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Cambodia: Capacity Building for SME Development – Phase II

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Asian Development Bank



SME DEVELOPMENT FRAMEWORK UPDATE

Prepared by

SME Secretariat

On behalf of

SME Sub-Committee

May 2008

This report should be read in conjunction with:

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ABBREVIATIONS

ABC	–	Association of Banks in Cambodia
ADB	–	Asian Development Bank
BDS	–	business development services
CED	–	Customs and Excise Department
CR	–	credit registry
GDP	–	gross domestic product
IAS	–	international accounting standard
IFC	–	International Finance Corporation
JICA	–	Japan International Cooperation Agency
MEF	–	Ministry of Economy and Finance
MIME	–	Ministry of Industry, Mines, and Energy
MOC	–	Ministry of Commerce
MOJ	–	Ministry of Justice
MOU	–	Memorandum of Understanding
MPDF	–	Mekong Private Sector Development Facility
NAC	–	National Accounting Council
NBC	–	National Bank of Cambodia
NBFI	–	non-bank financial institution
NGO	–	non-government organization
NPRS	–	National Poverty Reduction Strategy
OECD	–	Organization of Economic Cooperation and Development
PPP	–	public private partnership
PPTA	–	Project Preparatory Technical Assistance
SEDP II	–	Second Five Year Socioeconomic Development Plan
SCSME	–	Sub-Committee on Small and Medium Enterprises
SME	–	small and medium enterprises
SNEC	–	Supreme National Economic Council
TCAP	–	Technical Cooperation and Assistance Program
UNDP	–	United Nations Development Program
UNIDO	–	United Nations Industrial Development Organization
USAID	–	United States Agency for International Development
VAT	–	value added tax
WTO	–	World Trade Organization

FOREWORD

The private sector is considered to be the key to the development of Cambodia and is the main reason for the rapid economic growth experienced in recent years. Robust GDP growth of 10.1% is estimated for 2007, and industrial sector growth has fueled economic development and now accounts for almost 30% of total GDP, twice the ratio it accounted for in 1995. While much of this growth is accounted for by the rapid expansion of the garment industry, an important aspect has also been the development of SMEs, which make up approximately 99 percent of all enterprises and almost half of all employment.

Cambodia remains at a crucial stage of economic development and the SME sector continues to lead the process. The national economy relies upon a favorable business environment to increase the international competitiveness of domestic companies. In order to make Cambodian SMEs more competitive internationally, the Government entered into a reform process improving the regulatory environment, lowering the costs of doing business and providing better access to finance - among many other things.

These reforms are outlined in the Government's Rectangular Strategy for Growth, Employment, Equity and Efficiency. This high-level strategy emphasizes the importance of improving SME access to medium and long-term finance, streamlining licensing and registration procedures to reduce bureaucratic red tape, improving market access for SMEs through better trade facilitation and support for building linkages between SMEs and larger enterprises. Other strategies include support for building capacity in SMEs through training and other measures to enhance productivity and improve quality of production.

The SME Sub-Committee, on behalf of the Royal Government of Cambodia, and with the assistance of its Secretariat, is playing a crucial role in implementing the Rectangular Strategy and thereby enhances the enabling environment in which SMEs will thrive and prosper. The implementation process is outlined in the SME Development Framework, which was approved by the Council of Ministers in July 2005. Essentially, it is the Roadmap for the Rectangular Strategy as it pertains to SMEs, and outlines the Strategy and Plan of Action to support the SME sector in Cambodia. Right from the start, the Framework has been used to align and coordinate government policy efforts with the objectives of development partner assistance. This coordination will continue with this update of the Development Framework.

A major obstacle for the SME sector remains the high the cost of doing business. Cambodia continues to face tough competition from neighboring countries, which have lower business cost environments as a result of better infrastructure, a better trained labor force and a lower regulatory burden. Now that Cambodia is becoming more integrated into international markets and trading blocs through our accession to the World Trade Organization, it will be vital for SMEs to become more competitive and to better integrate into both national and international markets. This element of our economic development is being driven by Government's recently launched ambitious trade integration strategy and the Trade SWAp approach supported by the wider development partner community.

The SME Development Framework, however, continues to be an important tool to address these issues. As the Chairman of the inter-ministerial SME Sub-Committee, I will do my best to further develop the processes addressing issues affecting the business environment for SMEs. It is in this context that I present this Update of the SME Development Framework as a starting point for an assessment of our Rectangular Strategy.

This document provides a status update of the original SME Development Framework, since the time has come to take stock of what has been achieved against the SME Sector Roadmap and to update it to reflect the differences in the business environment for SMEs and developments during the last four years from the Government's perspective.

The SME Sector Roadmap and the SME Development Framework are "living documents" and, accordingly, should be updated on a regular basis. The update set out in this document:

- (i) Examines what has been achieved or completed during Phase I (2005-2007);
- (ii) Examines what has already been achieved from Phase II (2008 -2010) of the original SME Sector Roadmap;
- (iii) Examines what areas of development from Phase I have not yet been completed and must continue throughout the new Phase II (2008 -2011);
- (iv) Introduces a defined time frame for Phase III (Previously called Future Considerations) of 2012-2015.

As this document sets out, there have since 2005 been some substantial achievements in pursuit of the four (4) key objectives of the SME Development Framework. However, the SME Development Framework is ambitious, and there remains much to be done to keep on the path of successful development and reform.

The Government, development partners and the private sector still have a comprehensive agenda in order to finalize, enhance and expand the framework for securing an enabling environment for SME development. There are areas of Phase I that must still be completed and those that should evolve further throughout Phase II. Areas from Phase I that still require the Government's attention include institutional capacity building for the SME Sub-Committee and SME Secretariat, building the capacity of business associations, enacting the legal framework for a Commercial Court, accelerated Customs reform, enactment of the finance leasing law and clarification of tax treatment of leases.

In light of the Government's new trade integration strategy, the impending new Government will have to update the Rectangular Strategy for which the SME Development Framework provides an important input. Other areas for consideration should include a focus on improving linkages between agro-industry and the urban industrial sector, a synthesis of value chain work to date to see where cross-cutting policy can be improved, technology adoption for competitiveness as access to finance improves and further decentralization of business licensing and One Window Services.

I would like to express my deep gratitude to the Asian Development Bank for its technical assistance supporting the original preparation of the SME Development Framework published in July 2005, for its assistance with this update under ADB TA 4786-CAM and for its continuing support through the SME Development Program. Moreover, I would also like to express my thanks to the other development partners who contributed to the consultation and update of the SME Development Roadmap and look forward to their future assistance in supporting further the development of SMEs in Cambodia.

The Government would like to re-confirm its commitment to the support of the SME Development Framework continued ownership of the reform process, working with development partners and the private sector to achieve the vision set out in the document.

Suy Sem
Minister
Ministry of Industry, Mines and Energy
Chairman of the SME Sub-committee

EXECUTIVE SUMMARY¹

In 2004, the Government embarked upon an ambitious program of development and reform to meet the needs of its people. A primary goal is the reduction of poverty. In this fight against poverty, the Government recognizes that small and medium enterprises (SMEs) play a significant role in promoting economic development and creating sustainable employment and incomes. Therefore, the SME Development Framework (the “Framework”) was developed to improve and coordinate the Government’s efforts in promoting SME activity in a market economy. In doing so, it incorporates and elaborates the Government’s thirteen (13) key SME policies set out in the July 2004 Rectangular Strategy of the Prime Minister.

The Framework and its SME Sector Roadmap included are seen as “living documents” and, accordingly, should be updated on a regular basis. The Framework also provides a focal point around which Government and development partner discussions and activities should be coordinated.

This document provides a status update of the original Framework and its SME Sector Roadmap as approved by the Council of Ministers and first published on 29 July 2005. The time has come to take stock of what has been achieved against the SME Sector Roadmap and to update it to reflect the differences in the business environment for SMEs and developments from the Government’s perspective. In essence, it:

- (v) Examines what has been achieved or completed during Phase I (2005-2007);
- (vi) Examines what has already been achieved from Phase II (2008-2010) of the original SME Sector Roadmap;
- (vii) Examines what areas of development from Phase I have not yet been completed and must continue throughout Phase II;
- (viii) Introduces a defined time frame for Phase III (Previously called Future Considerations) of 2012-2015.

The update exercise has allowed us to take stock of the successes over Phase I of the SME Sector Roadmap, and it is important to recognize this progress and the assistance of the development partner community in these achievements.

This document first sets out the achievements of Phase I (Section III) followed by the updated SME Sector Roadmap matrix, especially for items not yet completed in Phase I and which need to be continued in Phase II. The final section of the document sets out what actions remain to be taken in Phase II (2008-2010) and Phase III (2010-2015).

The obstacles to implementing the Government’s 2004 Rectangular Strategy, and achieving a conducive business environment, still remain. These include an inadequate legal and regulatory framework, limited access to finance and a lack of support services in the form of private sector business development services (BDS) or the provision of public goods and services. However, the progress in these areas throughout Phase I is set out at Section III and the key achievements highlighted below.

¹ The Government of Cambodia prepared this Update of the SME Development Framework with technical assistance from the Asian Development Bank (TA 4786-CAM).

Great progress has been made in the area of improving the SME policy framework throughout Phase I, with the establishment of the SME Sub-Committee and its SME Secretariat in 2004, the release of the first SME Development Framework in July 2005, the release of an SME Information Dissemination Plan and a technical report on SME Statistics in Cambodia, both in December 2007. This update is also one of the achievements of Phase I.

In the area of public/private partnership, there have been excellent developments with the establishment of Provincial Public Private Dialogues (PPPD) in the provinces of Kampong Cham, Kampong Chhnang and Kampot with close collaboration between provincial business associations and the provincial Governments.

