Commissioned on behalf of:
The Dutch Good Growth Fund, part Investment funds for local Small and Medium Enterprises (SMEs), is a “fund of funds” investment initiative from the Dutch Ministry of Foreign Affairs. The initiative aims to improve financing for the “missing middle” – i.e. entrepreneurs who have outgrown micro-finance but do not yet have access to regular financial services. The Seed Capital and Business Development (SC&BD) program was established to increase the impact of the DGGF by providing technical assistance, seed capital and business support services to intermediary investment funds and local SMEs. The program incorporates a knowledge development and sharing component that supports research, tests assumptions and shares insights into financing SMEs in developing countries and emerging markets - fostering industrywide knowledge exchange.

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#ClosingTheGap Cambodia has been commissioned on behalf of DGGF as part of the ClosingTheGap series of entrepreneurial ecosystem assessments. The findings and recommendations are at the discretion of the consultants – Emerging Markets Consulting - and do not necessarily reflect the opinion of DGGF and/or its partners
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Abbreviations

ANDE Aspen Network of Development Entrepreneurs,
ASEAN Association of South East Asian Nations,
BRCM Belt Road Capital Management
CARDI Cambodian Agricultural Research and Development Institute,
CBC Credit Bureau of Cambodia,
CIC Cambodia Investment Club,
CIES Cambodia Inter-censal Economic Survey
CPP Cambodia Peoples Party
DGGF Dutch Good Growth Foundation
EBA Everything But Arms
EMIA Emerging Markets Investment Advisors
EU European Union
FASMEC Federation of Associations of Small and Medium Enterprises of Cambodia
FI Financial Institution
GAZ Gazelle
GDP Gross Domestic Product
GDT General Department of Taxation
GNI Gross National Income
G-PSF Government - Private Sector Forum
GSP General System of Preferences
ITC Institute of Technology of Cambodia
JCI Junior Chambers International
LDC Less-Developed Country
MAIN Mekong Angel Investment Network
MBI Mekong Business Initiative
MGB Medium Growing Business
MoEYS Ministry of Education Youth and Sport
MOWA Ministry of Women's Affairs
MPTC Ministry of Posts and Telecommunications
MSP Mekong Strategic Partners
NBFI Non-Bank Financial Institution
NE Necessity Entrepreneurs
NIPTICT National Institute of Posts Telecommunications and Information Communication Technology,
RGC Royal Government of Cambodia
SADIF Smart Axiata Digital Innovation Fund
SCBD Seed Capital and Business Development
SGB Small Growing Business
SHB Small High-Growth Business
SME Small and Medium Enterprises
SNE Successful Necessity Entrepreneur
SNENC Supreme National Economic Council
WBES World Bank Enterprise Survey
YEAC Young Entrepreneurs Association of Cambodia
Executive Summary

Of Cambodia’s approximately 15 million people (2017), two-thirds of the population is working age, or about 10 million people in total. Phnom Penh, Cambodia’s capital city, accounts for 1.5 million people (10% of population). The capital sits at the center of Cambodian political and economic life, with government offices and business headquarters clustered in Phnom Penh. Cambodia stands out amongst the #CTGMekong countries for its enduring market-based economy – having adopted these principles since the early 1990s, not long after Vietnam (1985).

It’s a relatively small and compact country, with more than double the population of Lao PDR within three-fourths the land area, and considerably smaller than both Myanmar and Vietnam. The country doesn’t enjoy substantial natural resources endowments, other than its location between the significantly larger and also fast-growing economies of Thailand and Vietnam. GDP per capita is US $1,485, considerably lower than Lao PDR (US $2,552) and Vietnam (US $2,690) and only slightly higher than Myanmar (US $1,279).

Much current analysis of the economy focuses on the need to transition from a factor-based economy to an efficiency-driven economy\(^1\) that is increasingly competitive, with more efficient production processes and increased product quality. In this context, promotion of entrepreneurship and SMEs are moving up the Royal Government of Cambodia’s policy agenda.

Cambodia is an SME Oriented Economy

Segmentation of the World Bank Enterprise Survey (WBES) from 2016 shows that half of registered SMEs in Cambodia are small, low-growth firms, with 5-19 employees and growth rate between 0-10% per annum. According to WBES 2016, women-owned firms (>50% women ownership) constitute about 43% of all small and medium sized firms, however this was higher for smaller firms, and lower for medium-sized firms. Cambodian SMEs are generally innovative compared to their counterparts in #CTGMekong, according to WBES data. In particular, high growth businesses – small & growing businesses (SGB), small & high-growth businesses (SHG) and Gazelles – are generally more likely to have introduced a new or improved product or service within the past three years, or to have spent on R&D.

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1 World Economic Forum Classification
SMEs Face a Challenging Business Environment
Historically, public investment has been weak, and consequently SMEs struggle to acquire human resources and adapt to infrastructural constraints. Pro-business policies and regulation also have not improved significantly, reflected in Cambodia’s six years of static rankings in World Bank Doing Business reports. Across all categories of constraints self-reported by SMEs, ‘Practices of competitors in the informal sector’, ‘Political instability’, ‘Inadequately educated workforce’, ‘Tax rates’, ‘Transport’ and ‘Corruption’, all presented greater challenges than ‘Access to Finance’.

However, recent Government initiatives include more incentives for SMEs, commitment to ongoing improvements to education, as well as the presence of the expectation of Chinese financial support for major infrastructure investments.

Finance Remains a Concern
While access to credit remains a popular concern for SMEs, Cambodia stands out amidst Lao PDR, Myanmar and even Vietnam, for its competitive banking and MFI sector. The sector has had a credit bureau and a secured transactions law for a long time, which contribute to very high Doing Business ranking in ‘getting credit’. However, much of SME borrowing still requires land or real estate collateral, and SMEs currently do not use credit to invest in productive assets. With respect to risk capital, there has been a proliferation of new investment platforms since 2017, albeit from a very low starting point. Investment in the emerging tech sector has expanded recently, and during late 2018 two Cambodia based tech startups closed US$ 2.0 and 2.8 million funding rounds with substantial overseas participation.

Sector development has been encouraged by relatively benign market and innovation oriented regulation, and the current Financial Sector Development Strategy outlines the Government’s plans to address needed improvements in credit information, secured transactions and service diversification.

Business Support Services are Focused in the Capital
In Business Support Services, Cambodia has a diverse ‘entrepreneur ecosystem’ motivated by Cambodian and expatriate ‘ecosystem builders’ who are themselves highly entrepreneurial. In recent years, there is a lot of activity around building awareness in youth, tech and social impact oriented entrepreneurship, however alongside these, new initiatives are emerging, which address larger segments of micro and small businesses with traditional business models in main economic sectors. The BSS ecosystem is still fragmented and focused in the capital, Phnom Penh, though collaboration between stakeholders and activity in the provinces is increasing.

The key issues affecting the development of the Cambodia ecosystem, are summarised in the following SWOT.

