

# A STUDY ON THE STATUS, PROBLEMS AND COUNTERMEASURES OF SMALL AND MEDIUM-SIZED ENTERPRISES (SMEs) IN CAMBODIA

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**Abstract:** SMEs play a crucial role in the economic development of the country, contributing significantly to employment generation and poverty reduction. This study aims to investigate the current status, problems, and potential countermeasures of small and medium-sized enterprises (SMEs) in Cambodia by providing an in-depth analysis of their current status and challenges. The proposed countermeasures offer valuable insights for policymakers, industry associations, and development agencies to design effective strategies and programs that can foster the growth and development of SMEs in the country. SMEs in Cambodia face challenges such as limited access to finance, lack of comprehensive databases, low levels of R&D expenditures, insufficient use of information technology, inadequate institutional support, bureaucratic hurdles, and skills gaps among the workforce. These challenges hinder their ability to scale up, innovate, and compete in both domestic and international markets. To address these challenges and promote SMEs growth, several policy recommendations are suggested. Improving access to finance can be achieved through innovative financing solutions like credit guarantee schemes and microfinance. Comprehensive databases on SMEs should be established to better understand their needs and design targeted support measures. Incentives for R&D and innovation, as well as the promotion of information technology adoption, should be provided. The business environment can be strengthened by reducing bureaucratic red tape, enhancing the legal framework, and promoting fair competition. Skills training programs for entrepreneurs and employees, investing in infrastructure, fighting corruption, strengthening institutional support, and enhancing human capital development are also important strategies. Promoting innovation and technology adoption through access to digital tools, innovation hubs, and R&D support, as well as fostering collaboration between SMEs, universities, and research institutions, are crucial for SMEs success in Cambodia. It is hoped that this research will contribute to the overall economic development of Cambodia and create a favorable business environment for SMEs to thrive.

**Keywords:** Small and medium-sized enterprises (SMEs), Cambodia, Business, Economy.

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## I. INTRODUCTION

Cambodia's economy grew at an average annual rate of 7.7 percent between 1998 and 2019, making it one of the fastest-growing economies in the world and the country's economy continued to recover in 2022, with growth drivers rotating to the services sector, driven by pent-up consumer demand and the return of foreign tourists. Additionally, it is anticipated that over the medium term, the economy will trend back toward its potential and grow at a rate of 6% (The World Bank, 2023)

[1].

Small and medium-sized enterprises, or SMEs, are companies with revenues, assets, or staff counts below a predetermined level. The criteria for what make a SME vary per nation. The sizing or categorization of a company as an SME, depending on the country, can be based on a number of characteristics such as annual sales, number of employees, the number of assets owned by the company, market capitalization, or any combination of these features (CFI Team, 2023) <sup>[2]</sup>. According to (ILO, 2015) <sup>[3]</sup>, small and medium-sized businesses (SMEs) create two-thirds of all jobs globally and play a significant role in generating money. As a result, the International Labour Organization (ILO) has prioritized the promotion of SMEs as a crucial area of action. Small and Medium Enterprises are considered to be a vital source of economic growth in developing countries, including Cambodia. According to recent studies, SMEs in Cambodia account for the majority of the country's industrial and commercial infrastructure and play a crucial role in socioeconomic development (Shahmohammadi, 2022) <sup>[4]</sup>. However, it is important to note that the majority of SMEs in Cambodia are micro-businesses, with 97% of the 505,134 firms being classified (Panthamit et al., 2018) <sup>[5]</sup>. Despite this, Small and Medium Enterprises in Cambodia have been able to compete effectively with larger multinational corporations through their innovation, flexibility and adaptability.

According to (Ma'aji et al., 2023) <sup>[6]</sup> found that long-established SMEs in Cambodia that handle customer complaints in a timely manner, have owners who possess higher education and strong marketing skills, and have tight control over working capital have a better chance of success. The study also found that there were significant differences between the characteristics of successful and failing SMEs in Cambodia, with variables such as working capital, marketing expenses, education level of owners, and customer complaints being significant predictors of success. The study further provided valuable insights into the factors that contribute to the competitiveness, financial stability, and continuity of SMEs in frontier markets. Nonetheless, Cambodian SMEs face numerous challenges, including access to markets, low productivity, lack of qualified and skilled labour, lack of innovation, and a complicated and relatively costly registration procedure (Japhta, Rubin et al., 2019) <sup>[7]</sup>. In addition, the research conducted by (Kuok Fidero & Promentilla Michael Angelo B., 2021) <sup>[8]</sup> presented a problem analysis on public-private partnership for small and medium enterprises (SMEs) in Cambodia. The study identified common barriers for the growth of SMEs in Cambodia through 3Ps, such as recruitment difficulties, lack of technical staff and skilled workers, affordable technology, electricity, and logistic cost, complicated tax & customs procedure, access to finance and systematic support, and unfair competition. The study further provided prioritization of the interventions to address these barriers and can be used for the development of policy recommendations to promote not only SMEs but also in implementing circular economy through a 3Ps scheme. Consequently, this research paper aims to discuss Small and Medium Enterprises (SMEs) in Cambodia by providing an overview of SMEs in Cambodia, examining their current state, problems, and proposing countermeasures to solve the problems faced by SMEs in Cambodia.

## II. AN OVERVIEW OF THE HISTORY OF SMES IN CAMBODIA

Baily, P. (2008) <sup>[9]</sup> reported that Cambodia has experienced significant economic growth over the past few decades, with SMEs playing a crucial role in this development. Despite the devastation of infrastructure and institutions during the country's recent civil war and the banning of commerce from 1975 to 1979 under the Khmer Rouge, the growth of Cambodian SMEs has been remarkable. By the mid-1980s, a host of small private enterprises providing basic manufactured goods had emerged to meet growing domestic demand.