Excellent progress has been achieved in the area of the legal and regulatory framework. The enterprise registration process has been simplified and made more transparent so as to ease the incorporation of enterprises. To assist in disseminating information to the public about the procedures and costs involved, the Government has published a manual on the detailed process (“Handbook on Commercial Registration”) and distributed it widely. Furthermore, the Government successfully completed a pilot in Battambang of a decentralized business registration branch – which is now in full operation – and put in place regulations to allow further decentralization of business registration in major urban centers across Cambodia. As a result, company registrations (including branches) is running at around 300 per month for 2008 compared to 61 per month before the reforms back in September 2004 – which is testimony to the reform agenda.

The SME Sub-Committee has also established a mechanism for the private sector to appeal decisions made by relevant government agencies concerning licensing and inspection (Business Licensing Hotline and Recourse Mechanism).

With regards to the establishment of the commercial legal framework, Phase I has been a very active period with the enactment of the numerous draft laws necessary to meet the requirements under WTO accession in areas such as the laws on customs, commercial enterprises, commercial arbitration, insolvency and secured transactions.

In the area of access to finance for SMEs, there has been impressive progress towards removing the obstacles preventing the ready availability of medium and long-term financing for enterprises lacking sufficient collateral. Notably, the new law on secured transactions was enacted during Phase I (May 2007) and the Secured Transactions Filing Office online filing registry was officially launched in September 2007. A pilot web-based Credit Information System (CIS) database has also been developed and is operational. This CIS should help reduce risks and transaction costs of lending, by providing credit information on borrowers.

During Phase I, the National Accounting Council produced the simplified Financial Reporting Template (FRT) for SMEs and its use was endorsed by the Ministry of Economy and Finance. During 2007 there was a roll out of a training program on the use of the FRT for stakeholder institutions and associations. Further simplification for SMEs was seen through the development of a new simplified annual tax on profit return, together with guidelines on the completion of the tax return form which were issued for the first time. Phase I also saw the commencement of an analysis of the accounting profession and professionals and the start of a process of building the institutional and individual capacity of the accounting profession in Cambodia.

Some good progress has been achieved in pursuit of creating a dynamic market for SME support services. The SCSME has encouraged SME participation in trade fairs and exhibitions and provided assistance to SMEs on how to take part. In addition, the Government has supported the creation of e-government web portals for Battambang District and Siem Reap District administrations.

In the area of business linkages, the SCSME, through the SME Secretariat and supported by GTZ, has conducted an exercise of locating business associations across Cambodia and produced a map of the location and contact details of these associations. In addition, a number of business associations were formally registered and strengthened, by putting in place a business plan, a management committee and a business information centre for each.

As mentioned above, there have since 2005 been some substantial achievements in pursuit of the four (4) key objectives of the SME Development Framework. However, the SME Development Framework is ambitious and there is still much to be done to keep on the path to success.

Notwithstanding the achievements of Phase I, much work remains in order to finalize, enhance and expand the framework for securing an enabling environment for SME development. There are areas of Phase I that must still be completed and those that should evolve further throughout Phase II. Areas from Phase I that still require the Government's attention include institutional capacity building for the SMESC and SME Secretariat, building the capacity of business associations, enacting the legal framework for a Commercial Court, accelerated Custom reform, enactment of the finance leasing law and clarification of tax treatment of leases.

An enhanced level of cooperation and coordination of donors, business associations and other stakeholders to ensure alignment of development partner programs with the Government's policies and to enhance aid effectiveness between the development partner community is still as necessary as in 2005. The SME Development Framework should, of course, continue to be periodically reviewed and updated to reflect changing conditions and priorities for Cambodian SMEs.

In light of the Government's new trade integration strategy, the impending new Government and update of the Rectangular Strategy the complete SME Development Framework should be updated and made consistent with private sector developments and the Trade SWAp activities, generally. This should be carried out under the new Government following the July 2008 elections.

I. A VISION FOR THE SME DEVELOPMENT FRAMEWORK

1. The vision is for the SCSME is to create a conducive business environment, which will lead to a competitive SME sector contributing to the creation of quality employment and improve the range of goods and services available to the people of Cambodia.
2. In a small, open economy like Cambodia it is vital that enterprises are able to function in an environment that has low transaction costs. Among other things, transaction costs are lowered by having robust institutional structures, an efficient regulatory environment, and efficient and appropriate Public Private Partnerships (PPPs).
3. In an ideal market situation SMEs can overcome their fundamental disadvantage in terms of economies of scale through cooperation and the use of flexible networks and clustering. This can take the form of sharing production processes, supply or distribution networks. A key requirement for this to happen is the existence of a business environment and regulatory framework that promotes competition as well as cooperation.
4. The Government is primarily responsible for developing and maintaining a business environment and regulatory framework that is conducive to business. Because of their size and in comparison to large corporations, SMEs have less bargaining power when it comes to negotiating their regulatory environment. Moreover, the regulatory burden often impacts more heavily on SMEs because of the indivisibility² of government fees, levies and time taken to comply. Unnecessary regulations and costs can significantly raise the transaction cost of doing business. In general, the regulatory environment needs to be transparent, efficient, predictable, stable, consistent and timely in implementation. Overall, the economic environment, comprising policies, regulations and institutions needs to engender a climate of trust in which businesses can compete and cooperate.
5. The vision of creating a conducive, business environment for SMEs translates into four (4) specific missions. Implementing the missions through a wide range of specific actions requires the Sub-Committee on Small and Medium Enterprises (SCSME) to work closely with the private sector in coordination, information sharing and problem solving. The four (4) main missions are:
 - (i) Increase entry of SMEs into the formal sector;
 - (ii) Implement governance reforms for SMEs;
 - (iii) Develop public and government institutions required for an efficient SME sector; and
 - (iv) Create mechanisms to foster PPPs.

² 'Indivisibility' means that fees are the same whether the enterprise is large or small, so that the impact on small firms is greater.

II. RECTANGULAR STRATEGY

6. In July 2004, at the first cabinet meeting of the new Government's third term in office, the new Rectangular Strategy for Growth, Employment, Equity and Efficiency was announced. The strategy set the policy agenda for the Government and the National Assembly for the next three (3) years. The extant Rectangular Strategy emphasizes:

- (i) Promotion of economic growth;
- (ii) Generation of employment for all Cambodian workers;
- (iii) Implementation of the Governance Action Plan; and
- (iv) Enhancing efficiency and effectiveness in order to reduce poverty and achieve sustainable development.

7. The Government's intention is for the Rectangular Strategy to build on and further enhance the implementation of Second Five Year Socioeconomic Development Plan (SEDP II 2001-2005) and the National Poverty Reduction Strategy (NPRS). The Council of Ministers issued a National Strategic Development Plan 2006-2010 for implementing the Government's development vision articulated in the Rectangular strategy. The high-level policy framework and their strategic plan have, as their primary goal, the reduction of poverty and the promotion of sustainable development.

8. At the core of the Rectangular Strategy is good governance. Within this framework one of the four (4) strategic 'sides' is identified as ***private sector development and employment generation***. This, in turn, is broken down into four (4) components of:

- (i) strengthening the private sector and attracting investment;
- (ii) creating jobs and improved working conditions;
- (iii) promoting SMEs; and
- (iv) ensuring the existence of social safety nets.

9. In the Rectangular Strategy, the component for promoting SMEs is further delineated into thirteen 13 policies. The SME Development Framework takes the thirteen (13) SME development policies mentioned in the Rectangular Strategy as its starting point and provides details on how these can be implemented. The strategy outlined in the SME Development Framework focuses on implementation and operationalizing these thirteen (13) SME development policies of the Rectangular Strategy, and in doing so, providing a guide for the SCSME. Table 1 below sets out the specific policies recommended to operationalize the Rectangular Strategy for the benefit of SMEs.

Table 1: RECTANGULAR STRATEGY: THIRTEEN POLICIES FOR PROMOTING SMEs

- (i) **Encourage the development of SMEs, especially through the provision of medium and long-term finance.**
 - Establish effective collateral system and land titling.
 - Develop leasing as a financial product and develop credit information sharing for banks to reduce risk.
 - Develop a simplified accounting and taxation system for SMEs to improve financial information.
- (ii) **Suppress smuggling.**
 - Strengthen the capacity of the anti-smuggling task force headed by CED.
 - Rationalize the number of agencies involved at border checkpoints.
 - Extend the Single Window concept to border checkpoints.
- (iii) **Reduce registration procedures and start-up processes for companies.**
 - Reduce administrative and cost barriers in registration by implementing proposed reform plan.
 - Develop on-line registration system and decentralize company registration.
 - Link MOC business registration with MEF tax and VAT registration and merge into one procedure.
- (iv) **Facilitate export-import activities by simplifying procedures such as licensing and letters of permission.**
 - Review all related licenses and introduce a Single Administrative Document for customs.
 - Replace current system with a Single Window process at the ports and introduce a risk management strategy.
 - Enact the Law on Customs and develop implementing regulations.
- (v) **Support for newly established industries for an appropriate period.**
 - Foster private sector led incubator systems for developing new industries and enterprises.
 - Develop a comprehensive program for one-stop window for all relevant business licenses.
- (vi) **Promote linkages between SMEs and large enterprises.**
 - Encourage linkages between local clusters and international organizations.
 - Assist SMEs in clusters to become integrated in global value chains.
- (vii) **Assist SMEs to enhance their productivity and reduce production costs.**
 - Training institutions and donors to develop toolkit packages for training and capacity building in SMEs.
 - Develop an action plan to meet current technology and training needs.
- (viii) **Ensure the quality of domestic products to meet regional and international standards.**
 - Encourage quality standards in SMEs through ISO 9000 certification process.
 - Encourage linkages between training and research institutions and SMEs.
- (ix) **Establish national laboratories to test for quality and criteria of products.**
 - Use existing public research institutions to enhance the capacity for applied research & product quality testing.
 - Strengthen the capacity of research institutions.
 - Foster linkages between the private sector and research institutions.
- (x) **Strengthen mechanism for the protection of industrial intellectual property rights.**
 - Implement the specific institutional arrangement for effective implementation of intellectual property rights.
- (xi) **Promote vocational/skills training, both domestic and overseas.**
 - Promote learning networks, joint international marketing.
 - Coordinate with providers of vocational training to identify needs and develop links with SMEs.
- (xii) **Expand and accelerate the “one village, one product” program.**
 - Carry out a stock take of clusters, including identifying number, size, product produced and location.
 - In cooperation with donors and associations, develop common service provisions and support for clusters.
- (xiii) **Strengthen the legal framework by creating laws.**
 - Enact draft laws on commercial enterprises, insolvency, secured transactions and contracts.
 - Enact legal framework necessary to create specialized court to resolve commercial disputes.
 - Engage in extensive capacity-building program for the commercial court system.