Figure 2: SWOT analysis of the Cambodia ecosystem

**STRENGTHS**
- Young and outward-looking population, growing middle class, central position in ASEAN with preferential market access
- Strong financial service sector
- Dynamic and adaptive ecosystem, with strong entrepreneurial culture

**OPPORTUNITIES**
- Expansion beyond Phnom Penh
- Support for women entrepreneurs
- Develop offer of small risk capital

**WEAKNESSES**
- Government’s weak track record implementing improvements to business enabling environment
- Difficulties to assess SME credit risk
- Lack of domestic risk capital
- Lack of support services for growing SMEs
- The ecosystem is still small, centralized in Phnom Penh, and fragmented

**THREATS**
- Lack of coordination amongst ecosystem stakeholders
- Macro-economic instability; no improvement of business enabling environment
- Financial sustainability of ecosystem initiatives
Recommendations

In addition to implementing pro-business, regulatory reform agenda, we identify two opportunities to advance SME growth: improve business services support and early stage finance to growth-oriented SMEs. In particular, there is significant scope to mobilise domestic capital.

According to WBES, approximately 40% of registered SMEs are growing at an annual rate of 10% or more, yet lack access to appropriate support that can address expansion-related challenges: e.g. formulating a growth strategy, acquiring finance to grow, scaling operations and accessing growth markets, either geographic or via product/service innovation. As they get larger, these diverse requirements entail attracting and retaining staff with expertise and delegated authority. High growth businesses and Gazelles are more likely to export than other sub-segments and thus require support to develop business relationships with potential suppliers and customers in ASEAN and regional markets. This includes support for international networking and trans-border platforms where growth-oriented SMEs can access buyers and suppliers, and thereby forge strategic relationships.

Additionally, there is an absence of early-stage finance for domestic entrepreneurs. There are currently no functioning angel investment networks, and outside the tech sector, there is a very weak offering below US $500,000 and SMEs have yet to list on the Cambodian Stock Exchange. For even smaller quanta of seed capital, existing accelerators do not incorporate a ‘seed finance offer’ and do not consistently graduate investible firms in sufficient quantity to stimulate the supply of angel capital. The key to sustainably increasing the availability of risk capital to entrepreneurs is unlocking wealth in Cambodia: domestic would-be investors have a greater familiarity with local conditions and greater tolerance for country-specific risk. However, platforms that educate domestic angel and early-stage investors and aggregate capital are still themselves ‘startups’. Specific recommendations to address this could therefore include support to:

- Scale up accelerators that aim to produce investible firms in order to generate deal flow.
- Establish a seed fund for accelerated graduates, helping stimulate supply of external early stage investors.
- Seek opportunities to capitalise locally managed funds that aim to invest in SMEs, starting around US $100,000.

In summary, the Cambodian entrepreneur ecosystem has good foundations based on active participation of motivated ‘ecosystem builders’ and successful entrepreneurs. However, rapid progress is limited to the past few years. Consequently, there remain gaps where support for SMEs may be improved, and there is substantial scope to scale access across the board. Ultimately, to realise SMEs’ collective potential for growth and contribution to a competitive and innovative economy, the Cambodian Government needs to sustain broad-based improvements to the overall business environment.
1. Introduction

Over the past decade, a dynamic domestic entrepreneurial scene has emerged in Cambodia, buoyed by consistently strong economic growth. Though a relatively small country, the number of investors and business support service providers operating in the Kingdom has increased dramatically in the past two years. As in its economic peer countries, Government, businesses and development partners are increasingly looking to domestic entrepreneurs to drive innovation and continued economic growth.

In this context, the Dutch Good Growth Fund (DGGF) undertook a diagnostic study of the Cambodian entrepreneurial ecosystem with a deeper evaluation of the financial offering for small and medium-sized enterprises (SMEs).

1.1 Objective

This study has been conducted on behalf of the Dutch Good Growth Fund (DGGF), an initiative of the Dutch Ministry of Foreign Affairs. The DGGF is a “fund of funds” investment initiative of the Dutch Ministry of Foreign Affairs that aims to improve access to finance for the missing middle – that is, entrepreneurs who have outgrown microfinancing but do not yet have access to conventional financial services.

The Seed Capital and Business Development (SCBD) Facility was established to further the impact of the DGGF by providing technical assistance, seed capital and business support services to intermediary funds and local SMEs. In addition, the program incorporates a knowledge-sharing component that supports research, tests assumptions and shares insights on financing SMEs in developing countries and emerging markets and fosters industry-wide knowledge exchange. Under the SCBD knowledge development and sharing component, the DGGF #ClosingTheGap series aims to improve common understanding of key challenges faced by entrepreneurs and especially the “missing middle” in countries covered by the DGGF mandate. The #CTG series is a tool to facilitate and support local and international stakeholders’ efforts to set the agenda for SME development. Working together, local stakeholders and their international partners should be better able to identify solutions to the main gaps in entrepreneurial ecosystems that hamper the growth of local enterprises.

The study was commissioned to get a better understanding of the ‘missing middle’ in the Mekong region of Southeast Asia, of which Cambodia is one of the focus countries. The report describes the main factors that hamper SME growth and suggests possible actions to address them.

1.2 Approach

DGGF #ClosingTheGap series was designed to improve the common understanding of key challenges faced by the “missing middle” by researching local entrepreneurs’ characteristics and needs; testing assumptions related to the current financial and non-financial service offerings and sharing insights as to their impact on the conduciveness of the ecosystem overall. The methodology was piloted in Kenya in 2015 and scaled to a regional level in francophone West Africa in 2017 using the Aspen Network of Development Entrepreneurs’ (ANDE) framework for ecosystem assessment. The framework was modified for #ClosingTheGap Mekong by adding entrepreneurs’ capabilities at the centre of it.
To identify groups of SMEs according to growth and size characteristics, we used the World Bank Enterprise Survey 2016 (WBES 2016) to segment and estimate the population of SMEs, as described in the following figure. WBES data covers 139 countries, including all countries in the #CTGMekong, and therefore provides good basis for inter-country comparisons.

Figure 5: Segmentation framework

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2 WBES 2016 interviewed 373 establishments from a sample frame of 23,123 (World Bank, National Institute of Statistics). The survey uses stratified random sampling to ensure the final total sample is not concentrated in one or two industries/sizes/regions. EMC derived estimates for the total population, based on WBES weightings. For further information, please see http://www.enterprisesurveys.org/ and EMC methodology in Annex.

#ClosingTheGap Mekong – Cambodia – Entrepreneurial Ecosystem Assessment
The Cambodia WBES 2016 only includes registered establishments and excludes micro firms employing fewer than five employees, so we cannot incorporate micro businesses into the segmentation. Also, whilst the survey includes data relating to gender of majority owner and top management, it excludes data on their ages, so it is not possible to segment for ‘young entrepreneurs’, aged 18-35.

Therefore, the research also draws on other datasets, an extensive literature review, as well as key informant interviews with entrepreneurs and service providers in the ecosystem.

In December 2017, a workshop brought together those stakeholders to review, validate and challenge research findings to date, and engage in an interactive session seeking solutions that address businesses and growth challenges faced by firms in each sub-segment.