Following independence from the French in 1954, there was a boom in the number of Cambodian industrial SMEs. According to a 1958 government report, in the mid of 1950s, there were 369 registered SMEs operating in Cambodia. By 1958, there were over 1000. This group included two scooter factories, soap factories, weaving factories, paper and sugar mills, canning factories, assembly lines for motorbikes, sewing machines, and Citroen vehicles. However, much of the country's infrastructure and these factories were destroyed during the regional conflict, and all enterprises were forbidden during the Khmer Rouge regime's control of the country from 1975 to 1979.

Beginning in late 1989, nationalized SMEs were sold or leased to the private sector. The government then launched a comprehensive privatization drive in 1991. By the late 1990s, macroeconomic stability had mostly been attained, and the foundational institutions and infrastructure had been rebuilt, laying the groundwork for the expansion of SMEs. Since the late 1980s, the number of manufacturing SMEs in Cambodia has continuously expanded. A National Institute of Statistics (NIS) survey of industrial firms shows that the number of registered SMEs in the food, beverage, and tobacco industry increased from 18,590 in 1998 to 23,343 in 2005. Similarly, the number of registered SMEs in the textile, wearing apparel, and leather industry increased from 310 in 1998 to 1,662 in 2005.

### III. STATUS OF SMES IN CAMBODIA

Small and medium enterprises (SMEs) are crucial to Cambodia's economic growth and development, contributing significantly to job creation and income generation in the country. In recent years, Cambodia's economy has continued to expand rapidly, with real GDP growth easing to 6.8% in 2017 from 7% in 2016. Growth is projected to remain robust, expanding at 6.9% in 2018. The textile and apparel exports, tourism, and agriculture sectors have experienced recovery after facing gradual moderation in the past few years (Ehst, Michael et al., 2018) <sup>[10]</sup>. According to (M Thangavelu et al., 2017) <sup>[11]</sup> demonstrated that in Cambodia, the majority of businesses are microbusinesses, making up 97% of the 505,134 firms in the country. Small businesses account for 2% of the share, while medium-sized and large firms have a low share, accounting for only 0.16% and 0.15% of total firms in the Cambodian economy. As a result, the industry, trade, and service sectors in Cambodia are mainly based on micro and small businesses, which serve as the backbone for economic development in Cambodia. Moreover, SMEs are older and more likely to be domestically owned or family-based as compared to large firms. The average age of SMEs was more than eight years, and more than 80 per cent of the SMEs in the survey were domestically owned or run by family member. It's interesting to note that SMEs reported greater sales and profit growth rates in 2014 than did overseas companies. Foreign firms used more raw materials but paid less utilities and interest than SMEs. SMEs hired more people with less education on average than did large corporations. Even though the majority of SMEs sell a sizable amount of their goods locally, larger SMEs frequently enter global markets. Based on Khmer Times (2019) <sup>[12]</sup> stated that The Ministry of Industry and Handicrafts reports that there are over 520,000 SMEs in Cambodia, but only 150,000 of them are registered. The SME Bank will concentrate on several sectors, including manufacturing, tourism, food processing, and tech start-ups. Once again, according to the Ministry of Industry, Science, Technology, and Innovation, the number of registered SMEs in Cambodia rose to 43,974 in 2022, a slight increase of 1.6% compared to the previous year. These registered SMEs generated 444,504 jobs for Cambodian people, up 2% from 2021. The ministry encourages informal SMEs to register at the ministry and relevant institutions to gain benefits and incentives offered by the government. Registered SMEs will receive support such as access to financial services, technology support, market, business consultation to expand production, businesses, and service. The government has established SME Bank as a commercial bank to support financially. The Small and Medium Enterprise Bank of Cambodia Plc. has disbursed more than \$200 million in loans to at least 2,500 SMEs to help them expand their businesses (Khmer Times, 2023) <sup>[13]</sup>. Office of the Council of Ministers described that in Cambodia, SMEs are divided into three sectors: agriculture, industry, and service and commercial. Each industry uses two factors to define an SME: the number of employees and the turnover or assets (Thy Sambath, 2021) <sup>[14]</sup>. The statement can be expressed in the following manner (See Table 1).