III. ACHIEVEMENTS OF PHASE I

A. REGULATORY AND LEGAL FRAMEWORK

(i) Company Registration

10. Countries with an effective legal and regulatory framework tend to be more successful in encouraging entrepreneurs to start businesses and are more likely to have a vibrant SME sector that are flexible enough to respond to the market. Such flexibility and innovation requires a predictable business environment that allows for simple and low cost market entry, and the ability to change direction according to market signals. Accordingly, the legal and regulatory environment should encourage entrepreneurs to take risks by minimizing government intervention, which often creates high barriers to entry through overly burdensome regulation. An effective legal and regulatory system should ensure the quality of public and private goods, while at the same time minimizing the costs resulting from excessive intervention in SME business operations and the negative impacts of bureaucratic red tape and corruption.

11. The registration process was improved and made more transparent so as to ease the incorporation of businesses without the need for hiring high-cost facilitators. To assist in disseminating information to the public about the procedures and costs involved, the MOC has published a manual on the process and distributed it through various means, including branch offices and on its website. The MOC has reduced registration fees and ensured that information on the costs of registration is widely available to the public. Large numbers of Cambodian SMEs are unregistered, primarily because of the high cost, cumbersome procedures, and a lack of transparency in the registration process. Those businesses that do register often pay facilitators to help them negotiate the complex and confusing procedures involved. Hence, streamlining the current registration system is an important component of the overall effort toward reforming Cambodia's legal and regulatory framework for SMEs. Incorporation is beneficial for many SMEs because it allows them to establish a legal identity, which permits them to pool capital and gives enterprises protection in contracts and lawsuits. The legal protections afforded by limited liability, in turn, encourage innovation, investment and risk-taking on the part of businesses. From the government's point-of-view, boosting the number of registered enterprises is important for increasing tax revenues and obtaining information about Cambodian businesses to aid in policy-making.

12. Over the recent few years MOC has made significant progress in reforming the registration system, introducing measures to reduce costs, simplify procedures, and make the process more transparent. Official fees were reduced to \$177 in August 2004 when MOC issued prakas No 163 MOC/M 2004, which established clear guidelines on the costs of registering and a further reduction in the official fee to \$105 in August 2007 upon issuance of the inter-ministerial prakas between MEF and MOC (Ref: 679, 7 August 2007). Additional informal fees continue to exist, particularly related to the Articles of Incorporation (or rather the use of the old Memorandum and Articles of Incorporation which are perceived to be more complicated). As a result, the estimated total costs of incorporation have dropped from almost \$1,000 before the reforms to a realistic figure of approximately \$500.

13. In addition to simplifying the registration process, MOC has also reduced the minimum capital requirement from KR 20 million (approximately \$5,000) to KR 4 million (approximately \$1,000), through implementation of Announcement No 1962 MoC/M2004 of the MOC dated September 30, 2004. This is now enshrined in Article 144 of the Law on Commercial Enterprises.

14. In 2006, MOC streamlined registration application requirements by eliminating the need for a statement of conformity and local authority approvals. It also eliminated the requirement that companies publish a newspaper announcement when they register. MOC has also simplified the requirements for the Articles of Incorporation and has streamlined the Articles of Incorporation amendment process. It is necessary for MOC to publicize the new format for the Articles of Incorporation and fully utilize the new template. This simplification of the registration requirements was achieved through the issuance of the following regulations by MOC.

- (i) MOC Notification No 1414 MoC/SM2006 on the Requirements for Commercial Registration;
- (ii) MOC Notification No 1415 MoC/SM 2006 on the Significant Contents of Articles of Incorporation;
- (iii) MOC prakas No 120 MoC/SM 2006 on Procedures for Amending Articles of Incorporation; and
- (iv) MOC prakas No.149 MoC/SM 2006 on Annual Declaration of a Commercial Company.

15. By issuing these regulations and notifications, MOC has shown its commitment to improving the transparency of the registration process. These notifications and regulations also simplify the process by reducing the amount of paperwork needed to register and making it easier to prepare necessary documentation. An important improvement is the significant simplification of the Articles of Incorporation, which makes it easier for enterprises to file on their own without the need for outside facilitators. As a result of these improvements, the company registration process in Cambodia is now more in line with international best practice in terms of paperwork requirements for registering, amending Articles of Incorporation and filing annual declarations to the Registrar.

16. Overall, since these reforms were implemented, the development impact has been impressive. The average number of enterprises registered monthly has risen to an average of 238 during 2007, compared with 61 per month in the period between January 2003 and August 2004. Enterprise registrations over the first few months of 2008 averaged 245 per month. Figure 1 reflects this increase.

17. MOC issued its Registration Reform Plan in August 2006 issued under Notification No. 2106 MoC / NTK. This plan laid out the future program for implementation of registration reforms. The Registration Reform Plan included:

- Streamlined documentation requirements;
- Reduction and clarification of registration fees;

- Improved transparency via dissemination through the Internet, radio, television, newspapers, provincial Departments of Commerce, and the Commercial Registration Department at MOC;
- Implementation of streamlined Articles of Incorporation;
- Upgrading of business registry and public dissemination through MOC's website; and
- Short- and long-term decentralization plan to enable companies to register outside Phnom Penh.

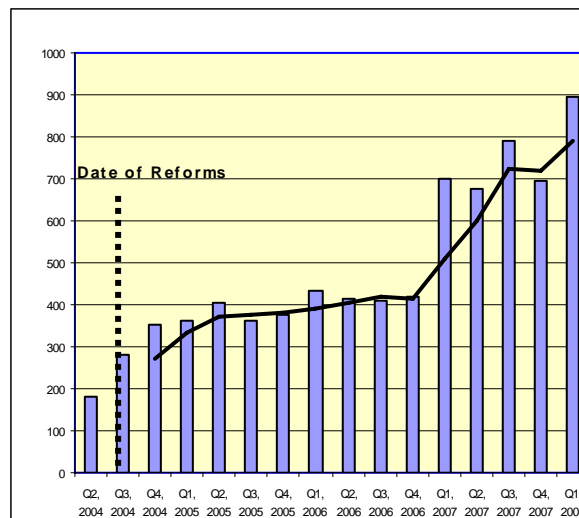
18. In line with the above Registration Reform Plan, the Battambang pilot for decentralization of commercial registration took four (4) months and was successfully completed at the end of November 2007. Battambang is now an operational decentralized commercial registration branch. The following formalities were put in place as a result of the pilot:

- Prakas from MOC allowing decentralized registration across Cambodia (prakas 249)
- MoC Notification 2869: Detailed Operational Guidelines for Battambang Branch
- MoC Notification 2868: Detailed Operational Procedures for Decentralized Registration Branch (wherever set up in Cambodia)
- MOC Plan for Decentralization for Battambang Pilot

19. The statistics for business registrations at the Battambang branch to the end of March 2008 are as follows:

Type of Enterprise	Number Registered
Company	20
Sole Proprietorship	5
Branch of a Cambodian Company	5
Amendments to business details	6

Figure 1: Quarterly Number of Companies Registering at the Ministry of Commerce



Source: Ministry of Commerce, Department of Business Registration

Number of companies registered monthly:

- Average before Sept 2004: **61**
- Average during 2006: **139**
- Average during 2007: **238**
- **Average during Q1, 2008** **298**

(ii) Regulatory Review and Recourse Mechanism

20. An effective regulatory review process benefits the private sector by providing a systematic and consistent framework to assess the potential impacts arising from government action. A regulatory review process also contributes to greater transparency of Government decision-making and is designed to inform the public and other parts of the Government (as well as the agency conducting the analysis) of the effects of alternative actions. Regulatory analysis will help to determine whether or not a proposed action is misguided or implemented ineffectively. Such analysis can also demonstrate that well-conceived actions are reasonable and justified.

21. The SCSME has set up an SME Information Portal which provides information useful for SMEs and anyone interested in the SME sector in Cambodia. Within this SME Information Portal is a One-Stop Information Window which provides detailed information on all licenses affecting SMEs. It contains a “library” of more than 75 licenses and associated documents, such as copies of license application forms, related legislative instruments pertaining to the license and clear details on where applicants should go to apply for those licenses.

22. The SCSME has established a means of recourse for enterprises to file grievances regarding disputes resulting from licensing and inspection and to have decisions reviewed. This mechanism involves a method of reporting grievances to the government, and has been documented³. The pilot Business Licensing Hotline is currently in operation and managed by the SME Secretariat.

23. The SCSME conducted a feasibility study to establish a one-stop window for SMEs to obtain all necessary licenses from relevant Ministries. The Government has implemented the pilot program for Small Medium Industry and Handicraft licenses for the Municipality of Phnom Penh and this is still in full operation.

(iii) Commercial Legal Framework

24. The SCSME worked with the MOJ and appropriate government authorities to remove inconsistencies between laws that comprise the commercial legal framework, improve the laws where necessary, and enact the laws with implementing regulations.

25. Enactment of the draft laws required to establish the commercial legal framework, which was also necessary to meet the requirements under WTO accession was continued with great success. The SCSME worked with the MOC to ensure enactment of the major commercial laws and prepared necessary implementing regulations that are consistent with the provisions of the laws. The SCSME assisted the government in

³ Plan for Establishing Licensing Review Mechanism. Phnom Penh 2006.

developing a mechanism to determine inconsistencies and conflicts within the various draft laws, especially with the civil code and code of civil procedures. Once these were determined, harmonization was achieved through necessary changes to the relevant draft laws. The Government only adopted the civil code and code of civil procedures after all efforts were made to avoid conflicts with other commercial laws.