Conclusions from the workshop are directly captured in the final report. In August 2018, the report was updated to reflect latest developments in the Cambodian entrepreneur ecosystem.

2. Overview of Cambodia

Of Cambodia’s approximately 15 million people (2017), two-thirds of the population is working age, or about 10 million people in total. Phnom Penh, Cambodia’s capital city, accounts for 1.5 million people (10%). The capital sits at the center of political and economic life, with government offices and business headquarters clustered in Phnom Penh. Statistically, Cambodia is the most religiously and ethnically homogenous society in Southeast Asia: about 88-90% are Khmer Buddhist and a significant proportion of the remainder is assimilated Chinese. The country retains an open and tolerant posture towards non-native religious and social practices.

Cambodia became a parliamentary representative democracy in 1993, since then it has been governed by governed by the current incumbent party, the Cambodian People’s Party (CPP) with brief periods of power sharing.

Cambodia has a relatively small economy with a GDP of US $24 billion, due to a small population and low GDP per capita. The Kingdom has adopted a market-based, export-led economic policy since 1993, and this is credited with exceptionally strong GDP growth, averaging 7.6% from 1994 to 2015 – the sixth highest in the world over the period. Cambodia is a dual currency economy: USD and Khmer Riel (KHR), the national currency.
Cambodia’s four major economic drivers are the garment industry, construction and real estate, tourism, and agriculture. Cambodia is a lower middle-income country under the World Bank classification (with a Gross National Income, GNI per capita of over US $1,025) and a Least Developed Country (LDC) under the UN system (UN-OHRLLS). As such, it benefits from development aid (US $830 million) and preferential market access to the EU and USA, which consequently account for 33.3% and 16.5% of exports respectively. As part of its membership in ASEAN, Cambodia is also eligible for tariff reductions in trade with Australia/New Zealand, China, India, Japan, and the Republic of Korea.

Although Cambodia is not rich in natural resources, it is conveniently situated between the larger and more developed countries of Thailand and Vietnam, providing the opportunity to integrate its economy into regional value chains.

### 3. SME Landscape

Based on the Cambodia Inter-censal Economic Survey 2014 (CIES 2014), which includes unregistered firms, a large percentage of Cambodia’s businesses are micro businesses, with establishments employing fewer than 10 employees accounting for 97%, or a total 513,759 firms, in the country in 2014. This is followed by small and medium businesses with 10-99 employees (13,616), and large businesses with 100+ employees (895). The average annual growth in total number of businesses between 2009 and 2014 has been 6.4%.

Segmentation of WBES 2016 shows that half of registered SMEs in Cambodia are small, low-growth firms.
• **Necessity entrepreneurs (NE)** constitute the largest group within the SME sector. They are small businesses with an average 6.6 full-time employees that experience negative annual turnover (no growth). More than half are service oriented, and virtually all target only the domestic market.

• **Successful necessity entrepreneurs (SNE)** are small businesses in the SME sector that experience low growth (0–10%) in annual turnover. They employ an average 7.8 full-time employees and are more likely to increase that figure to ten, compared with necessity entrepreneurs. They are more likely to operate in the manufacturing sector than necessity entrepreneurs but are still very unlikely to export.

• **Small and growing businesses (SGB)** are characterized by moderate annual turnover growth (10–20%) that employ an average 7.6 full-time employees and are less likely than successful necessity entrepreneurs to employ more than ten. Unlike NEs and SNEs, they are less than five years old, use email to communicate with clients, introduce products and services, and have invested in research and development (R&D) in the last three years.

• **Small and high-growth businesses (SHB)** are small businesses with more than 20% growth in annual turnover. They retain an average of 9.6 full-time employees and are more likely than small and growing businesses to employ more than 10. These businesses are less likely to be younger than five years but are more likely to have introduced or improved organizational structures and invested in R&D in the last three years (compared to small and growing businesses). These businesses are also starting to target export markets in addition to the domestic market. Roughly half are located in Phnom Penh.

• **Moderate-growth businesses (MGB)** are medium-size (20 to 100 employees) with 0–20% growth in annual turnover. In Cambodia, such businesses employ an average of 31.2 full-time employees - the majority employ less than 50. MGBs are the most likely to operate in manufacturing, be managed by employees with ten or more years of professional experience, and to have introduced new or improved operational activities. However, they are the least likely to be managed by women in top-manager roles.

• **Gazelles (GAZ)** are high-growth (more than 20% growth of annual turnover), medium-sized businesses. They employ an average of 26.4 full-time employees and usually have fewer than 50. Gazelles are the most likely to be younger than five years of age compared to aforementioned businesses. They are the most likely to operate in the retail sector and the least likely in the manufacturing sector. Most use email to communicate with clients and they are the most likely to maintain company websites. Finally, they are the most likely to introduce new or improved products, services, and methods, invest in R&D, and to formally training employees. Gazelles are the most likely segment to export and more than half operate in Phnom Penh.
According to WBES 2016, women-owned firms (>50% women ownership) constitute about 43% of all small and medium sized firms, however this was higher for smaller firms, and lower for medium sized firms in our segmentation (Figure 8). Small and medium firms with a female top manager are more common and accounted for a small majority of 53% across all sub-segments. On these narrow WBES metrics, Cambodia performs well against other countries in our #CTGMekong study. Further discussion on the characteristics of women owned and managed SMEs are included throughout the report, and also in sections on Human Capital and Entrepreneurial Culture.

Figure 8: Cambodia SME sub-segments by gender of ownership, 2016

4. Cambodia’s Entrepreneurial Ecosystem

Our description of the entrepreneurial ecosystem follows the ANDE categories, grouped into three sections: Enabling Environment (comprising of infrastructure, policy, markets, human capital, R&D and culture), Finance (credit and risk capital) and Business Support Services.

Entrepreneurs and start-ups are not merely victims of a challenging ecosystem, or beneficiaries of a benign one, but also influencers for positive change. Throughout the course of this study, we encountered numerous of examples of innovation from individuals, SMEs and corporations, all finding opportunities within the ‘gaps’ in the Cambodia ecosystem. These examples are scattered throughout each section of the report.

The countries in the #CTGMekong group are very different from one another, and consequently, comparison one to another is not always appropriate. In terms of ‘entrepreneur ecosystem’, Cambodia is far more developed than Lao PDR, far less than Vietnam; and so, for occasional comparison, we focus on Myanmar, acknowledging the substantial differences in size, natural endowments, political economy and other factors.

An analysis of SMEs’ self-reported constraints by sub-segment is in Figure 9, as defined by the WBES survey. Regulatory factors such as ‘practices of competitors in the informal sector’, ‘tax rates’, ‘corruption’ rate relatively highly compared to infrastructure (‘transport’, ‘electricity’) and ‘access to finance’.

Note: Female-owned defined as a business with at least 50% female ownership
Source: EMC analysis based on Enterprise Surveys http://www.enterprisesurveys.org/, The World Bank
4.1 Enabling Environment

Cambodia’s ‘enabling environment’ in which SMEs operate reflects many challenges common to emerging economies, including a lack of skilled human capital, limited R&D resources and weak infrastructure. Despite a long history of market-based economic governance, Cambodia has struggled to consistently implement regulatory reform, and in the past five years, the business climate has shown little improvement, as measured by World Bank Doing Business Index.

