMEs so that they can assist each other or even grow together. Based on the important role of the business community, the Cambodian government should develop additional policies to promote the local business community during this tough situation. The policy should focus mainly on creating a pathway for SMEs to participate in any business community in Cambodia. Secondly, according to the findings of the study, approximately half of SME owners like to build their capacity as well as seek advice on their marketing and operational plans. They also aim to invest more in staff capacity development and digital technology as the pandemic proceeds, so that they have adequate skills and tools to adapt to the current situation and also respond quickly to future demands. Hence, the Cambodian government should provide more funding to establish more supportive programs (e.g.: Business Accelerator Program) that allow SME owners to participate

in and benefit from them in order to improve the owners' and employees' capacity, particularly by connecting them to experts who can advise them on their business operations.

Thirdly, the government has started releasing restrictions on businesses in the country as people have adopted to the new normal. It reflects that the business environment has been remarkably improving. However, many Cambodian SMEs have been reported to be remarkably affected by the impact of COVID-19. Most of them really need the capital or financial support to rescue or re-open their businesses. Thus, the key supportive measure is to continue providing financial support through facilitating the lending process from financial institutions, lowering the interest rate for SMEs, and other funding programs in order to accelerate the recovery of SMEs in the country.

### **15.Limitation of the Study**

There are some limitations that could be taken into consideration for future study. Firstly, the definition of SMEs that has been indicated in this research is just a draft of the new SMEs' definition in Cambodia, so there might be an adjustment to this new definition. Secondly, the number of samples that use in this study is relatively low, hence it may not represent the overall aspect of SMEs in Cambodia. For future, relevant to this research topic, it may be necessary to maximize the sample size as large as it could be to reflect a better result. Lastly, this research was conducted from May to June 2021, during the period that the Cambodian government implemented strict measures in some areas to prevent the spread of COVID-19 in Cambodia. While the situation in Cambodia currently has changed a lot due to the government's decision to release some restrictions on local business. So, the challenges of SMEs during the pandemic COVID-19 that have been found in this study may need some adjustment due to the business environment that is getting better and better in Cambodia.

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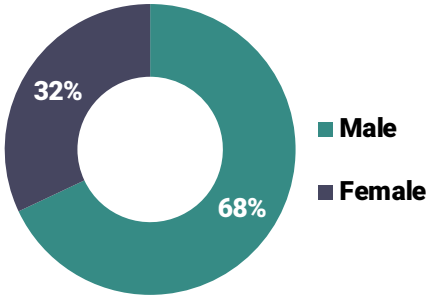
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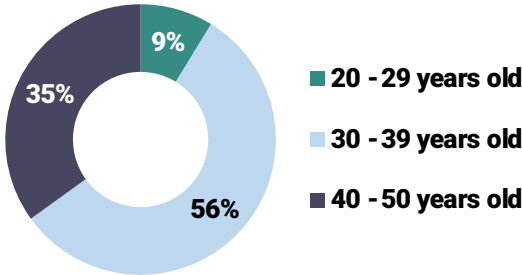
# Appendix

## a. Respondent's Profile

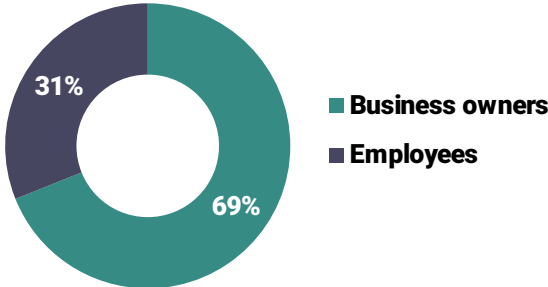
**Gender**



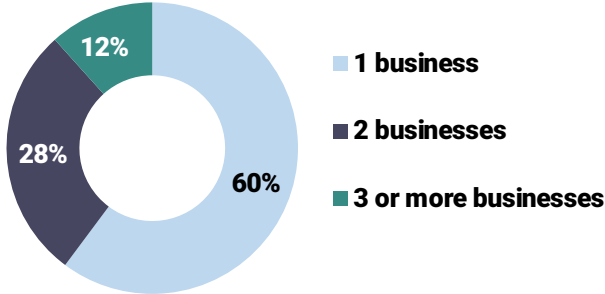
**Age Group**



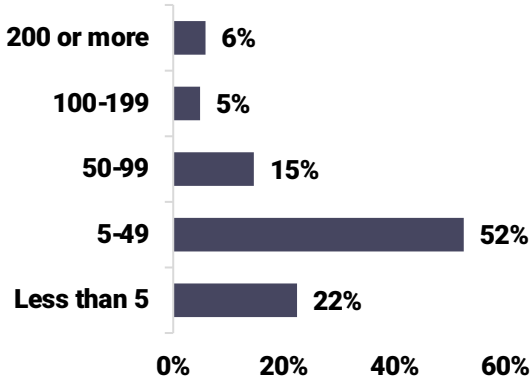
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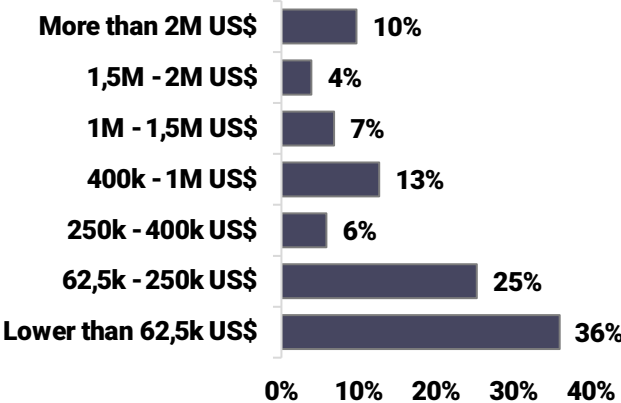
**Number of Business**