26. The Government adopted the Law on Commercial Enterprises to provide a clear legal framework for the operations of sole proprietorships, branches, companies and partnerships. Table 2 below sets out the status of the key commercial laws affecting enterprises in Cambodia.

Table 2: Status of Major Commercial Laws and Regulations in Cambodia

Current Status			Current Status Comments
Ministry Level	Council of Ministers	National Assembly	
Commercial Contracts Law			Being redrafted by MoC, expected to pass in 2008.
		Law on Commercial Enterprises	Promulgated: Passed by National Assembly on May 17, 2005. Promulgated by His Majesty the King on June 19, 2005.
		Law on Commercial Arbitration	Promulgated: Passed by the National Assembly on March 6, 2006. Promulgated by His Majesty the King
Law Establishing a Commercial Court			Being reviewed at MoC, was expected to be sent to COM at the end of June 2008.
		Civil Code	Promulgated: Promulgated by His Majesty the King on December 8, 2007
		Code of Civil Procedures	Promulgated: Promulgated by His Majesty the King on July 6, 2006
		Law on Administration of Factory Law and Handicraft	Promulgated: Adopted by the National Assembly in 2006. The law was promulgated by His Majesty the King on 23 June 2006.
		Law on Secured Transactions	Promulgated: Promulgated by His Majesty the King on May 22, 2007
		Insolvency Law	Promulgated: Promulgated by His Majesty the King in December, 2007
	Leasing Law		Passed by Inter-Ministerial Committee on April 2, 2008.
Commercial Contracts Law			Being redrafted by MoC, expected to pass in 2008.
	Law on Judicial Organizations		Draft law is at the Council Ministers
	Sub-decree Implementing the Law on the Amendment of the Law on Investment		Sub-decree signed by Prime Minister in September 2005.
Sub-decree on Special Economic Zones			Signed by the Prime Minister on 29 December 2005.

Source: *Ministry of Commerce, Sarin Denora & Associates.*

(iv) Customs Reform

27. As part of its WTO accession commitments, Cambodia is obligated to fully implement the WTO Customs Valuation Agreement by January 2009. Cambodia is in the process of reforming its customs regime through a 5 year (2003–2008) reform and modernization program to streamline and improve the effectiveness of customs operations and to facilitate trade. With assistance from the International Monetary Fund (IMF), the new Law on Customs, based on the Kyoto Convention on the Simplification and Harmonization of Customs Procedures, was enacted in July 2007. The law requires implementing regulations which the Cambodian government has yet to issue.

27. The Government has, with the support of the World Bank, developed a format for a Single Administrative Document (SAD), which reduces the number of items to be filled in by traders by more than 50%. The manual SAD has now been used as a pilot stage for moving to an electronic application by year end 2008 using the UNCTAD Automated System for Customs Data (ASYCUDA).

28. Customs procedures at the Sihanoukville Port have been streamlined to reduce the overlapping functions of the several agencies involved and to reduce the time needed to deal with Government officials. The Government guided the implementation of the risk management of the trade facilitation by sub-decree issued in March 2006 and was followed up with an implementing prakas in December 2007.

29. This initiative will improve the revenue and finances of the Government and strengthen the Cambodian economy through increased efficiency in the international trade environment. The new system is already increasing the efficiency of the Customs clearance process, improving revenue control and trade statistics. From the private sector perspective, this will reduce the burden on the international trading community to a minimum and introduce transparency.

30. To combat smuggling the Government is taking serious measures to reduce the incentive for smuggling and strengthen border controls. Strengthening the capacity of the human resources at the Customs and Excise Department (CED) and the increased automation of customs processing (ASYCUDA) is ongoing. The Government continues to implement all elements of the 2006 CED Enforcement Strategy and develop a National Anti-Smuggling Policy.

B. ACCESS TO FINANCE

(i) Collateral and Land Titling⁴

31. The law on secured transactions was enacted during Phase I (May 2007) and the Secured Transactions Filing Office online filing registry was officially launched in September 2007. This was a major advance in Cambodia and reduces the involvement of civil servants in the registration and collection of fees. This will enhance priority claims

⁴ Another issue relevant to collateral is insurance. Normally, banks will require the borrower/lessee to insure assets which are subject to collateral interests, or being leased. The issue of insurance is not covered in the Roadmap, as the Financial Sector Blueprint has a number of actions dealing with the insurance sector over the period 2006 to 2015.

on securities and provide public access to information on secured chattels and their owners.

32. This was a requirement of the Financial Sector Blueprint and is a condition for WTO accession. This law considerably improves the position of creditors wishing to secure obligations with real rights in secured local collateral. Further, the creation of the secured transactions legal framework allows a creditor to take security interest over a debtor's movable property which is hugely beneficial to SMEs that do not own land and buildings but require access to readily available, cheap and long-term credit. The Ministry of Commerce has included the Secured Transactions Law in its on-going public dissemination program throughout Phnom Penh and other provinces.

33. The Government has, with the assistance of the World Bank and the governments of Germany and Finland, introduced systematic land registration which is an important contribution to the strengthening of land title's security, improvement in land market, increased national revenue and the reduction in land conflicts. The geographical coverage of the systematic land registration has expanded from 11 to 15 provinces/municipalities.

34. The legal framework for land registration was established through the sub-decree on systematic land registration and sub-decree on sporadic land registration in 2003. The Land Administration Sub-Sector Program has worked out additional legal papers to these sub-decrees etc. Land transactions are legally secured through land registration as well.

35. A modern, computer based land registration system has been put in place which has had excellent results in the first registration through the systematic approach. More than 1 million land titles have been surveyed and adjudicated, with more than 800,000 titles distributed to the owners. This was essential for improving the use of land as collateral.

(ii) Leasing

36. The National Bank of Cambodia has succeeded in progressing the draft Financial Leasing Law through the Inter-ministerial Committee stage at the Council of Ministers. Due to the impending elections in July 2008, there will be no further sitting of the National Assembly and this law will not be enacted before the election. This law should be promulgated in the early stages of the new parliament after the July 2008 elections. In the meantime, the National Bank of Cambodia is about to issue an implementing prakas based on the Law on Banking and Financial Institutions and this parkas adds clarity to who is permitted to carry out leasing, the minimum requirements for leasing agreements and procedures for reporting, monitoring, operations, and governance of leasing activities.

37. The Ministry of Economy and Finance (MEF), through the National Accounting Council (NAC), issued Cambodian Accounting Standard 17 (CAS-17) that sets out best accounting practices for finance and operating leasing and required compliance with its provisions by lessors and lessees. CAS 17 mirrors the International Accounting Standard IAS-17.

38. There has also been great progress made by the Tax Department at MEF through numerous consultations with the private sector and consideration of the benefits of finance leasing to the development of the economy of Cambodia. No changes have been made to tax legislation or any of the regulations relating to taxation, but the Tax Department are on the brink of issuing revisions to tax regulations which clarify and add certainty to the leasing industry on the future treatment of finance leases from the perspective of VAT, timing of supply for VAT purposes, withholding tax and tax on profit.

(iii) Credit Information Sharing⁵

39. A credit information system (CIS) was identified as an important area of reform in the Cambodia SME Development Program. With the support of ADB, NBC, the Association of Banks in Cambodia and participating banks, a pilot web-based Credit Information System (CIS) database has been developed. This CIS should help reduce risks and transaction costs of lending, by providing credit information on borrowers.

40. To enable the pilot credit information system, an accompanying legal framework was also necessary to allow banks to share information and protect the rights of both lenders and borrowers. NBC took the lead in developing the necessary legal framework to enable the CIS, by issuing the following prakas in June of 2006.

- (i) NBC prakas No. B-7-06-073 PK on the Utilization and Protection of Credit Information;
- (ii) NBC prakas No. Th 7-06-101 BR-K on the Implementation of Credit Information Sharing System Management Guidelines;
- (iii) NBC prakas No Chh 7-06-102 PK on the Establishing Board Directors of Credit Information System;
- (iv) NBC prakas No. Chh 7-06-103 PK on Establishing the Steering Committee and Secretariat of Credit Information System; and
- (v) NBC prakas No. Chh 7-06-104 PK on Establishing the Task Force of Credit Information System.

⁵ A World Bank survey of 56 countries with credit registries (CRs) highlighted the different functions of private and public CRs (the latter are almost always operated by a central bank). The survey of October 2003 found that most developed countries have private CR. Latin America has the most widespread CRs, most having both private and public CRs. Africa, Eastern Europe and CIS have the least developed credit reporting. Developed countries that have both public and private CRs include Germany, Italy, Portugal and Spain. France has only a public CR. Other developed countries with public CRs include Austria and Belgium. Countries with only private CRs include Canada, Sweden, Australia, UK and USA. In the region, Philippines, Singapore, Malaysia and Thailand operate private CRs, although Indonesia, Laos, Vietnam and Malaysia have public CRs. Including overlaps, i.e. countries that operate both kinds, 27 countries operate public CRs, and 28 private CRs.

41. A Code of Conduct regarding the operational rules and obligations of the Member Banks of the CIS was also signed by the 18 banks by July 2006. The objective of the Code of Conduct is to set out the rules for the pilot project in which the NBC and the CIS member banks conduct the collection, dissemination management and utilization of credit information, thereby preventing the misuse and abuse of credit information. The Code of Conduct is meant to ensure that the CIS operations are transparent and maintain accuracy, security and confidentiality of the credit information maintained in the system.