**Table 1: Small and Medium-Sized Enterprises in Cambodia.**

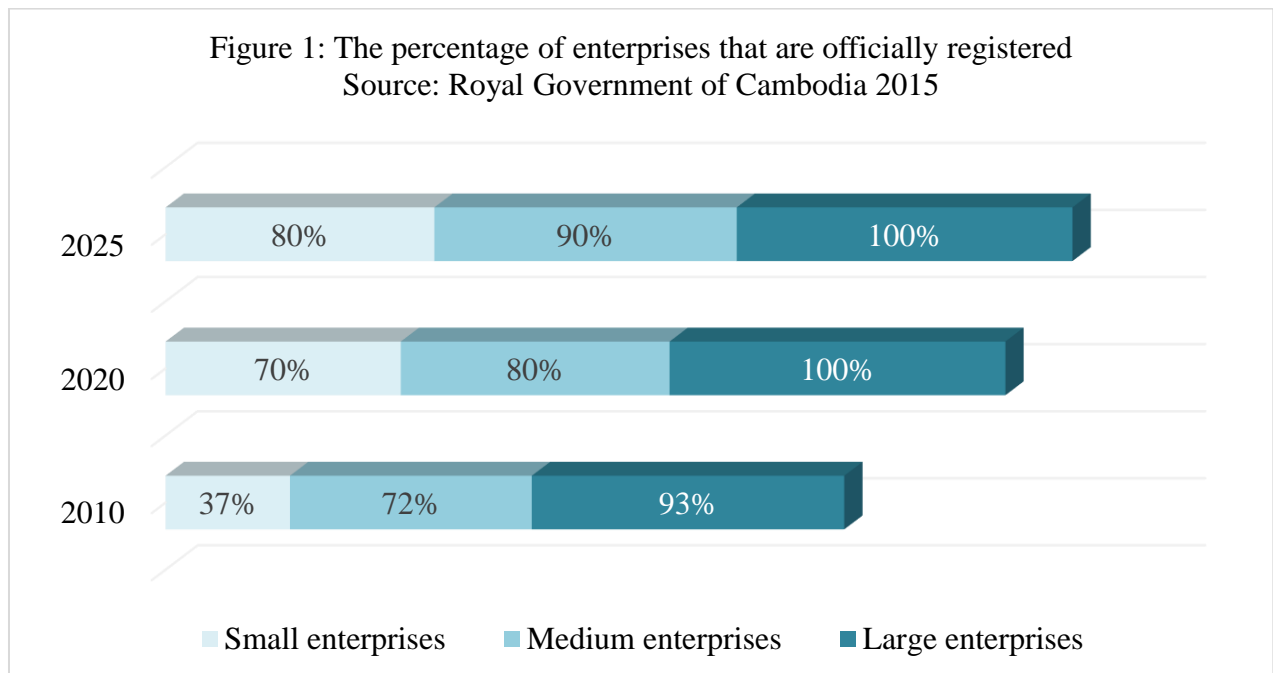
Industry	Number of Employees		Turnover (\$)		OR	Asset (\$)	
	Small	Medium	Small	Medium		Small	Medium
Agriculture	5 - 49	50 - 199	62 250 - 250 000	250 001 - 1 000 000		50 000 - 250 000	250 001 - 500 000
Industry	5 - 49	50 - 199	62 500 - 400 000	400 001 - 2 000 000		50 000 - 500 000	500 001 - 1 000 000
Service and Commerce	5 - 49	50 - 99	62 500 - 250 000	250 001 - 1 500 000		50 000 - 250 000	250 001 - 500 000

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

Source: Office of the Council of Ministers

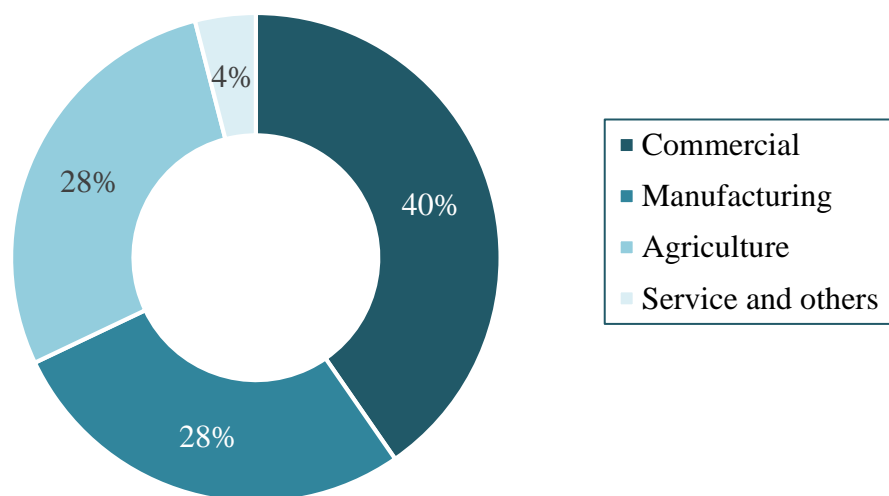
Small and medium-sized enterprises (SMEs) in Cambodia employ 13% of the labour force, while microenterprises and large enterprises employ 58% and 28% of the labour force, respectively. The majority of businesses in Cambodia have one or two employees, with an average of 3.6 employees per establishment. Among SMEs, 5.6% have a staff of 20-49 people and 5.5% have a staff of 10-19 people, with an average of 22.3 employees per SME (International Finance Corporation, 2019) <sup>[15]</sup>. IFC further showed that the majority of small and medium-sized enterprises (SMEs) in Cambodia are located in Phnom Penh (23%), Siem Reap (19%), Battambang (9%), and Kampong Cham (8%). In 2010, 37% of small enterprises, 72% of medium enterprises, and 93% of large enterprises in Cambodia were officially registered. According to the Royal

Government of Cambodia, it is expected that 80% of small businesses and 95% of medium-sized businesses will be registered by 2025 (Royal Government of Cambodia, 2015) <sup>[16]</sup>. (See Figure 1).



Small and medium-sized businesses (SMEs) are a vital component of the economy in Cambodia. Out of 510,000 enterprises, 40% are in retail trade, 30% are in industry and manufacturing (mostly food and beverage), 22% are in agriculture, and 8% are in services and other sectors. Micro SMEs make up a large portion of the economy, with 83-86% of 150,000 businesses involved in handicrafts and micro trades. Small and medium manufacturing accounts for 9% or 20,000 enterprises, while medium-sized manufacturers make up less than 1% or 2,000 registered factories (Sok Chan & Poovenraj Kanagaraj, 2019) <sup>[17]</sup>. (See Figure 2).

Figure 2: The percentage of small and medium enterprises (SMEs) in different segments in Cambodia in 2019



Source: Ministry of Industry, Science, Technology and Innovation

According to Sereyvath, K. (2020) <sup>[18]</sup> the paper provided a table that shows the number of firms in SMEs in Cambodia from 2013 to 2019. The table categorizes the firms into different sectors, including Foods, Beverages, and Tobacco, Garment and footwear, Paper and printing, Rubber product, Non-metal mine, Metal production, and Metal processing. According to the table, the number of SME firms in the food sector was the highest, with 30,681 firms in 2013 and 41,617 firms in 2019. The number of SME firms in other sectors was relatively low compared to the food sector. For example, the number of SME firms in the garment and footwear sector was 1,822 in 2013 and 2,652 in 2019.