**Number of employee of Core Biz**



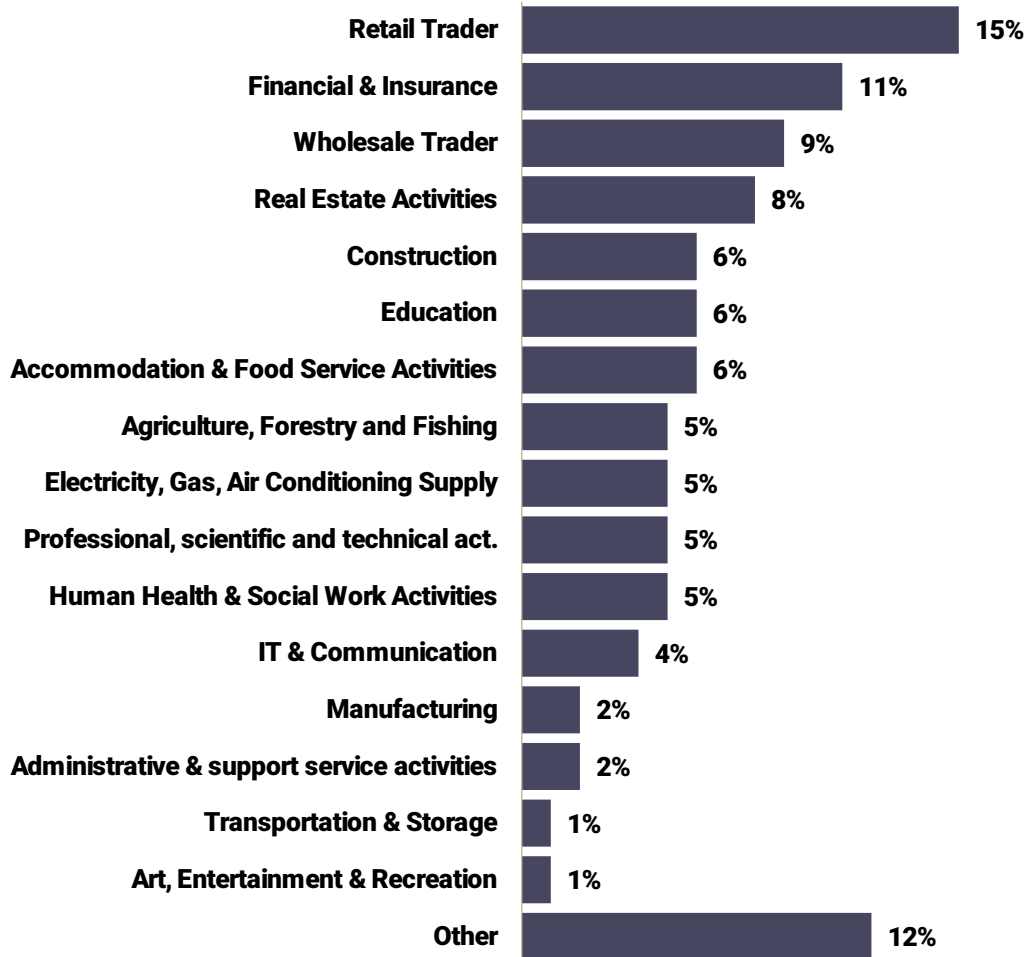
**Annual Turnover of Core Business**



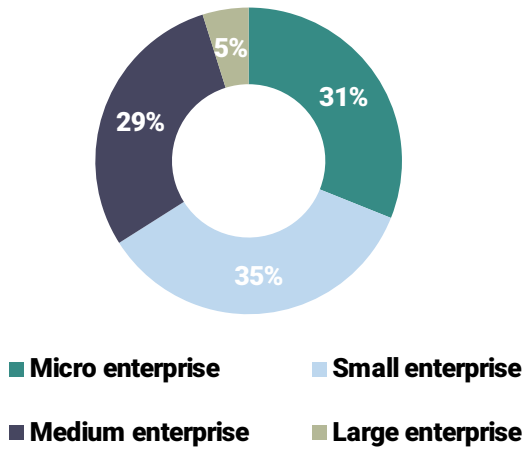


## b. Business Profile

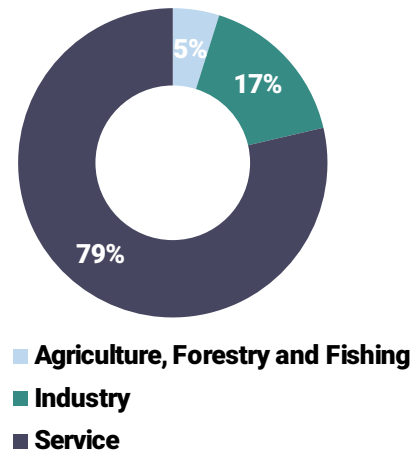
### Business Sector of Core Business



**Company segmentation by type of enterprise, total (%)**



**Company segmentation by sector, total (%)**



**Location of Business**