(iv) Simplified Accounting and Taxation System for SMEs

42. The Ministry of Economy and Finance (MEF) approved and issued for public use the Financial Reporting Template for SMEs (FRT) through an MEF Prakas on June 16, 2006. The FRT is a simplified financial statement that is easier to prepare than financial statements that comply with the complicated Cambodian Accounting Standards, which do not offer a practical approach for smaller enterprises. The FRT also satisfies the financial management needs of SMEs and provides the financial information required by lenders and investors. In addition, a training program was also submitted to MEF by the National Accounting Council (NAC) and SME Accounting Task Force in July 2006 and carried out over the second half of 2007 disseminating the FRT and providing training to MFIs, banks and business associations in order to give these professionals the ability to build capacity among their SME clients on the use of the FRT. Some 251 trainers were trained over fourteen (14) two-day training workshops.

43. The Cambodian Taxation Department (CTD) is currently going through a process of reform and restructuring, with the objectives of improving taxpayer services which should result in increased compliance and therefore improved revenue collection. The CTD developed a new annual tax on profit return, which was implemented for the year ended 31 December 2005 together with guidelines on the completion of the tax return form, which were issued for the first time, with a view to assisting taxpayers complete the annual tax return. The Ministry of Economy and Finance issued Notification Letter No. 004-MEF-NT on 18 January 2006 advising of the implementation of the new Annual Tax Return (ATR)

44. The Tax Department has recently also revised the monthly tax returns which reduces duplication of information and should simplify the completion of monthly tax compliance procedures.

45. To date, two (2) Cambodian Financial Reporting Standards and eighteen (18) Cambodian Accounting Standards have been endorsed by senior Minister and issued.

Table 3: Cambodia Accounting and Financial Reporting Standards

CAMBODIAN ACCOUNTING AND FINANCIAL REPORTING STANDARDS		
International Equivalent	Cambodian Accounting Standards (CAS) and Financial Reporting Standards (CFRS)	Effective Date (dd/mm/yyyy)
IAS 1	CAS 1 Presentation of Financial Statements	16/10/2003
IAS 2	CAS 2 Inventories	16/10/2003
IAS 7	CAS 7 Cash Flow Statements	16/10/2003
IAS 8	CAS 8 Net Profit and Loss for the Period, Fundamental Errors and Change in Accounting Policies	16/10/2003
IAS 10	CAS 10 Events after the Balance Sheet Date	16/10/2003
IAS 11	CAS 11 Construction Contracts	25/03/2008
IAS 12	CAS 12 Income Taxes	16/10/2003
IAS 16	CAS 16 Property, Plant and Equipment	16/10/2003
IAS 17	CAS 17 Leases	25/03/2008
IAS 18	CAS 18 Revenue Recognition	16/10/2003
IAS 21	CAS 21 Foreign Currencies	16/10/2003
IAS 23	CAS 23 Borrowing Costs	25/03/2008
IAS 24	CAS 24 Related Party Disclosures	16/10/2003
IAS 27	CAS 27 Consolidated Financial Statements	16/10/2003
IAS 37	CAS 37 Provisions, Contingent Liabilities and Contingent Assets	16/10/2003
IAS 38	CAS 38 Intangible Assets	16/10/2003
IAS 40	CAS 40 Investment Property	25/03/2008
IAS 41	CAS 41 Agriculture	25/03/2008
IFRS 4	CFRS 4 Insurance Contracts	25/03/2008
IFRS 7	CFRS 7 Financial Instruments	25/03/2008

* Superseded by CFRS 7, effective 2007

C. SME SUPPORT ACTIVITIES

(i) Business Development Services (BDS)

46. The SCSME focused on facilitating improvements in the supply and demand for BDS and promote wider outreach of BDS into rural and more remote areas. Given there is both weak demand for BDS by SMEs, particularly the smaller enterprises, which are the most numerous, and weak supply by the private sector, the focus during Phase I was on identifying existing BDS suppliers and the identification of the demand for their services.

47. BDS suppliers were identified by province and district from existing registration records and in cooperation with local government offices. This information was then made available to SMEs in the region.

48. An awareness campaign accompanied the distribution of the material. This had the effect of stimulating interest and demand in BDS. At this early stage the awareness campaign included information related to embedded BDS.

(ii) Access to Markets

49. The SCSME facilitated the flow of quality and timely business information. Access to useful and timely information, related to prices, suppliers and markets, is crucial for SMEs entering domestic and export markets. The SCSME also increased awareness among SMEs of available information and its usefulness.

50. Government information sources were selectively targeted for improvements, which included reliability and quality of the data, timeliness in delivery and the format in which it is presented to SMEs. Mechanisms for distributing the information to targeted groups were developed and implemented. A separate strategy may be required for rural and urban areas and/or by economic sector. Partnership and further cooperation with other stakeholders is being explored.

51. An ongoing education program on utilizing information for accessing markets was carried out. It utilized existing channels and popular media formats. The ongoing education campaign includes information on the variety of sources for information, including consulting and market research firms.

52. The SCSME encouraged SME participation in trade fairs and exhibitions and provided assistance to SMEs on how to take part. Such trade fairs provide exposure to national, regional and international buyers and introduce buyers to products and services offered by Cambodian SMEs. There are further opportunities for the SCSME to work closely with established SME associations to develop multi-functional and flexible facilities that can be used for:

- (i) trade fairs;
- (ii) permanent display areas;
- (iii) meeting venues; and
- (iv) facilities for short courses or training.

53. The Government has supported the creation of e-government web portals for Battambang District and Siem Reap District administrations. These web portals provide information on the local district administration and details of local businesses, business associations, chamber of commerce and business support services. The portals are very recent developments and are evolving continuously.

(iii) Technology and Human Resource Upgrading

54. The SCSME continues to enable SMEs to upgrade technology and improve their human resources. This requires working with the private sector and other stakeholders in developing greater awareness and appreciation of the role of technology and to improve the supply of technology and technical information sources. The SCSME also developed a mechanism for identifying the needs of SMEs and work with public and private institutions, as well as in PPP in meeting these needs. An SME awareness campaign promoting the importance of human resource development for businesses was also carried out.

55. As a starting point the SCSME examined the needs of SMEs for technology and training and evaluated the incentive structures and barriers for businesses to invest in technological upgrading, acquiring technical information and improving their human capital. This review identified opportunities and hurdles to improve technology transfer and increase human capital development.

56. Better Factories Cambodia is a unique program of the ILO in that it combines monitoring, remediation and training in a virtuous cycle of improvement. It benefits workers, employers and their organizations and relies on their full cooperation. It monitors working conditions in all of the exporting garment industry, that is, over 300 factories covering over 350,000 workers. The Royal Government of Cambodia has requested ILO and the funding agencies in September 2007 to extend the Better Factories Cambodia (BFC) program transition time line until the end of 2010. This requires that the current sustainability strategy and transition plan needs to be revised and that new funding arrangements will need to be secured in order to ensure that the program mandate can continue to be fulfilled. The program is expected to graduate into a financially self standing local institution by the end of this period. The focus of the transition is to move the BFC beyond monitoring compliance into a service institution that is able to help businesses address their compliance gaps through enterprise assessments and training/improvement plans and thus contribute to improving application of labor standards and competitiveness of enterprises through higher productivity, quality and effective workplace cooperation.

57. The Royal Government of Cambodia and the Government of India, in February 2006, entered into a joint cooperation program to create the Cambodia India Entrepreneurship Development Centre (CIEDC). This center was accorded the status of a national training centre by a sub-decree and functions under the Ministry of Labor and Vocational Training. The CIEDC is expected to be a self-supporting and independent organization. Its current activities are entrepreneurship-related activities to help create an entrepreneurial environment in Cambodia and include:

- Entrepreneurship Development Program for New enterprise Creation.
- Performance Improvement and Growth Program for existing entrepreneurs.
- Training of Entrepreneurship Development Trainers/ Teachers.
- Entrepreneurial Assessment and Project Appraisal Work-Shops for Bankers and Financial Institutes.
- Management Development program for industries and institutes /NGOs.
- Computer application,
- Organizing seminars, work shops, conferences, etc.

(iv) Linkages

58. The SCSME encourages linkages between the Government and more self-regulating business associations that deliver quality services to members and act as advocates for members. The Government with the support of the Asia Foundation, USAID and AusAID has initially established Provincial Public Private Dialogues (PPPD) in the provinces of Kampong Cham, Kampong Chnang and Kampot with close collaboration between provincial business associations and the provincial Governments. More provinces have been added recently. These PPPD are aimed at improving the

provincial business environment by building the capacity of provincial business associations and improving their capacity to engage into a constructive dialogue with the local authorities, which offers the members of the business associations the chance to raise issues or problems and discuss potential improvements that can be made to the business environment.

59. As the results of PPPDs, there have been significant improvements in business environment at the provincial level including enforcement of regulations and rules of the government, simplified administrative procedures and paperwork and reduced tax burden as well as informal fees. More specifically, the concrete impacts on business operations greatly contributed by the commitment and active participations of the provincial Government of each province.

60. The SCSME, through the SME Secretariat and supported by GTZ, conducted an exercise of locating business associations across Cambodia and produced a map of the location and contact details of these associations. The sustainability of this exercise was ensured by collaboration with the Cambodia Yellow Pages who will update the listing of business associations each year and publish it in the Yellow Pages. In addition, a number of business associations were formally registered and strengthened, by putting in place a business plan, a management committee and a business information centre.

61. The SCSME produced in late 2007 an SME Information Dissemination Plan which assessed the different forms of media outreach and sets out the different forms of media to be used for the effective dissemination of relevant information to SMEs across Cambodia. Such information includes the Handbook on Commercial Registration produced by MoC, the Business Licensing Complaints hotline (its telephone number and what it is), business registration reforms over recent years, a report on SME Statistics in Cambodia and the Financial Reporting Template. The dissemination activities set out in this Plan have been underway throughout 2007 and early 2008 and will continue in line with the Plan. The SCSME has supported the development of a SME Information Portal (which is housed within the MIME home page www.mime.gov.kh) which will provide information useful for SMEs and anyone interested in the SME sector in Cambodia.

IV. ROADMAP FOR PHASE II AND III

Phase II extended to 2011

Phase II limited to 2015

	Work in Progress as of 31 March 2008
	Work Yet to be Started

An overall Vision: Develop a conducive business environment, which will lead to a competitive SME sector contributing to the creation of quality employment and improve the range of goods and services available to the people of Cambodia.