Infrastructure

Infrastructure is evaluated through existing transportation systems and facilities, electricity, telecommunications and other utilities. These areas appear to have progressed in Cambodia, and while transport and electricity are still significant constraints among the SME sub-segments, they are not highest rated: 5th and 8th respectively.

Physical (or ‘hard’) infrastructure development in Cambodia has been relatively weak and thus disadvantages sectors that are heavily reliant on physical trade. Amongst these, of particular relevance to most low and medium-growth SMEs are tourism and agriculture.

The Sihanoukville port is a key logistics hub for Cambodia, and both China and Japan are supporting its development, via investments in the port authority (Japan, 2017) and container terminal (Japan, 2017) and development of the nearby Sihanoukville Special Economic Zone (China-Cambodia).

Access to electricity has improved significantly, and Cambodia has become nearly self-sufficient in power generation and consequently features 8th on the list of WBES constraints. However, it is still expensive – the average tariff for large industrial consumers was at least 35% higher than in Thailand, Myanmar, or Vietnam.7

Private sector investment has driven rapid development of high-speed cellular networks and internet access and there is national cellular coverage, a significant portion of which is 4G. Consequently, Cambodia enjoys 50% Internet penetration and 181 cellular subscriptions per 100 people, as many individuals own multiple numbers with separate carriers.8

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6 Businesses were asked which challenge from the list reflected their biggest constraint. We ranked the constraints here according to the frequency with which they were cited across the sub-segments.


8 Presentation by We Are Social Singapore, January 2018.
This has benefited the firms exposed to digital transactions, in particular via smartphone. Domestic innovation followed the same trajectory observed in more developed economies: domestic ride-hailing services (ExNet Taxi, PassApp) were launched prior to the arrival of familiar regional services, such as Grab, which entered the market late 2017. The domestic fintech sector has grown rapidly, though most activity is concentrated in consumer oriented payment and cash transfer services (Wing, PiPay, Ly Hour PayPro, PayGo, BongLuy), and relatively little in business-to-business transactions.

**Policy**

Cambodia’s market-based, export oriented economic policy is attractive to foreign investors who face few restrictions on domestic business ownership. They can easily invest and repatriate money, with few capital controls, and no exchange rate exposure due to a dual currency system (USD and Cambodia Riel). The state accounts for a relatively low proportion of GDP and investment, with fewer state-owned enterprises than other counties in the Mekong region. Similarly, the Royal Government of Cambodia (RGC) is not highly involved in service delivery, though there are some ‘catalytic’ initiatives, discussed in sections 6 (National Innovation Centre) and 5 (Rural Development Bank).

In recent years, Cambodia has benefitted from substantial Chinese investment, and can potentially access the Chinese market, due to China’s policy of outward investment and Cambodia’s diplomatic support for China. China is the largest source of foreign direct investment (about US $1 billion annually from 2013 to 2017), the largest source of bilateral aid (US $275 million of $732 million total) and holds half of Cambodian’s external debt. This is manifested in a strong presence across the economy: one-third of factories in the garment sector are Chinese owned, China is the largest source of tourists (20% total), and the largest foreign investor in infrastructure development. Proponents of this orientation towards China point to Cambodia’s need to improve infrastructure (as discussed in Section 4.1: Enabling Environment – Infrastructure) and the need to diversify export markets beyond EU and USA.

However, the Government has struggled in the last five years to implement an efficient bureaucratic system necessary to operationalise its supportive pro-market policies, and consequently World Bank Doing Business rankings have shown little improvement.

<table>
<thead>
<tr>
<th>COUNTRY/YEAR</th>
<th>2013</th>
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<th>2017</th>
<th>2019</th>
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<td>135</td>
<td>131</td>
<td>138</td>
</tr>
<tr>
<td>Lao PDR</td>
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<td>148</td>
<td>139</td>
<td>154</td>
</tr>
<tr>
<td>Myanmar</td>
<td>-</td>
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<td>Vietnam</td>
<td>99</td>
<td>78</td>
<td>82</td>
<td>69</td>
</tr>
</tbody>
</table>

Source: World Bank, 2018
However, improvements in policy and regulation are important to SMEs in Cambodia: practices of competitors in the informal sector; political instability; inadequately educated workforce; tax rates and corruption account for five of the top six constraints identified by SMEs in the WBES. This is consistent with Key Informant Interviews (KII) who identified improved policy support as the second most important initiative to improve the entrepreneurial ecosystem and startup birth rate.\(^9\)

In so far as WBES includes registered firms only, it is expected that these will be particularly sensitive to competition from unregistered and untaxed competitors. The risk to the economic development of Cambodia is that too many entrepreneurs only see disincentives to formalization, with consequent challenges to tax collection as well as public and private sector investment.

### 4.2 Markets

#### Export Markets

As a relatively small economy, Cambodia lacks large domestic markets for many goods and thus has favoured an export-orientated growth policy, which is reflected in a relatively high proportion of exports as % of GDP, compared to Lao PDR and Myanmar.

![Figure 11: Exports of goods and services as a % of GDP, 2016](source)

This is relevant to growth oriented businesses who may seek opportunities to directly export or participate in an export-oriented value chain. In the #CTGCambodia workshop, entrepreneur- participants identified access to overseas clients, suppliers and business partners as a key challenge.

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\(^9\) Policy support included: taxation, registration, intellectual property, fair competition, stability, startup-focused policies.
As part of its membership of ASEAN and associated regional free trade agreements, Cambodia’s local products can be exported to the ten-member countries with zero import tax, and those benefits are extended to Australia/New Zealand, China, India, Japan, and the Republic of Korea. Cambodia also has preferential access to major protected markets such as the United States (under Generalized System of Preferences, GSP), and the European Union (under ‘Everything But Arms’, EBA), which are its first and second largest export markets respectively.

Cambodia’s export potential, however, is hampered by a variety of factors. These include a lack of a domestic manufacturing and processing companies that can produce exportable, intermediate, or finished goods at sufficient quality levels; domestic capacity to address technical issues that prevent market entry; and the existing export infrastructure.

These challenges are particularly relevant to the agriculture sector, in which Cambodia has the potential to produce a large exportable surplus. However, in addition to the above challenges, processors face low farm productivity and competition for raw material from Vietnamese and Thai traders operating across Cambodia’s land borders. Conditions are better in the tourism sector, where Cambodia is enjoying significant growth, particularly from China, which has adopted associated agreements to develop mass market infrastructure. Exports are strong in the garment sector, however, the industry focuses on ‘cut-make-trim’, which is low-value added and typified by weak backward linkages to local SMEs.