#### IV. PROBLEMS FACED BY SMES IN CAMBODIA

Small and medium-sized enterprises (SMEs) are significant drivers of Cambodia's economic growth, contributing to 70% of employment, 99.8% of companies, and 58% of GDP. However, despite their importance, Cambodian SMEs face several challenges, including access to markets, low productivity, lack of qualified and skilled labour, lack of innovation, and complicated registration procedures. Women-owned SMEs account for 61% in Cambodia, which is higher than many ASEAN countries. Nevertheless, women entrepreneurs face difficulties in running and expanding their businesses due to lack of financing sources. In the KAS's case study, many women entrepreneurs emphasized that they faced difficulties such as collateral requirements, complex loan procedures, limited financial literacy, and tax compliance when they applied for bank loans. To help women-owned SMEs recover from the financial crisis and overcome challenges, recommendations include providing flexible lending conditions, suspending debt collection temporarily, providing loans with lower interest rates, and introducing flexibility and increasing financial flow to women-owned SMEs combined with capacity-building programs. (Seng Sopheak, 2021) <sup>[19]</sup>. According to (Asian Development Bank, 2021a) <sup>[20]</sup> & (Asian Development Bank, 2020b) <sup>[21]</sup> SMEs face several challenges, including limited access to finance, lack of technical skills and knowledge, and inadequate infrastructure. The COVID-19 pandemic has further exacerbated the challenges faced by SMEs, with many struggling to survive due to reduced demand, disrupted supply chains, and cash flow shortages. Researches were headed by (Chantola, 2018) <sup>[22]</sup> and Ung, L. and S. Hay (2011) <sup>[23]</sup> revealed that small and medium enterprises (SMEs) in Cambodia face several challenges that hinder their growth and development. Some of the key problems include:

**Access to finance:** Limited access to finance is a major obstacle for SMEs in Cambodia. Financial institutions are often reluctant to lend to SMEs due to their perceived higher risk. This lack of funding makes it difficult for SMEs to invest in their businesses and expand their operations.

**Low productivity:** Cambodian SMEs often struggle with low productivity levels, which can be attributed to factors such as outdated technology, inadequate infrastructure, and insufficient investment in research and development.

**Lack of qualified and skilled labour:** SMEs in Cambodia face a shortage of skilled and qualified workers, which can negatively impact their productivity and competitiveness in the market. This issue is further exacerbated by the country's limited educational and vocational training opportunities.

**Lack of innovation:** Cambodian SMEs often lack the resources and expertise needed to innovate and develop new products or services. This can limit their ability to compete in the market and adapt to changing consumer demands.

**Complicated registration procedures:** The process of registering a business in Cambodia can be complex and time-consuming, which can discourage entrepreneurs from starting or formalizing their SMEs.

**Government support and policies:** While the Cambodian government has made efforts to support SMEs, there is still room for improvement in terms of developing targeted policies and providing adequate support in areas such as market access, innovation, and skill development.

Cambodian SMEs often rely on internal sources of finance, such as retained profits, early settlement discounts, and delayed payments to suppliers, due to difficulties in accessing external finance. In some cases, they resort to informal sources, such as private lenders, family, friends, and rotating savings and credit associations, to meet their working capital requirements (Ma'aji et al., 2023) <sup>[6]</sup>. Cambodian SMEs struggle with low productivity, which can be attributed to a lack of qualified and skilled labour and inadequate access to technology and innovation. **Market access:** SMEs in Cambodia face challenges in accessing both domestic and international markets. They often lack the necessary resources, networks, and information to expand their market reach. **Regulatory environment:** The registration procedure for SMEs in Cambodia is complicated and relatively costly, which can discourage entrepreneurs from formalizing their businesses (Japhta, Rubin et al., 2019) <sup>[7]</sup>. Baily, P. (2008) <sup>[9]</sup> proved the barriers to SMEs doing business by demonstrated a table. (See Table 2)

**Table 2: Obstacles faced by SMEs in conducting business**

1. Regulatory and Legal Framework	Company registration
	Licensing requirements
	Commercial legal framework
	Smuggling
2. Access to Finance	Collateral and land titling
	Leasing
	Lack of Information on borrowers
	SME accounting
3. SME Support Activities	Business development services
	Access to markets
	Technology and human resource upgrading
	Improving linkages

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

Baily, P. (2008)<sup>[9]</sup> further added that SMEs in Cambodia also face challenges related to infrastructure, human capital, and technology. Many SMEs operate in rural areas with limited access to basic infrastructure such as roads, electricity, and water supply. This makes it difficult for them to transport goods and access markets. Moreover, the education and skills of the workforce are often inadequate, and there is a shortage of skilled workers in certain sectors. SMEs also face challenges related to technology adoption and innovation, which are crucial for improving productivity and competitiveness.

According to United Nation (2022)<sup>[24]</sup> proved that the challenges faced by MSMEs in Cambodia in accessing finance. The challenges include limited knowledge of MSMEs in rural areas about short-term credit products like invoice financing, MSMEs prefer less complicated processes of having bigger loan sizes and do not borrow in small chunks of amount with multiple application papers, lack of proper bookkeeping and financial statements, which challenge the business verification process, banks do not have agent or correspondent banking in both urban and rural areas, making it difficult for MSMEs to access finance, MSMEs face difficulties in meeting the collateral requirements of banks and other financial institutions, limited access to credit information and credit bureaus, high interest rates and fees charged by banks and other financial institutions, limited availability of venture capital and private equity financing, limited availability of crowdfunding mechanisms, and lack of coordination among various agencies and organizations working on MSME financing.