Major Issues	Updated Phase II: (2008-'11) Finalize, Enhance and Expand the Framework for Enabling Environment for SME Development	Phase III: (2012-'15) Foster Competitiveness of SMEs through Integration into World Economy
I. SME Policy Framework – Implementation Process		
<p>Vision: Develop a specific framework and institutional arrangements for effective policy formulation and implementation, as well as monitoring of impacts. Involve private sector representatives and obtain donor support to ensure its overall success.</p>		
<p>(A) Government Organization</p> <p><i>Objective:</i> Develop an institutional arrangement among key Government agencies for effective and coordinated policy formulation and implementation</p>	<ul style="list-style-type: none"> • Formulate and implement the Second SME Development Framework based on public/private partnership • Strengthen the Secretariat for the National SME Sub-committee with a detailed workplan, and a fully-funded business plan • Expand the system to provide and collect information to and from SMEs • Publish a report on the state of the SME sector and the achievements of the Second SME Development Framework • Expand the specific plan for capacity building programs for the Government officials and private sector representatives • Ensure that the implementing agencies are allocated sufficient resources to implement the reforms 	
<p>(B) Promotion of Public/Private Partnership</p> <p><i>Objective:</i> Support the development of active private sector representation in policy advocacy</p>	<ul style="list-style-type: none"> • Facilitate the establishment of private policy research institutions for support in policy formulation, evaluation, and monitoring of impact • Formulate a plan to enhance the capacity of business associations to provide policy advocacy on behalf of SMEs • Plan and implement a program for the roll out of one-stop windows for issuing all relevant business licenses at provincial capitals across Cambodia 	
II. Regulatory and Legal Framework		
<p>Vision: To reform the regulatory and legal framework for the purpose of creating an enabling business environment based on the rule of law and designed to minimize the impacts of government interventions on the private sector while providing the necessary protection of public goods.</p>		
<p>(A) Company Registration</p> <p><i>Objective:</i> Reduce the barriers and build the necessary system for effective registration</p>	<ul style="list-style-type: none"> • Link business registration at MOC with tax and VAT registration at MEF and eventually merge into one procedure • Plan for on-line registration system 	<ul style="list-style-type: none"> • Expand registration to a wider segment of the economy by further developing practical thresholds for firms to register
<p>(B) Regulatory Review and Recourse Mechanism</p>	<ul style="list-style-type: none"> • Ministries to continue to evaluate licenses in line with the “Plan for Licensing Review and 	<ul style="list-style-type: none"> • Continue to implement the reforms as outlined • Expand the one-stop window program for

Major Issues	Updated Phase II: (2008-'11) Finalize, Enhance and Expand the Framework for Enabling Environment for SME Development	Phase III: (2012-'15) Foster Competitiveness of SMEs through Integration into World Economy
<p><i>Objective:</i> Reduce regulatory compliance costs by enhancing governance and responsibilities of the relevant state agencies</p>	<p>Recourse Mechanism" and remove unnecessary licenses.</p> <ul style="list-style-type: none"> Implement a comprehensive system for issuance of new licenses and recourse mechanism Develop a comprehensive program for one-stop window for all relevant business licenses 	<p>licensing of SMEs</p>
<p>(C) Commercial Legal Framework</p> <p><i>Objective:</i> Develop basic legal infrastructure needed for businesses and strengthen the rule of law</p>	<ul style="list-style-type: none"> Engage in extensive capacity-building program for the commercial court system Enact legislation to establish commercial arbitration Implement anti-corruption legislation to improve transparency and fairness and adopt code of ethics Develop and implement the specific institutional arrangement for effective implementation of intellectual property rights 	<ul style="list-style-type: none"> Establish small claims court to strengthen contract enforcement for SMEs
<p>(D) Customs Reform</p> <p><i>Objective:</i> Improve trade facilitation to make it low cost, efficient and transparent.</p>	<ul style="list-style-type: none"> Rationalize the number of agencies involved at border checkpoints and extend the Single Window concept to land border checkpoints Review all related licenses and introduce a Single Administrative Document for customs Replace current system with a Single Window process at ports and introduce a risk management strategy Develop implementing regulations for the Law on Customs enacted on 20 July 2007. 	<ul style="list-style-type: none"> CED to develop a human resource plan in conjunction with donors to strengthen management skills and technical expertise Strengthen the capacity of the anti-smuggling task force headed by CED
<p>III. Access to Finance</p> <p>Vision: To ensure that SMEs have access to necessary working capital as well as medium and long-term finance by strengthening the collateral system and by providing a greater range of products from a wider variety of financial institutions.</p>		
<p>(A) Collateral and Land Titling</p> <p><i>Objective:</i> Establish secure titling to improve collateral base, and effective mechanism of enforcement of the land law</p>	<ul style="list-style-type: none"> Develop and implement support programs for banks and other financial institutions for effective collateral valuation 	<ul style="list-style-type: none"> Expand the on-line registration systems on nationwide basis
<p>(B) Leasing</p> <p><i>Objective:</i> Create an enabling framework for banks to provide finance leasing</p>	<ul style="list-style-type: none"> Clarification of tax treatment of financial and operational leasing and harmonization of tax treatment of leasing and lending Enact the financial leasing law together with implementing regulations. Develop and implement awareness building and training programs for banks, SMEs and equipment suppliers to promote leasing 	<ul style="list-style-type: none"> Promote joint venture or stand-alone finance/operating leasing companies
<p>(C) Credit Information Sharing</p> <p><i>Objective:</i> Facilitate enhanced access to finance by reducing the risks associated with limited information on potential borrowers</p>	<ul style="list-style-type: none"> Expand the credit information system by providing historical and other information Facilitate the establishment of a private credit bureau Develop and implement a plan to include other financial institutions to participate in the system, and make it compulsory for all banks. 	<ul style="list-style-type: none"> Continue to implement the plan for expanded credit information system and the inclusion of non-bank financial institutions Draft a plan for the feasibility of developing new information products, such as credit scoring
<p>(D) Simplified Accounting</p>	<ul style="list-style-type: none"> Continue to support the development of 	<ul style="list-style-type: none"> Develop corporate governance guidelines and

Major Issues	Updated Phase II: (2008-'11) Finalize, Enhance and Expand the Framework for Enabling Environment for SME Development	Phase III: (2012-'15) Foster Competitiveness of SMEs through Integration into World Economy
and Taxation Systems for SMEs <i>Objective:</i> Facilitate enhanced access to finance by reducing the risks related to the lack of appropriate financial information	<ul style="list-style-type: none"> • accounting professionals • Issue guidelines and specific requirements to assist SMEs to adhere to the formal tax system • Establish a working group to determine what kind of non-bank financial institutions are required in the future to meet micro-enterprise and SME requirements, especially those operating in rural areas 	disclosure requirements on financial information <ul style="list-style-type: none"> • Promote strategies for the establishment of NBFIs and for improving their outreach to include rural areas
IV. SME Support Activities Vision: Create a dynamic market for SME support services. Assure that services are supplied in the most efficient means possible by the private sector and government. Encourage suppliers of services to respond to market signals and cater to a range of enterprise sizes. Finally, create a marketplace where SMEs are aware of the benefits and range of services available.		
(A) Business Development Services <i>Objective:</i> Create a dynamic market for BDS supplied as private goods and offering a range of services demanded by SMEs	<ul style="list-style-type: none"> • Develop and implement education campaign for SMEs on the benefits of BDS • In cooperation with BDS facilitators, encourage new BDS suppliers into the market • Encourage existing institutions to enter the BDS market and/or link with existing BDS providers to improve their services (for example, linkages between educational institutions and BDS providers can improve quality) • To stimulate demand and supply, encourage third parties to deliver pilot projects for voucher schemes • Identify existing BDS suppliers and demand for services and develop a registry by district of BDS suppliers making it available to SMEs • In cooperation with BDS facilitators (NGOs, donors and associations) identify BDS needs of SMEs and barriers to greater use 	<ul style="list-style-type: none"> • Develop new BDS products in public/ private partnership • Facilitate the replication of successful BDS providers • Encourage a BDS industry association, a code of ethics and independent certification of BDS providers • Direct delivery of BDS should be avoided by the government, however, where it does occur, some cost recovery components should be introduced
(B) Access to Markets <i>Objective:</i> Improve SME access to domestic and export markets through better information, market research, product development and promotional activities	<ul style="list-style-type: none"> • Develop and implement a strategy for regional SMEs to have improved access to the internet • To improve access to export markets, facilitate linkages between local and international business associations • Design and implement an education program on utilizing information for access to markets • Encourage and assist SMEs to participate in trade fairs and exhibitions • In cooperation with SME associations develop multi-purpose facilities • In conjunction with other stakeholders link buyers with SMEs or clusters of SMEs 	<ul style="list-style-type: none"> • To enhance the use of the internet, a legal and regulatory framework for e-commerce should be implemented • In partnership with the private sector, facilitate trade fairs and product exhibitions • Develop and implement a matching grant scheme for SMEs to access export markets
(C) Technology and Human Resources Upgrading <i>Objective:</i> Improve availability and awareness among SMEs of technology and technical and managerial training	<ul style="list-style-type: none"> • Develop an action plan for implementing opportunities identified in the Phase I review • Coordinate and work with training institutions and donors to develop toolkit packages for training and capacity building in SMEs • Encourage quality standards in SMEs through ISO 9000 certification process • Promote specific linkages among universities and related institutions on applied research • Develop and implement the specific institutional arrangements for effective 	<ul style="list-style-type: none"> • Encourage linkages between training and research institutions and SMEs • Facilitate the private sector (including universities) to establish and enhance the institutions on technical standards • Draw on existing public education/ research institutions to enhance their capacity for applied research and product quality testing