**Domestic Markets**

Many SMEs are found in sectors that have low barriers to entry and few challenges from the informal sector that suffers significant competition. In particular, finished goods markets are dominated by foreign imports due to the absence of competitive local manufacturing and a large amount of grey market imports. This environment contributes to low margins and growth prospects for many firms in the domestic market.
Consequently ‘practices of competitors in the informal sector’ – whose participants do not pay profit or salary taxes, social security contributions or collect VAT – is the highest rated constraint in our WBES sub-segments, most notably by Gazelles. Increasing foreign competitors in the domestic market was cited as a major threat to domestic startups and SMEs in KII with experienced and successful entrepreneurs.

Effective strategies for domestic success have been to target a large domestic segment with a new business model or customizations to the local market that are difficult for foreign firms to replicate. Otherwise, domestic entrepreneurs have seen success by acquiring an international franchise that offers protection and mitigates their challenges in relation to ‘entrepreneurial capabilities’.

The finance sector currently proves fertile ground for some technology start-ups, due to its size and vibrancy. BanhJi and Morakot Technology are two examples of successful ICT startups targeting financial with cloud-based services. Both firms have participated in the Startupbootcamp FinTech Singaporean programme10—the first and second Cambodian firms to do so.

- **Morakot Technology (2014)** developed an affordable cloud-based core banking system for Cambodian MFIs, following the founders’ experience implementing international systems in Cambodia. Morakot reports 26 clients (December 2017).

- **Banhji (2013)** is an online accounting platform with 1500 MSME throughout Lao PDR and Cambodia. Banhji is collaborating with financial institutions (FI) and other fintech startups on credit digitisation to improve SME access to cash and financing.

Most recently, Clik, a fintech start-up in the Cambodian payments sector, closed US $2 million funding seed funding, mainly from international venture capital funds, marking a significant milestone in fintech development and regional tech investors’ interest in the Kingdom.

An important feature of the Cambodian economy is that entrepreneurs have opportunities to invest and innovate in sectors, such as piped water, electricity, education, where in other countries the Government would be a major player.

- **vKirirom** is a social entrepreneurship startup (2014) raised US $2.9 million from foreign investors in 2016 to develop a resort city along with Kirirom Institute of Technology, a boarding-style university that focuses on software development.

### 4.3. Human Capital

Two-thirds of Cambodia’s population is of working age – 10 million of an estimated 15 million people. However, while demographics favour a large, young workforce, relatively weak and imbalanced education systems contribute to low academic attainment at all levels. This is a challenge to developing a competitive entrepreneurial class and SME workforce, and consequently across our subsegments, inadequately educated workforce was ranked third among challenges, after ‘informal sector’ and ‘political instability’. This reflects our interviews with Cambodian entrepreneurs and service providers, who ranked ‘acquiring and retaining human resources’ fourth among areas needing improvement, after ‘strategic planning’, ‘acquiring finance’ and ‘business operations’. Similarly, a Cambodia Investment Club (CIC, discussed further in Section 5: Credit, Risk Capital and Business Support Services subsections) survey of its membership, identified ‘human resources’ as their third greatest concern, behind ‘strategic planning’ and ‘access to finance’.

For SMEs, the challenge is most acute as firms outgrow owner/family-managed models and formalise their structures into line departments. Consequently, Gazelles rated the lack of educated human capital as a major or severe constraint more than did SGBs, SHBs and MGBs. WBES data show that only around 50% of SME employees in Cambodia have completed secondary school, though the rate is highest for Gazelles and SHGs (Figure 13).

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10 Startupbootcamp FinTech is a global accelerator dedicated to financial innovation, which provides international startups funding, mentorship, office space and access to a global network of corporate partners, mentors, investors and VCs.
Enrollment rates in secondary and tertiary education are weak (Figure 14). Moreover, many at university have overwhelmingly favoured the social sciences, and TVET as a percentage of secondary enrolment is just 2.3%, leading to a relative lack of graduates in technical disciplines.

The Government has committed to improving the quality of education. Since 2014, the Ministry of Education, Youth and Sport (MoEYS) clamped down rigorously on corruption in school, leaving examinations and improving the regulation of private universities. MoEYS supports Teach for Cambodia, a social startup founded in Cambodia and affiliated with the global Teach For All network, which aims to attract the most promising graduates to two-year fellowships in public schools. It will place its first cohort in 2018.

Despite high levels of women business ownership and labour force participation, Cambodia ranks lower than Lao PDR, Myanmar and Vietnam in the World Economic Forum Gender Gap World Report 2017, with weaknesses in women’s enrolment levels at secondary and tertiary education, overall literacy rates and representation in ‘professional and technical workers’. It appears that women may have less access to professional and technical work because they do not access tertiary education at the same rate as men.
4.4 Innovation and Research & Development

There is a dearth of public and private research centres and laboratories in Cambodia.

The Cambodian Agricultural Research and Development Institute (CARDI) exists in its current form since 1999 and is a semiautonomous government research agency focusing on agriculture, environmental sustainability and technology utilization.

The Institute of Technology of Cambodia (ITC) has existed in its current form since 1993, as Cambodia’s premier institute of higher education for engineering sciences. Its current research programmes focus on urban management, waste water, hydrology, irrigation, food safety, air quality, new energy, robots, and information and communications technology.

In 2014, the RGC established the National Institute of Posts, Telecommunications, and Information Communication Technology (NIPTICT) under the supervision of the Ministry of Posts and Telecommunications (MPTC) to address ICT research and training. It granted an US $8 million research fund financed from telecom sector revenues, of which US $4 million is allocated to an ICT Innovation Center that broke ground in March 2018.

SMEs in Cambodia are generally innovative compared to their counterparts in #CTG Mekong, according to WBES data. In particular, high growth businesses – SGB, SHG and Gazelles – are more likely than most countries to have introduced a new or improved product or service in the past three years, or to have spent on R&D.
The relative sophistication of Gazelles in Cambodia becomes clearer when compared to Myanmar across a range of measures.

**Gazelles in Myanmar and Cambodia**

Gazelles in Cambodia differ in many respects from those in Myanmar. In Cambodia, Gazelles are likely smaller, and more likely to have foreign or female ownership, and be female-managed. Workers are more educated than those in Myanmar, and their employer is more likely to provide them with formal training. More of Cambodia’s Gazelles are exporters, and they tend to be more innovative and tech savvy.
4.5 Entrepreneurial Culture

Entrepreneurial culture was not among the most pressing issues raised by stakeholders or entrepreneurs themselves, however KII responses identified an improving entrepreneurial culture, and an increasing acceptance among youth of entrepreneurship as a valid career path. Investors identified the emergence of a ‘Cambodian Entrepreneurial Class’ of successful young professionals and startup founders, as represented by a variety of entrepreneur-focused business associations.

Chief among these are the Young Entrepreneur Association of Cambodia (YEAC, est. 2009), the Cambodian Investor Club (CIC, est. 2013) and Junior Chambers International (JCI, est. 2012). The members of these organizations are typically connected through multiple other professional, educational and social networks. Other SME representative organizations with broad-based membership include the Federation of Associations of SMEs of Cambodia (FASMEC, est. 2010) and the Cambodian Women’s Entrepreneur Association (CWEA, est. 2011). All these organizations have distinctive roles: YEAC focuses on advocacy and policy, JCI on social initiatives, CWEA on women-related entrepreneur activity and FASMEC represents national networks of traditional SME. YEAC and JCI run the annual Cambodia Young Entrepreneur Awards. Collectively, membership comprises of owners of existing businesses and career professionals. Therefore, they are more likely to be active across a variety of sectors and embedded in the national political economy.