The research was conducted by (Kosalsereyvuth & Julien, 2021)<sup>[25]</sup> indicated that the challenges faced by SMEs in Cambodia, especially during the COVID-19 pandemic, include:

- Difficulty in accessing finance due to limited credit allowed, collateral evaluation, loan size, document requirements, and other forms of guarantee.
- Competition in the international and regional market expansion.
- Women-owned enterprises were the hardest hit during the pandemic, facing financial difficulties and unable to repay their bank loans.
- Excess demand for loans due to the evaluation of collateral, loan size, document requirements, and other forms of guarantee.
- SMEs in rural areas face difficulties in registering their enterprises through the online system and have to go to all related ministries with different fees.

Based on Department of Economic and Social Affairs (2020)<sup>[26]</sup> MSME growth in Cambodia is facing a number of challenges. These include constrained access to financial and market resources, illogical regulatory structures, exorbitant input costs, and constrained entrepreneurship potential. The informality of MSMEs has also hampered their access to

business development services provided by the government and international organizations. Additionally, without official registration, MSMEs can hardly gain access to international markets. According to a survey conducted by the Federation of Associations for Small and Medium Enterprises of Cambodia (FASME) in 2018, MSMEs contributed to less than 10% of the country's exports, although they account for more than 90% of all business entities. The Government of Cambodia has recognized the important contributions of MSMEs towards national economic growth and has made MSME upgrading and modernization one of the four pillars of the most recent Cambodia Industrial Development Policy (IDP 2015-2025), which is the country's roadmap for structural economic change.

Additionally, as reported by (Ma'aji et al., 2020) <sup>[27]</sup> exhibited that apart from limited access to finance, the paper mentions several other challenges faced by SMEs in Cambodia. These include:

- **Information costs:** Information costs are a significant barrier to SMEs' access to external financing. SMEs often lack the information required by lenders to assess their creditworthiness.
- **Lack of access to business development services:** SMEs in Cambodia often lack access to business development services, such as training, mentoring, and networking opportunities. This limits their ability to grow and expand their businesses.
- **Limited access to technology:** SMEs in Cambodia often lack access to technology, which limits their ability to compete with larger firms and access new markets.
- **Lack of skilled labour:** SMEs in Cambodia often struggle to find skilled labour, which limits their ability to grow and expand their businesses.

Panthamit et al. (2018) <sup>[5]</sup> found that the following are obstacles to the business environment in Cambodia:

**Regulatory and business burdens:** Foreign investors may face challenges when dealing directly with government agencies in Cambodia due to unclear regulations regarding business registration and taxes. Foreign SMEs may also encounter due processes and legal obstacles when setting up and operating their businesses. Additionally, the lack of infrastructure development can make it difficult for businesses to use the logistics system in Cambodia. Transferring money in and out of Cambodia can also be challenging for foreign businesses, as the Cambodian market still relies heavily on cash for business and trade. Foreign investors may need to use money transfer services, which are considered safer and more reliable than the banking systems in Cambodia.

**Corruption by unclear regulations:** Due to unclear regulations and tax systems in Cambodia, there have been reports of government officials requesting bribes before allowing businesses to operate. SMEs may feel compelled to pay bribes or use connections with officials to expedite the registration process. Additionally, both local and foreign SMEs may face challenges with the tax system and may feel pressured to pay bribes to tax officials in order to meet annual tax requirements.

**Lack of policy support for SMEs:** The Cambodian government has shown support for SMEs, but there is a lack of a solid policy to provide assistance. SMEs are often left to survive on their own without help or support from the government. Small traders and SMEs may not have access to financial and knowledge support from the government, which can create obstacles for starting and achieving their business objectives.

**Culture and preference of Cambodian consumers:** The Cambodian culture is influenced by various political regimes, local and central perspectives, and old and new generations. To succeed in business, it is important to understand the preferences and behaviours of customers. Additionally, there are differences in business management styles between the old and new generations in Cambodia's economy. The new generation tends to adopt new business practices, while the old generation may be slower to adapt to change.

In summary, foreign investors may face challenges when dealing with government agencies, setting up and operating their businesses, using the logistics system, and transferring money in and out of Cambodia. Moreover, unclear regulations and tax systems in Cambodia may lead to corruption and bribery, creating challenges for businesses trying to operate legally. While the Cambodian government has expressed support for SMEs, there is a need for more concrete policies and assistance to help them succeed. Understanding the cultural influences and generational differences in business practices is also important for success in the Cambodian market.

## **V. COUNTERMEASURES FOR SMES IN CAMBODIA: OVERCOMING CHALLENGES AND OBSTACLES**

To overcome the challenges faced by SMEs, SMEs require support in the form of financial assistance, technical training, and infrastructure development. The government and other stakeholders have taken several initiatives to support SMEs, such as providing loans, grants, and tax incentives, and improving access to information and technology. (Asian Development Bank ,2021a) <sup>[20]</sup> & (Asian Development Bank ,2020b) <sup>[21]</sup>. In accordance with (World bank group, 2019) <sup>[28]</sup> stated that the government of Cambodia has announced policies to support small and medium-sized enterprises (SMEs), which include the following:

- Establishment of an SME bank with an initial capital of US\$100 million.
- Funds for entrepreneurship with a \$5 million annual budget.
- SME tax benefits for six priority agro-industry, food-related production and processing industries.
- These policies aim to promote the growth of SMEs in Cambodia and support the country's economic development.