Major Issues	Updated Phase II: (2008-'11) Finalize, Enhance and Expand the Framework for Enabling Environment for SME Development	Phase III: (2012-'15) Foster Competitiveness of SMEs through Integration into World Economy
	implementation of intellectual property rights <ul style="list-style-type: none"> • Review current technology and training needs, incentive structures and barriers • Coordinate with providers of vocational training to identify needs and develop links with SMEs • Strengthen the capacity of current research institutions and foster linkages with the private sector (including academic institutions) 	
(D) Linkages <i>Objective:</i> Assist SMEs to work together and cooperate in integrated networks to improve their competitiveness and access to local and international markets	<ul style="list-style-type: none"> • Develop common service provisions and other related support for clusters in cooperation with donors and associations • Foster private sector-led incubator systems for developing new industries and enterprises • Review relevant regulations and procedures for the registration of associations and make recommendations for improvements • In cooperation with other stakeholders, develop and implement an action plan for encouraging the formation and strengthening associations • Carry out a stocktake of clusters, including identifying number, size, type and location 	<ul style="list-style-type: none"> • To help improve the competitiveness of clusters, encourage linkages between local clusters and international organizations • Working together with other stakeholders, assist SMEs in clusters to become integrated in global value chains. This can include promoting learning networks, joint international marketing as well as a range of other services
Support Mechanisms for the Effective Implementation of the SME Development Framework: <ul style="list-style-type: none"> ➤ Specific consultation process to foster public/private partnership ➤ Establishment of the necessary infrastructure for the implementation of the Framework ➤ All related institutions to have necessary resource allocations and capacity building measures ➤ After the Phase II, review the Progress and Plan for the Next Phase ➤ After the Phase II, review the Progress and Plan for the Next Development Framework 		

V. ACTIONS FOR THE NEXT PHASES

62. The Roadmap on the previous pages is described in detail in this Appendix. It draws on the previously described vision and is guided by the 13 policies of the 'Rectangular Strategy'.

A. REGULATORY AND LEGAL FRAMEWORK

(i) Company Registration

Actions to be taken: Phase II

63. In Phase II the decentralization process will be expanded to more provincial urban centers as permitted and guided by the prakas from MOC allowing decentralized registration across Cambodia (prakas 249) and the MoC Notification 2868 on Detailed Operational Procedures for Decentralized Registration Branch (wherever set up in Cambodia).

64. MOC should begin development of an online business registration system by establishing the necessary legal and regulatory framework and the detailed operating procedures. Online registration should speed up the process of registration, reduce the administrative costs for both the government and businesses and ensure transparency in the process by significantly reducing human intervention. After adopting the necessary procedures, MOC should develop information and communication technologies to facilitate online registration. MOC should then implement and operationalise an online registration system.

Actions to be taken: Phase III

65. Issues for the Government's future consideration may include expanding registration to a wider segment of the economy. Following the example of Singapore, Thailand and other neighboring countries, clear registration requirements should be established to include a broad segment of the economy by setting clear thresholds for firms to register either as sole proprietors or companies. In Singapore there are two laws covering registration, the Company Act and the Enterprise Act. The Company Act governs all companies while the Enterprise Act governs sole proprietors. The definitions of each are very clear and the requirements for registration for each category are outlined in the law. In Thailand the Commercial Registration Act of 1952 requires all companies and entrepreneurs to register while clearly identifying businesses exempt from registration.

66. To streamline inter-ministerial registration and licensing, the MOC should link the registration process to other ministries by automatically registering the company for income tax and value-added tax (VAT) using the same process and by harmonizing the tax identification number with the registration number. Eventually registration as a new legal entity and tax registration could be merged into one procedure. A single identification number would help to facilitate registration and licensing and facilitate government-wide data management.

(ii) Regulatory Review and Recourse Mechanism

Actions to be taken: Phase II

67. Based on recommendations of the licensing review program, the SCSME should lead the effort to streamline redundant licenses, which burden SMEs. The SCSME should also carry out a process to simplify procedures for obtaining licenses and create guidelines for inspections. The SCSME should also develop rules for ensuring the rights of businesses in the inspection process and fully launch a recourse mechanism at the ministerial level. This fully operational and supported recourse mechanism should include the formation of an independent tribunal to assist in dispute resolution.

68. Expand Licensing Reform. The Government should expand the One Window Service in Siem Reap and Battambang Districts for the purpose of assisting SMEs to obtain necessary operating licenses from various relevant ministries. The Government should also consider expanding the program to more provincial capitals and should begin to implement the One Window Service at the district level. To achieve the objective of improving service delivery to SMEs, the Government will need to establish rules and regulations for the operation of the One Window Service.

(iii) Commercial Legal Framework

Actions to be taken: Phase II

69. The Government still has to enact the draft Law on Commercial Contracts to establish the necessary framework for contracts and contract enforcement. This will provide increased clarity for contracts between businesses. As a means for avoiding lengthy court cases related to commercial disputes, it is necessary to create an operational commercial arbitration process by implementing the Law on Commercial Arbitration. The law determines the forms of arbitration agreements, composition and jurisdiction of arbitration panels, the conduct of the arbitration proceedings and how awards are made and enforced. Commercial arbitration will help to reduce the cost and time needed to resolve disputes.

70. Strengthening legal education at the Faculty of Law and other institutions is crucial to increasing the future supply of well-trained lawyers. Given the current levels of education among judges and prosecutors, long-term legal training is needed to improve the performance of the judiciary. Judges will need to be targeted, intensive training in commercial and business-related law, particularly as more complex commercial laws are enacted.

71. Strategies should be developed and implemented to properly remunerate judges and court officials to reduce incentives for corruption. Initially, this can be introduced into the governance structure of the commercial court. An extensive capacity building program should be implemented to strengthen the commercial court. It will be necessary for the SCSME to consult with stakeholders and review the progress of legal reforms.

72. The Government should enact legislation to establish a specialized commercial court to resolve commercial disputes. Passage of the Law on Judicial Organizations will also be necessary to establish specialized courts. By creating greater specialization in the judicial system, commercial and economic disputes can be resolved more effectively, while enforcement of decisions will be more certain. To enhance the effectiveness of the commercial court, judges will be required to undergo specialized training in business and commercial law. The Government should adopt anti-corruption legislation to enhance the effectiveness of the commercial court and to better ensure transparency and fairness in the system. The judiciary should also adopt a code of ethics to help build the integrity of judges.

73. All the best intentions of policymakers are meaningless if laws and regulations are not enforced properly. Improving transparency so that everyone knows the rules is an important first step in strengthening enforcement. The first step toward improving enforcement of the legal framework is to make sure that the laws and regulations are well known by the public. The Government should widely distribute the Royal Gazette, which includes all laws, sub-decrees and regulations affecting the private sector. To further improve the dissemination of legal information, the Government should establish a website dedicated to providing laws, sub-decrees and regulations so that all information is located in one place and that one agency is responsible for the content.

Actions to be taken: Phase III

74. As the commercial legal framework develops and the judiciary strengthens it will be possible to develop further specialization in the court system to improve contract enforcement for SMEs. To enhance and simplify SME access to the courts and strengthen contract enforcement the Government should consider establishing a small claims court.

(iv) Customs Reform

Actions to be taken: Phase II

75. The Government should further rationalize the number of agencies involved at border checkpoints in order to establish accountability and streamline processing. The Single Window process being fully established at the Port of Sihanoukville, with full automation (ASYCUDA) complete, should be implemented at all border checkpoints. In addition, a flat fee-for-service compensation mechanism that enables the private sector to pay once for all customs clearance processing should be established. The fee structure should be publicly stated and tied to set standards for levels of service.

76. Implement the new Law on Customs and implementing regulations.

77. The Customs and Excise Department (CED) should implement its own strategic plan (2009-2013) throughout Phase II.

78. The Government continues to implement all elements of the 2006 CED Enforcement Strategy and develop a National Anti-Smuggling Policy.

B. ACCESS TO FINANCE

(i) Collateral and Land Titling⁶

Actions to be taken: Phase II

79. The SCSME should work together with MOC, NBC and the Association of Banks in Cambodia (ABC) to create further awareness of the enabling legal framework for secured transactions amongst SMEs, banks, lawyers, accountants and industry associations.

80. During this phase, the Government should ensure that the mechanism for establishment and enforcement of land rights is operational and is facilitating land titles for all urban properties through a transparent process.

(ii) Leasing

Actions to be taken: Phase II

81. NBC should prepare a plan for the development of a leasing industry. This will entail making changes to the existing taxation regulations, and taking steps to promote the new financial products once the enabling framework is in place.

82. To enable banks and non-banks to provide finance leasing once an appropriate leasing law has been enacted, the Ministry of Economy and Finance (MEF) (through the Taxation Department) should introduce new and amended regulations (no need for changes to the Tax Law) to clarify the tax treatment (VAT, timing of supply, tax on profit, depreciation, withholding tax) of financial and operating leases and harmonize the tax treatment of leasing and lending. This would allow all lending products, including collateralized loans, leases and secured transactions to compete on how they satisfy market needs rather than on regulatory or tax advantages.

83. NBC should submit to the plenary session of the Council of Ministers the draft law on finance leasing as soon as the new parliament is formed after the July 2008 elections. The law on leasing provides further clarity for banks to provide finance and operating leases and should enable non-banks and companies that are not subsidiaries of banks to engage in finance and operating leases. The law will also give authority to NBC to regulate such non-banks and other entities.

84. The next step should be to implement finance and operating leases as new financial products. Therefore, in accordance with the finance leasing law once enacted, guiding regulations should be drafted to implement the law's provisions, with NBC drafting those regulations.

⁶ Another issue relevant to collateral is insurance. Normally, banks will require the borrower/lessee to insure assets which are subject to collateral interests, or being leased. The issue of insurance is not covered in the Roadmap, as the Financial Sector Blueprint has a number of actions dealing with the insurance sector over the period 2006 to 2015.

85. To expand the institutional framework for leasing, NBC should promote joint-venture finance leasing companies, while MOC or NBC should promote joint venture or stand-alone leasing companies that provide operating and/or finance leases.