Aside from current association memberships, young professionals and entrepreneurs may share connections across universities, scholarship programmes and major employers. Amongst these, Cambodia’s longest running ‘entrepreneurship’ programme – founded 20 years ago at the National University of Management (NUM) – has graduated many established young entrepreneurs. Other education establishments include the Chea Sim University of Kamchaymear (formerly Maharishi Vedic University, MVU), the Royal University of Law and Economics (RULE) and overseas scholarships with large active alumni networks (Australia, France, Japan and USA).

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11 JCI was active since 2010 before becoming a full affiliate of the Junior Chambers International Network.
There is a significant number of innovation and inspiration events to popularise a startup culture amongst a secondary and tertiary students and recent graduates. Much of this activity centres around ‘hubs’ that have generate recent additions to the ecosystem, and promote technology and social impact oriented entrepreneurship. KII within this youthful target group indicate a concern that they are not ‘taken seriously’, and consequently spend time and effort persuading their families to bootstrap their business ideas and face pressure to settle for employment quickly. Some KII indicated this is particularly challenging for young women.

The Hubs and the Business Associations have a different culture, and according to several KII, collaboration between the two spheres of influence has been sporadic. As summarised by one ecosystem builder: “Hubs are driven by a different crowd. Younger Cambodians, more expats, different culture and way of doing things – they <Business Associations> meet in hotels, we meet in scrappy little venues”.

Women entrepreneurs in Cambodia are more likely than male counterparts to face barriers dealing with bureaucracy. Adult women in general are more likely to be illiterate and less likely to have completed primary and secondary education, and therefore on average may face greater challenges registering a business or obtaining and interpreting business regulations and information. The underrepresentation of women in senior positions (‘Legislators, senior officials and managers’, Figure 15) and social norms can make it more difficult for women to interact with the men that most frequently occupy those positions. Also, women are time-poor due to childcare and household obligations, and married women may face greater barriers obtaining credit if family assets are not registered in both partners’ names. These additional challenges may present a greater incentive for women-owned businesses to remain informal, and therefore smaller, compared to male-owned businesses.

5. Finance

Despite its small economy, Cambodia has a strong financial services industry, relative to Lao PDR and Myanmar, due to a regulatory environment conducive to competition, innovation and domestic and foreign investment in the sector. However, on the demand side, many SMEs lack necessary assets to secure credit, have low levels of financial literacy and business planning, as well as low levels of business and tax registration. This makes them risky propositions for financial institutions (FI) seeking loan repayment and investors seeking significant capital appreciation.

Consequently, there are still many gaps in the provision of credit to SMEs, as illustrated in Figure 20. Cashflow-based lending is still rare, due to lack of SME and FI capacity as well as insufficient credit information. Most credit is secured against land and real estate, and financing movable and intangible assets is difficult. Longer term loans can be difficult due to FIs’ liquidity, and there are no credit enhancement products to help SMEs who lack appropriate collateral. There is an absence of early stage risk capital to HGBs.
<table>
<thead>
<tr>
<th>SUB-SEGMENT</th>
<th>KEY CHARACTERISTICS</th>
<th>FINANCIAL CHALLENGES</th>
<th>FINANCIAL NEEDS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small Growing Businesses</td>
<td>• Business often unregistered</td>
<td>• Credit secured against personal assets is unregistered</td>
<td>• Short term working capital loans and overdraft facilities</td>
</tr>
<tr>
<td>5-19 employees</td>
<td>• Many similar businesses in traditional sectors</td>
<td>• Highly unpredictable short term cashflows – revenues concentrated</td>
<td>• Credit enhancement</td>
</tr>
<tr>
<td>10-20% revenue growth</td>
<td>• Business owner fulfils most managerial tasks</td>
<td>• High risk of business failure - competition, changes in the market, small size</td>
<td>• Financial and business planning services</td>
</tr>
<tr>
<td>$5,000-$10,000 annual turnover</td>
<td>• Often employ friends and family members</td>
<td>• Lack of personal assets (in particular among women)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Weak financial and business planning</td>
<td>• Lack of access to finance (in particular among married women)</td>
<td></td>
</tr>
<tr>
<td>Small High Growth Businesses</td>
<td>• Small size, strong growth prospects</td>
<td>• Credit secured against personal assets is unregistered</td>
<td></td>
</tr>
<tr>
<td>5-19 employees</td>
<td>• Business often unregistered</td>
<td>• Highly unpredictable short term cashflows – revenues concentrated</td>
<td></td>
</tr>
<tr>
<td>&gt;=20% revenue growth</td>
<td>• Business owner fulfils most managerial tasks</td>
<td>• Cashflow requirements increasing rapidly in medium and long term</td>
<td></td>
</tr>
<tr>
<td>$10,000-$50,000 annual turnover</td>
<td>• Often successful business models adapted from abroad</td>
<td>• High risk of business failure - competition, changes in the market, small size</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Often young, well-educated founders</td>
<td>• Challenges assessing credit worthiness</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Moveable financing to increase credit lines</td>
<td>• Long term business loans to finance strategic investment</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Receivables financing to support revenue growth – trade finance, supply chain finance, revolving credit facilities, factoring</td>
<td>• Credit enhancement</td>
<td></td>
</tr>
<tr>
<td>Medium Growth Businesses</td>
<td>• Steady growth, but vulnerable to economic cycles</td>
<td>• Business lacks sufficient collateral to secure credit lines</td>
<td>• Risk capital</td>
</tr>
<tr>
<td>20-99 employees</td>
<td>• Often family businesses, relatively old Traditional sectors such as hospitality, retail, and agriculture</td>
<td>• Unstable short term cashflows</td>
<td>• Financial and business planning services</td>
</tr>
<tr>
<td>1-20% revenue growth</td>
<td>• Weak financial and business planning</td>
<td>• Cashflow demand increasing slowly in medium and long term</td>
<td></td>
</tr>
<tr>
<td>$50,000-$500,000 annual turnover</td>
<td>(wide range)</td>
<td>• Challenges assessing credit worthiness</td>
<td></td>
</tr>
<tr>
<td>Gazelles</td>
<td>• High growth rates</td>
<td>• Business lacks sufficient collateral to secure credit lines</td>
<td>• Moveable financing to increase credit lines</td>
</tr>
<tr>
<td>20-99 employees</td>
<td>• Respected businesses in the community</td>
<td>• Unstable short term cashflows</td>
<td>• Receivables financing to support revenue growth – trade finance, supply chain finance, revolving credit facilities, factoring</td>
</tr>
<tr>
<td>&gt;= 20% revenue growth</td>
<td>• Well-connected and often wealthy entrepreneurs</td>
<td>• Cashflow demand increasing rapidly in medium and long term</td>
<td>• Long term business loans to finance investment</td>
</tr>
<tr>
<td></td>
<td>• Limited liability firms</td>
<td>• Challenges assessing credit worthiness</td>
<td>• Credit enhancement</td>
</tr>
<tr>
<td></td>
<td>• Moveable financing to increase credit lines</td>
<td></td>
<td>• Risk capital</td>
</tr>
<tr>
<td></td>
<td>• Receivables financing to support revenue growth – trade finance, supply chain finance, revolving credit facilities, factoring</td>
<td></td>
<td>• Financial and business planning services</td>
</tr>
<tr>
<td>Tech Start-ups</td>
<td>• High growth rates</td>
<td>• No viable collateral for business loans</td>
<td>• Risk-friendly seed capital (tech orientated angels and VCs)</td>
</tr>
<tr>
<td>$5,000-$10,000 turnovers</td>
<td>• Predominately digital services / mobile</td>
<td>• Young owners do not have personal assets to secure loans</td>
<td>• Financial and business planning services</td>
</tr>
<tr>
<td></td>
<td>• High failure rates – ‘winner takes all’</td>
<td>• Small sector – angels and VCs lack diversification options</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Business models highly replicable</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Often young, well-educated founders</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Phnom Penh focused</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Very small sub-segment</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
5.1. Credit
Cambodia is ranked 20th in the world for ‘credit’. By far, this is Cambodia’s strongest ‘Doing Business’ ranking – across all 8 parameters it averages only 135 of 190 economies globally – and is comfortably ahead of regional peers – Lao PDR 79, Myanmar 177 and even Singapore at 29. The high ranking in credit attainment is attributable to Doing Business emphasis on two key institutions: the Credit Bureau of Cambodia (2012,CBC) and the Law on Secured Transactions (2007).