In addition, several studies have demonstrated that there are various countermeasures that can be implemented to address the challenges faced by SMEs in Cambodia:

**Improve access to finance:** Financial institutions and policymakers should develop strategies and programs to support SMEs at different stages of the financial chain, addressing the information costs that prevent them from accessing traditional sources of financing (Ma'aji, Muhammad M. et al., 2020) <sup>[27]</sup>.

**Enhance productivity:** SMEs should invest in employee training and development to improve their workforce's skills and qualifications. Additionally, they should explore opportunities to adopt innovative technologies and practices to boost productivity.

**Facilitate market access:** Policymakers and relevant stakeholders should work together to create platforms and networks that enable SMEs to access domestic and international markets more effectively.

**Simplify the regulatory environment:** The government should streamline the registration process for SMEs, reducing the time and cost involved in starting and operating a business (Japhta, Rubin et al., 2019) <sup>[7]</sup>.

**Promote public-private partnerships:** Encouraging collaboration between the public and private sectors can help address the barriers faced by SMEs and support their growth and development (Kuok, F., & Promentilla, M.A., 2021) <sup>[8]</sup>.

The Cambodian government has implemented policies and programmes to support SME development to address the challenges. For example, the government has established the Small and Medium Enterprise Bank of Cambodia (SME Bank) to provide financing and technical assistance to SMEs. The government has also implemented policies to improve the regulatory and legal framework for SMEs, such as simplifying business registration procedures and reducing the time and cost of obtaining permits and licenses (Baily, P., 2008) <sup>[9]</sup>.

Two main initiatives have been launched by the Cambodian Ministry of Economy and Finance to address the difficulties faced by small and medium-sized businesses. The first initiative aims to improve compliance among SMEs by providing support in areas such as business consulting, legal advice, business registration, accounting, marketing, and technical expertise. This includes facilitating access to financing through institutions such as the SME Bank of Cambodia and the Agriculture Rural Development Bank. The second initiative focuses on enhancing the broader ecosystem for SMEs by continuing to reform the regulatory framework, promoting business services, increasing access to funding, expanding market opportunities, developing human resources, supporting research and development, and fostering entrepreneurship skills (Khmer Times, 2020) <sup>[29]</sup>.

According to a press release published on April 3, 2020, by the Ministry of Economy and Finance of Cambodia, all institutions, including banks and microfinance organizations that have joint ventures with the SME Bank, are required to establish and provide better loan terms (OpenDevelopment Cambodia, 2020) <sup>[30]</sup>. (See Table 3).



**Table 3: Loan Terms Under the Co-Financing Project.**

Descriptions	Terms and Conditions
Purpose of Using and Loan Sizes	Loans for Working Capital with a maximum amount of US \$ 200,000 Loans for Investment/Business Expansion with a maximum amount of US \$ 300,000 (Maximum total financing of US \$ 300,000)
Interest Rate Per Year	Maximum 7%
Loan Periods	Less than 4 years
Other terms and conditions	Subject to the loan terms of each participating financial institution

Source: Ministry of Economy and Finance of Cambodia

According to (Eisinger & Cochu, 2016) <sup>[31]</sup> reported the recommendation to enable SMEs to better access funding for Sustainable Consumption and Production (SCP) measures:

- Small and medium-sized enterprises (SMEs) should receive technical assistance to help them prepare financial statements, which are essential for obtaining external financing. To develop these statements, companies must have proper bookkeeping systems in place, and support in the form of capacity building and handholding is needed to help SMEs develop these systems. International donor organizations could play a relevant role in providing this capacity building.
- To reduce the lack of trust between SMEs and formal financial institutions, “trust brokers” could be installed to help bridge the gap between financing supply and demand. These independent actors could include consultants, research organizations, and technology suppliers, who could demonstrate to financing institutions the economic and environmental savings resulting from investments, as well as support SMEs in preparing suitable financial statements and loan requests.
- To better meet the needs of SMEs, financial institutions should review their credit policies and consider adapting loan volumes, gradually reducing interest rates or collateral requirements. International donor organizations could support this process by providing the necessary capital and technical capacity support for creating a project pipeline. Financing institutions should view this support as an investment in the future and ensure that the built capacities are retained within the institution.
- Microfinance institutions (MFIs) should also be encouraged to lend to SMEs, as their extensive networks would enable them to reach SMEs throughout the country. The experiences of MFIs such as Prasac, Sathapana, and Amret, which already offer loans of up to EUR 47,000 to SMEs, should be closely monitored to derive lessons learned and potentially replicate the model with other MFIs. Additionally, it should be considered whether MFIs can develop dedicated green financing programs for investing in SCP measures.
- The costs of formally registering as an enterprise should be reduced to encourage informally operating SMEs to enter the legal system. This could involve reducing transaction costs for registration and bureaucratic requirements for registered SMEs, as well as using incentives to encourage compliance or sanction non-compliance with registration requirements. However, addressing the high degree of informality among Cambodian SMEs, which is linked to corruption and mistrust of the public sector, will require cooperation among political, private sector, and financial actors and is a long-term goal.
- Banks should be made aware of the business opportunities associated with green finance. While there is currently no incentive for banks to position themselves as “green banks” due to the booming financial market in Cambodia, it can be communicated that banks that invest in financial products such as green loans will have an advantage over other banks once growth slows down. Additionally, companies that consider the environmental impacts of their investments are often more reliable customers with a lower risk of defaulting. Capacity building support should be offered to banks on setting up green financing schemes and implementing environmental assessment procedures.

- More pilot schemes for green finance should be developed, as demonstrated by the success of the MEET-BIS project. Pilot schemes allow showcasing to other financial institutions that green financing works and that there is demand for this type of financing. Even if a particular scheme or approach does not work, the negative impact of a pilot scheme remains limited and allows for learning from failure. Pilot programs have a tremendous deal of promise for introducing different players from SMEs to banks to governmental authorities to the topic in a market like Cambodia where green finance is still in its infancy.