(iii) Credit Information Sharing⁷

Actions to be taken: Phase II

86. Early in Phase II, NBC should issue a review of the operations of the pilot credit information system, examine options to expand it (to include “positive” information, include other financial institutions and make compulsory) and assess the feasibility of establishing a fully-fledged private credit bureau that operates on a sustainable basis.

87. Under Phase II, depending on the development of the CIS system, consideration should be given to including information provided by merchants and utilities, and a credit-scoring system could be developed. Finally, during this phase, consideration should be given to establishing a joint-venture with one of the international firms that operate credit registries (CRs) and is known to support the strengthening of CRs in developing countries.

(iv) Simplified Accounting for SMEs

Actions to be taken: Phase II

88. During Phase II, to further promote adoption and effective use of the simplified financial reporting template (FRT), the NAC, with the assistance of the Institute of Certified Public Accountants and Auditors, shall recommend appropriate computer-based accounting and management information systems for medium-sized enterprises and appropriate manual bookkeeping systems for those who prefer this form of recording accounting transactions.

89. The NAC, with the assistance of the Institute of Certified Public Accountants and Auditors, should continue to support the development of accounting professions and build upon work carried out in Phase I.

90. The Government should issue guidelines and specific requirements to assist SMEs to adhere to the formalities of the Real Regime tax system.

⁷ A World Bank survey of 56 countries with credit registries (CRs) highlighted the different functions of private and public CRs (the latter are almost always operated by a central bank). The survey of October 2003 found that most developed countries have private CR. Latin America has the most widespread CRs, most having both private and public CRs. Africa, Eastern Europe and CIS have the least developed credit reporting. Developed countries that have both public and private CRs include Germany, Italy, Portugal and Spain. France has only a public CR. Other developed countries with public CRs include Austria and Belgium. Countries with only private CRs include Canada, Sweden, Australia, UK and USA. In the region, Philippines, Singapore, Malaysia and Thailand operate private CRs, although Indonesia, Laos, Vietnam and Malaysia have public CRs. Including overlaps, i.e. countries that operate both kinds, 27 countries operate public CRs, and 28 private CRs.

Actions to be taken: Phase III

91. Other measures for the Government to consider for the future could include NBC promoting the establishment of non-bank financial institutions (NBFIs) and determine strategies for improving their outreach to include rural areas.

C. SME SUPPORT ACTIVITIES

(i) Business Development Services

Actions to be taken: Phase II

92. In Phase II the SCSME and its secretariat should complete the BDS market information collection exercise identifying existing BDS suppliers and demand for services and develop a registry for the public. There should follow an education campaign on the benefits of BDS. Working with the development partners, this may include information about local success stories or other education techniques, which incorporate local knowledge on how to most effectively reach entrepreneurs.

93. The SCSME, working with other facilitators (NGOs, development partners and associations), should encourage new BDS suppliers into the market. The information gathered on BDS demand should be used to identify unmet and potential market demand.

94. Technical assistance and training through existing institutions should be used to improve the number and quality of BDS suppliers. For example, technical colleges and university training should be identified that is of benefit to enhance existing and potential BDS suppliers in areas where strong demand has been identified. The Government's 'Rectangular Strategy' also recognizes the importance of promoting vocational/skills training (see 'policy' eleven of the thirteen SME policies in side two of the strategy).

95. To develop the supply of market-based BDS and demand for fee-based BDS, the SCSME should facilitate the delivery of a voucher scheme by a third party. Voucher schemes have been used extensively in Latin America and Asia to develop BDS markets. Other BDS promotion or marketing techniques could also be tested at this stage.

96. In the second phase of the strategy, support services developed for SMEs should be decentralized as much as possible. Components of the strategy that focus on direct delivery of services and are being provided from Phnom Penh should become more decentralized. Experience has shown that it is difficult for services to be very effective when centralized. It is important for services to be field-based and designed to apply solutions in a local context.

Actions to be taken: Phase III

97. Depending on the needs of SMEs, activities in Phase II may need to be continued. Monitoring and evaluation of all aspects should be carried out on a timely basis.

98. Through public institutions and with private sector partnership, assistance may be provided to develop new BDS products. Universities, technical training colleges, donors and associations may all form part of PPP developing new BDS products.

99. Where successful and/or profitable BDS suppliers have emerged, the SCSME may wish to facilitate in the replication and branching of such services. This assumes that the market for BDS has developed and that Phases I and II have been successful.

100. The SCSME may also consider promoting the development of a code of practice and minimum standards for BDS suppliers. This should include voluntary certification by an independent body, preferably a BDS industry association.

101. Finally, support services should primarily be demand driven with some cost recovery component eventually included in all support services directly delivered. The first option for the SCSME should be to stimulate delivery by the private sector or in PPP. In the second Phase and after the Government should consider moving to partial or full cost recovery.

(ii) Access to Markets

Actions to be taken: Phase II

102. To improve market access, the SCSME should develop further its SME Information Portal site. A portal site usually contains a much wider range of information and services than a website and has a well-defined audience, in this case SMEs, for which it offers a specific set of information. It should also promote further the SME Information Portal to SMEs.

103. A strategy should be developed and implemented for Provincial government offices to improve local SMEs access to the internet. Such a strategy should utilize the expertise of donors and assistance of business associations and NGOs.

104. The SCSME should work with public institutions such as universities and technical training colleges to improve the usefulness and flow of information between institutions and SMEs. This may be in the form of specialized information or more generic information needed by businesses.

105. The SCSME should design and implement an education program for utilizing information to assist SMEs with access to market and further encourage and assist SMEs to participate in trade fairs and exhibitions. The SCSME should collaborate with all stakeholders to make all efforts to link buyers with SMEs or clusters of SMEs.

Actions to be taken: Phase III

106. To enable SMEs to access export markets, the SCSME may wish to consider facilitating linkages between local and international business associations, particularly SME business associations and SME networks. Linkages also form part of the Government's 'Rectangular Strategy' (see 'policy' six of the thirteen SME policies in Table 1).

107. To improve the use of the internet, the SCSME could also consider developing a legal and regulatory framework for e-commerce. The private sector with the support of Government and donors should then be encouraged to develop e-commerce.

108. In partnership with the private sector, the SCSME may wish to consider facilitating trade fairs and product exhibitions. These promotional activities should draw on sectors where Cambodian SMEs have a competitive advantage and opportunities exist for market development. Such promotional activities should occur in Cambodia as well as through selected international markets where it has capacity to deliver quality information.

109. Finally, the Government should consider the concept of matching grants to support SMEs to access export markets. Given the high cost to SMEs of entering export markets, a matching grant scheme will reduce the risk for producers to enter new export markets. Successful entry by SMEs into export markets will also provide an example for others to follow. The schemes should be managed in partnership with the private sector and include BDS support for new export entrants.

(iii) Technology and Human Resource Upgrading

Actions to be taken: Phase II

110. A review of current technology and training needs, incentive structures and barriers should be undertaken and an action plan should be developed and implemented for the opportunities identified. The most obvious barriers and greatest opportunities should be prioritized. Because training is often a public good it is advisable for the actions to be focused on developing PPP.

111. Donors and training institutions should cooperate to identify the need for and develop appropriate toolkit packages for self-reliant capacity building by SMEs. Such packages could include accounting, financial and business planning and reporting and more technical sector-specific packages. Already MPDF offers some of these packages and the development of such packages should draw on this experience and use PPP to develop and deliver additional packages.

Actions to be taken: Phase III

112. Issues for future consideration include sub-contracting for encouraging SMEs to meet quality standards. Such standards should be certified by an independent body, ideally through an ISO 9000 certification process. The SCSME, through the use of independent private service providers and in cooperation with donors, can train SMEs in management quality systems and ISO-9000. A registry of qualified SMEs should be kept and made freely available to larger firms looking to sub-contract. The Government's 'Rectangular Strategy' also recognizes the importance of establishing standards (see 'Policy' eight of the thirteen SME policies in Table 1).

113. Linkage programs could also be considered to bring together training and research institutions and clusters of SMEs. Non-clustered groups of SMEs could also be linked through the use of specialized associations. In the process of forging these links, the SCSME should work as a catalyst and facilitator rather than through direct intervention.

(iv) Linkages

Actions to be taken: Phase II

114. To encourage the formation of business associations the SCSME should review the draft Law on Associations and NGOs and MOC Prakas No. 267PN/KBTKRK dated September 21, 2000, as well as MOC Circular No. 3560 PN/KBT dated October 10, 2000 and other relevant regulations and administrative procedures related to the licensing of chambers or business associations. The report should evaluate the impediments resulting from the legislation and make recommendations for improvements.

115. In cooperation with other stakeholders, develop and implement an action plan for encouraging the formation and strengthening associations

116. Media programs should be encouraged to improve outreach and awareness of issues related to SMEs. The media programs need to be: (i) well targeted at specific groups and pitched at an appropriate level; (ii) self-funding so as to be sustainable (this may be done through selling advertising space); and (iii) include feedback and evaluation mechanisms.

117. In order to assist clusters, the SCSME in coordination with business associations and donors should facilitate the development of: (i) common services to improve forward and backward linkages with markets and supplier inputs; (ii) upgrading of technology to improve efficiency; (iii) dissemination of best practice related to the cluster industry segment; and (iv) sub-sector business associations.

118. New industries and enterprises should also be promoted through encouraging the private sector, assisted by donors, to set up incubator systems. The SCSME should encourage and provide incentives for larger private enterprises to setup incubator systems that have advantages both for the large enterprise and the enterprises participating in the incubator system.

Actions to be taken: Phase III

119. The SCSME should consider identifying appropriate international organizations to assist in building links with clusters. Such links may be forged around similar industry segments, different parts of the value chain or to international suppliers or buyers.

120. The SCSME, together with other stakeholders, may wish to consider supporting SMEs in clusters becoming more integrated into global value chains. This can be done by:

- (i) Improving information about international markets;
- (ii) Promoting joint international marketing and selling;
- (iii) Promoting standards and quality control through certification; and
- (iv) Promoting learning networks.