Regardless of this extremely high ranking, there is significant room to improve SMEs’ access to credit. The great majority of entrepreneurs and business service providers rated entrepreneurs’ capability to ‘acquire finance’ as needing improvement 12, second only to ‘strategic planning’. This also corresponds to the Cambodia Investment Club (CIC) internal survey of its members.

Cambodia has a competitive and diverse financial services industry and has no restrictions on foreign-owned banks and MFIs. With the exception of one state-owned bank, the Rural Development Bank, and a reinsurance company that is 80% state-owned, the finance industry is owned and operated by the private sector. The CBC is illustrative of this approach: CBC was motivated by Royal Government of Cambodia, is chaired by the Director General of the industry regulating National Bank of Cambodia (NBC), owned 49% by domestic financial institutions and 51% by international firms specialising in credit information.

Competition and foreign expertise have helped the financial services sector grow. In 2016, there were 36 banks, 15 specialised banks, 7 deposit-taking microfinance institutions (MFIs), and 62 other MFIs (lending only) under domestic and foreign ownership operating in the Kingdom. This expansion of FI networks places Cambodia ahead of other #CTGMekong economies, in terms of branch coverage, with approximately 1 MFI or Bank branch per approximately 5,000 adults.

The growth of the financial sector is also reflected in the increase of bank credit to the private sector as a percentage of GDP, which has risen from 6% of GDP in 2001 to 86% of GDP in 2017. 13 This is comfortably ahead of Lao PDR (47.5%) and Myanmar (23.4%) but less than Vietnam (130.7%).

Many FIs do not lack liquidity to extend credit, and there are no systemic regulatory constraints that prevent FIs from attracting deposits, raising capital overseas or facilitating investment. However, there are some concerns that a ‘bubble’ in the real estate sector may have reduced availability of credit to SMEs: growth in credit to construction and real estate sectors has outpaced credit to other sectors for several years, according to the International Monetary Fund. According to some KII, potential angel investors are much more likely to invest in real estate rather than in early stage SMEs, which are considered relatively risky.

**SME Lending**
In Cambodia, MFIs’ and Banks’ credit to SMEs overlap, and MFIs are a viable source of SME loans: according to MFI interviewers, SME loans were available up to US $70,000 to US $200,000, with 12-18% per annum at tenors, up to 4-7 years, depending on creditworthiness of the borrower. Collateral is still a common requirement for all lending: of the businesses that had a bank loan or line of credit in 2016, almost 78% required collateral, according to WBES.

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12 The capability ‘acquiring finance’ was rated as needing some, significant or very significant improvement by 85% of the entrepreneurs and business service providers.
13 International Monetary Fund accessed at https://data.worldbank.org/indicator/
MFIs have much larger branch networks than banks, and so it is easier to access their services. Of the 783 bank branches, 420 belong to ACLEDA and Sathapana, both of which used to be MFIs, and excluding these, the average network of banks is only 10 branches. However, in general MFIs do not provide more complex working capital products to firms, such as trade finance, overdraft facilities and revolving credit.

However, analysis of WBES data indicates registered SMEs lack appetite for credit in Cambodia in general. Across all sub-segments, SMEs don’t use much credit, and if they do, they will use it for working capital and not for investment, which they finance internally. This is consistent with analysis by World Bank Group, which indicates that Cambodia has a low level of capital formation relative to peers, which limits firms’ productivity and growth. The biggest reason for not applying for a loan is ‘no need’. For SMEs in general, ‘product’ reasons (rate, collateral, size of loan, maturity) and ‘service’ (process is too complex) are much less important, and approximately equal. This is reflected in SME accounting practices: SMEs do not maintain reliable financial statements. In Cambodia, according to the Cambodian Inter-censal Economic Survey 2014, only eight micro and small businesses kept a balance sheet or income statement, out of a total 503,856 entities. Only 3% of medium-sized entities had a balance sheet or income statement.14 15 Audited accounts are even less common.

Growing businesses seem to have more interest in financial services than slower growth SMEs. ‘Growing businesses’ (that is, all small to medium, with growth rates above 10%) are more likely than other SMEs to have a loan or line of credit. Small high growth and all medium businesses more likely to use banks and/or NBFI to finance working capital.

Growing businesses also have different reasons for not applying for a loan: Gazelles are much more likely to cite ‘size of loan and maturity’ (35%) and SGB and SHG are more likely to cite ‘interest rate not favourable’ for not applying for a loan, whereas ‘procedures are too complex’ is the barrier most cited by smaller low-growth businesses, like Necessity Entrepreneurs (16%) and Successful Necessity Entrepreneurs (26%).
Women-led Gazelles are even more likely to cite product-related reasons – and in particular ‘size or maturity of loan insufficient’ – for not applying for a loan. This is not because they had no need: women-managed gazelles cited this far more frequently (71%) than all Gazelles (35%). The pattern is similar for women-managed SHGs compared to all SHGs, though in this case ‘interest not favourable’ is most cited reason (35%).

However, according to our interviews with growing SMEs, many still feel themselves ill-equipped to ‘acquire finance’, rating this capability second most in need of improvement – after ‘strategic planning’. This is consistent with CIC internal survey of members.