To implement the recommended actions, it is necessary for various stakeholders including policy makers, authorities, private sector associations, financing institutions, and donor organizations to work together closely. The microfinance sector is a key starting point for developing an ecosystem for green financing for SMEs.

Ma'aji et al. (2020) <sup>[27]</sup> showed that The Royal Government of Cambodia should consider passing a law that would allow small businesses to use movable assets, such as vehicles, machinery, livestock, and account receivables, as collateral to enhance their access to credit. The Rural Development Bank, which was established to support SMEs with loan services, could use this information to formulate a program to support small businesses at different stages of the financial chain. This support should include helping businesses transition from informal to formal status and providing them with management and governance support. Dedicated agencies could be set up to provide this crucial support to small businesses in Cambodia.

The Royal Government of Cambodia (RGC) has shown a strong dedication to supporting and promoting MSMEs through various initiatives. The RGC has created the Rectangular Strategy (RS) Phase IV as a guide to formalizing SMEs. The RGC's strategic goal is to improve SMEs by creating a better business environment through an improved regulatory framework, promoting innovation and technology, increasing access to finance, strengthening and expanding support services, and integrating SMEs into global value chains. The Royal Government of Cambodia (RGC) has developed several initiatives to support the rapid growth of the private sector. These include the Entrepreneurship Promotion Fund, the Skills Development Fund, and the TECHO STARTUP Center, which provide training, mentoring, coaching, networking opportunities, and funding to MSMEs and start-ups. The Ministry of Posts and Telecommunications (MPTC) is also working on an innovation policy and has established an innovation center to support start-ups and a digital economy in Cambodia. Additionally, MISTI has drafted a policy on MSME development that focuses on enabling rules and regulations for MSMEs, promoting entrepreneurship and human resource development, increasing productivity through technology and innovation, enhancing access to export markets, and supporting access to finance. One of the strategic goals is to support MSMEs by providing them with business development services, including vocational training. This includes facilitating equal access for women to business services, financial services, and networking opportunities, as well as increasing their understanding of business formalization (United Nation, 2022) <sup>[24]</sup>. The study was headed by (M Thangavelu et al., 2017) <sup>[11]</sup> suggested that the government can support export promotion by providing access to valuable information on international market trends. This information could include details on product features, prices, buyers, distributors, relevant standards and specifications, international best practices, preferential treatments by existing FTAs, and related legal requirements and procedures. The government can also organize more export exhibitions that provide matching services, apply ICT platforms for SMEs, provide trade finance, strengthen business associations, and offer advisory and capacity-building services to help SMEs comply with the technical standards of export markets.

Ung, L. and S. Hay (2011) <sup>[23]</sup> indicated that to support the development of SMEs and improve their access to finance, several policy recommendations can be made. The government can play an active role in connecting SMEs to the export sector, which could help diversify the economy and create a strong foundation for growth. Specific policies could include providing incentives for export firms to find local partners, benchmarking standards for export growth, and offering market, management, and technical consultancy. The government could also help SMEs access finance by expediting land titling, offering a credit guarantee scheme, and creating a credit information bureau. Competition among banks is necessary, and policy is needed to encourage banks to expand across the country. Further development of the financial system is key to creating financing options for SMEs. The formalization and registration process for SMEs should be addressed, as it has positive implications for tax revenues and access to finance. The government could offer tax benefits, consultancy, technological know-how transfer, management skills training, information, government contracts, study tours, trade fairs, exhibition priority, and other benefits to encourage SMEs to formalize their existence.

The report was directed by (Royal Government of Cambodia, 2015) <sup>[16]</sup> The expansion and modernization of SMEs can be achieved through institutional arrangements and incentives. These include encouraging the preparation of a medium-term

plan to nurture the growth of SMEs by identifying enterprises with good export potentials, developing new products, linking to multinational corporations (MNCs), connecting them to the value chain and regional production networks, and preparing a concrete action framework to develop them. The SME development framework and mechanism should be strengthened, focusing on the preparation of registration, monitoring, and tracking the progress of this sector. This will encourage Cambodian enterprises to register in the formal tax regime, allowing the Royal Government to have accurate information about the sector so that it can initiate proper supporting legislation to improve credit information access and other business guidance to help investors and businesses flourish. Technology transfer can be enabled through field visits and acquiring capacity building from other countries around the world. A research and development fund (R&D) should be established with appropriate professional management and budget allocation by the Royal Government according to the need of industry and the affordability of the national budget. Human resources development should be enhanced to ensure strong and dynamic industrial development through the provision of specialized skills training to address skills shortage in priority sectors by increasing training scholarships for engineers and technicians. The viability of providing support to SMEs for investment in machinery parts or production equipment as well as other incentives should be reviewed, taking into consideration the local processing of raw materials, promoting quality of products, and modernizing their production chain to link up to multinational companies. The capacity of high education institutions should be built to absorb scientific knowledge and promote market-driven technological innovation. Awards for technology innovation in various priority sectors should be created. Where they may exchange knowledge and information, defend the interests of their members, and represent their members' interests before the Royal Government to get technical and financial support, the development of sub-sectoral associations need to be encouraged. The entrepreneurial capacity of local enterprises should be built to enable them to deal better with large enterprises and foreign investment in SEZs. The registration and accounting practices for SMEs can be improved by amending the Law on Corporate Accounts, Audit, and Accounting Profession to introduce a simplified accounting standard for SMEs. The single-window mechanism for registering SMEs should be strengthened by using their registration and account ledgers as the basis for evaluating and determining criteria for providing incentives and receiving support from the Royal Government. Small, medium, and large enterprises should be encouraged to have proper accounts and to register as real regime tax payers. To broaden and deepen the pool of the private sector, which values the culture of social accountability and can improve their ability to obtain financing, corporate governance should be strengthened. This can be done by offering them training in general management, production system management, and technology management for SMEs. The benefits of the new simplified accounting system for SMEs should be publicized broadly to the public. Training in accounting should be provided to SMEs. The promotion of agro-industrial development can be achieved by exploring possibilities of establishing agro-processing zones such as furniture manufacturing, rubber processing, seafood processing, food processing for domestic use and export through public-private partnership. Incentives should be provided to companies to locate in these areas. A development and promotion fund for export-led product development using agro-processing technology should be created. A coordination mechanism for processed agricultural product exports should be developed by addressing logistic issues, abolishing informal fees, and improving trade facilitation. To enable the Royal Government to provide direct support to these sectors, a study needs to be conducted to identify priority items that have the potential to be processed for export. This will help create a comprehensive action plan based on the value chain.

## VI. CONCLUSION AND IMPLICATION

The study on the status, problems, and countermeasures of small and medium-sized enterprises (SMEs) in Cambodia reveals that SMEs play a crucial role in the country's economic development and job creation. Small and medium-sized enterprises (SMEs) play an important role in the Cambodian economy, accounting for over 90% of all businesses. This research has provided a comprehensive analysis of the status, problems, and potential countermeasures for small and medium-sized enterprises (SMEs) in Cambodia. The study revealed that despite their significance, SMEs in Cambodia face several challenges that hinder their growth and competitiveness, including limited access to finance, lack of comprehensive databases, low levels of R&D expenditures, and insufficient use of information technology, inadequate institutional support, bureaucratic hurdles, and skills gaps among the workforce. These obstacles hinder their ability to scale up, innovate, and compete in both domestic and international markets.

- Limited access to finance is a significant barrier for SMEs in Cambodia, as it restricts their ability to invest in new technologies, expand their operations, and create more jobs. Moreover, SMEs often have difficulty accessing loans from banks and other financial institutions. This is due to a number of factors, including the lack of collateral, the high cost of credit, and the lack of trust between banks and SMEs.

- The lack of comprehensive databases on SMEs makes it difficult for policymakers and financial institutions to design targeted support measures and monitor their progress.
- Low levels of Research & Development (R&D) expenditures limit the innovation capacity of SMEs, while the insufficient use of information technology hampers their ability to compete in the global market.
- Lack of skills and training: Many SMEs are run by entrepreneurs who lack the skills and training necessary to manage a successful business. This can lead to problems with financial management, marketing, and production.
- Weak infrastructure: Cambodia's infrastructure is underdeveloped, which can make it difficult for SMEs to transport goods, access markets, and communicate with customers.
- Corrupt government officials: Some government officials in Cambodia are corrupt and demand bribes from SMEs in exchange for services. This can add to the cost of doing business and make it difficult for SMEs to compete.

The challenges faced by SMEs in Cambodia have a number of implications for the country's economic development. First, it limits the ability of SMEs to create jobs and grow the economy. Second, it makes it difficult for SMEs to compete with larger businesses, both foreign and domestic. Third, it can lead to poverty and social unrest. To address these challenges and promote the growth of SMEs in Cambodia, several policy recommendations can be derived from the study:

- **Improve access to finance:** The government and financial institutions should work together to develop innovative financing solutions for SMEs, such as credit guarantee schemes, microfinance, and venture capital funds. The government could provide loans to SMEs at subsidized rates or guarantee loans from banks. Moreover, financial literacy programs should be implemented to educate entrepreneurs on financial management and investment strategies.
- **Develop comprehensive databases:** Establishing a centralized database on SMEs would enable policymakers and financial institutions to better understand the needs of SMEs and design targeted support measures.
- **Encourage Research and Development (R&D) and innovation:** The government should provide incentives for SMEs to invest in R&D and innovation, such as tax breaks, grants, and technical assistance programs.
- **Promote the use of information technology:** Policymakers should encourage SMEs to adopt information technology by providing training, technical support, and financial incentives.
- **Strengthen the business environment:** The government should implement policies to improve the overall business environment in Cambodia, such as reducing bureaucratic red tape, enhancing the legal framework, and promoting fair competition.
- **Promoting skills training:** The government could provide training programs for entrepreneurs and employees of SMEs.
- **Investing in infrastructure:** The government could improve the country's transportation, communication, and energy infrastructure.
- **Fighting corruption:** The government could crack down on corrupt government officials and make it easier for businesses to operate without fear of extortion.
- **Strengthening institutional support:** The government should streamline bureaucratic procedures, simplify business registration processes, and establish a one-stop-shop service to facilitate the establishment and growth of SMEs. Additionally, public-private partnerships should be fostered to develop business incubators, training centers, and mentorship programs.
- **Enhancing human capital development:** Building a skilled workforce is crucial for the success of SMEs. Vocational training programs should be expanded, focusing on entrepreneurship, technical skills, and industry-specific knowledge. Collaboration between educational institutions and the private sector should be encouraged to align curricula with market needs.
- **Promoting innovation and technology adoption:** Encouraging SMEs to embrace technological advancements can enhance their productivity and competitiveness. Initiatives should be launched to provide access to digital tools, innovation hubs, and R&D support. Collaboration between SMEs, universities, and research institutions should be fostered to promote knowledge exchange and innovation.

By addressing the identified challenges and implementing the suggested countermeasures, the government, private sector, and relevant stakeholders can unleash the untapped potential of SMEs, leading to inclusive economic growth, job creation, and poverty reduction. It is essential to recognize the invaluable role that SMEs play in the socioeconomic development of Cambodia and prioritize their support for a prosperous and sustainable future.

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