**Support for SME Credit**

Government is not directly involved in provision of credit to SMEs, other than relatively small agribusiness programmes via the state-owned Rural Development Bank (RDB). There are no credit guarantee schemes to provide SMEs with credit enhancement.

There are a range of development finance sponsored programmes to encourage FIs to direct credit to specific SME sectors (such as renewable energy, water, agriculture), or SME-related themes (such as women-led small business) that are particularly challenged by lack of credit and have high social benefits (such as access to clean water, electricity in rural areas or reduction in greenhouse gas emissions). The most popular approach has been to establish on-lending facilities with a FI partner. Portfolio guarantees have proven a less popular approach, even though the largest Cambodian FIs do not lack liquidity per say. Under either type of scheme, the DFI will share the risk of default with the FI. The other features of these programmes are to encourage longer term loans (some capital-intensive sectors require to borrow funds more than five years) and to improve FI credit assessment capacity. In Cambodia, these programmes tend to avoid explicitly subsidising the interest rate, to avoid distorting the wider SME credit market and encourage sustainability.

According to Key Informant Interviews, some FIs have found development finance sponsored programmes are resource intensive to implement; additional overhead; and lengthy DFI approval and disbursement cycles. As a result, though it is considered ‘best practice’ for each programme to have more than one FI partner, programmes typically have found this difficult to achieve.

There are also several development aid-sponsored private sector development programmes, which incorporate matching grants (non-returnable) and/or technical assistance to ‘seed’ private sector investment in specific sectors. These are typically temporary, sector specific and implemented outside the financial services structure.

**Gaps**

In Cambodia, the financial sector is relatively large, sophisticated, competitive, and in general, FIs have access to liquidity to lend to SMEs. From WBES data and interviews, it seems a large proportion of SMEs remain ill equipped or uninterested to access credit; however growing businesses are more likely to consider credit.

Absent standard verifiable accounts, it is very difficult for FIs to assess credit worthiness. There is a lack of third party financial information to inform credit assessment of firms. The CBC currently registers loans to individuals, not to firms, and primarily consists of MFI and Bank credit data.

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16 For example, Global Climate Partnership Fund (GCPF) and Prasac MFI, in energy efficiency and renewable energy.

17 US Government Development Credit Authority (DCA) recently implemented a portfolio guarantee scheme with 3 MFIs, targeting agricultural sector.

18 For example, Dept of Foreign Affairs and Trade, Australia (DFAT) ‘Investing in Infrastructure’ (3i) programme.

https://www.acledabank.com.kh/kh/eng/md_ln20161101
Accessed 24 January 2018
The majority of SMEs are not incorporated and not registered with the taxation authorities. Even SMEs that are tax registered were assessed on an estimated regime – essentially an arrangement with the tax inspector based on estimated turnover, rather than standard verifiable accounts.

In the event of default, enforcing commercial contracts is expensive and unpredictable. This is reflected in Cambodia’s very weak global ranking in ‘enforcing contracts’, 179 of 190 economies. In Cambodia, most people strenuously avoid going to court.\(^\text{20}\)

To mitigate FI default risk, loans are secured against collateral. Land and real estate are overwhelmingly preferred, which is very challenging to growing firms that do not own these assets in sufficient quantity relative to their financial needs. Small loans, as typically required by small business, can be expensive to secure against land, when a hard title is required.\(^\text{21}\) Also, a small business or business owner that is fortunate to possess a relatively large parcel of titled land is probably reluctant to pledge it as security on a much smaller loan.

Firms that have movable or intangible assets find it difficult to use them as collateral for credit. Although there is a Secured Finance Law since 2007, it is administratively complex, and therefore only economical for banks and firms that require significant amounts of credit.

In summary, the challenges of assessing creditworthiness (asymmetric information) constrains credit firms whose major productive assets are not land, asset-light businesses in general (service orientated businesses), or trading firms with large inventories (agriculture for example).

**Early Signs of Change**

Notwithstanding the above, there are interesting initiatives, by established FIs, innovative startups and the Government to reduce transaction costs, mitigate risk of lending to SMEs and to innovate new products.

**Formalising Small Businesses**

The Royal Government of Cambodia is undertaking some steps to improve credit information and business formalisation. The Credit Bureau Cambodia plans to extend the loan registry to cover firms as well as individuals in 2018. The Government is introducing a new SME tax regime, which requires SMEs to produce formal financial accounts, while phasing out the ‘estimated regime’. The General Department of Taxation (GDT) offers some preferential treatment for small businesses\(^\text{22}\), and an emphasis on VAT registration is forcing established firms to adopt formal accounting systems, according to KII with suppliers of accounting software.

BanhJi, a Cambodian startup (2014) has developed a localised, cloud-based SME accounting platform that is free to use. As of mid-2018, it had 1,500 registered SME clients in Cambodia. Similarly, KIU, a Vietnam-founded startup with operations in Cambodia, provides an online ERP solution to help firms formalise resource planning, sales and service delivery, customer relationship management, accounting and finance and human resource management. In both cases, the data produced by these systems may be used by commercial banks and MFIs to enhance SME credit scoring, reduce risk and improve the supply of credit. Both BanhJi and KIU have been supported by ADB Mekong Business Initiative.

\(^{19}\) The CBC excludes following sources; retailers, credit card issuers, trade creditors, courts and utilities.

\(^{20}\) An interesting feature of Cambodia’s judicial system is that in most cases the presiding judge does not have to publish a legal opinion.

\(^{21}\) Cost of acquiring hard title is US $5,000 according to KII.

\(^{22}\) Simplified accounting procedures, adjustments to the annual progressive Tax on Profit rate thresholds for Small Taxpayers, two-year tax on profit exemptions for voluntary registering small business. (Sub-Decree No. 17 ANK1.BK)
Improving SME Access to Finance Nationally

The largest deposit-taking MFIs are establishing SME lending operations, which will increase access to credit and financial services in the provinces, which should benefit micro and small businesses.

• Deposit-taking MFIs represent almost 80% of the sector’s total assets and more than 700 branches.
• MFIs in general are more liquid: they are popular with overseas lenders, investors and depositors, due to strong corporate governance, and higher rates on savings deposits.
• MFIs are less likely to be exposed to lending to large firms and major real estate projects. Whereas for Banks, SMEs represent a less attractive client segment, for MFIs, SMEs are potentially more attractive relative to rural households.  

Also, some major MFIs with large branch networks are increasingly transforming into banks, which will enable them to offer a more sophisticated portfolio of services to an SME client base.

Similarly, FIs are adjusting or developing partnerships and products to facilitate lending, particularly in the agricultural sector and for rural small businesses.

Some FI are accepting soft title on land as loan collateral, which makes it easier for small businesses to access smaller loans. Acquiring hard title for land is costly therefore requiring hard title on land as collateral, excludes applicants for smaller loans.

One of those MFIs is currently testing a ‘supply chain financing’ (reverse factoring) arrangement, whereby it extends loans to farmers’ associations and is repaid by the association’s customer, the modern retailer.

Another MFI partners with Tata Group to finance farm machinery, a common ‘moveable asset’ in agriculture. Tata Group mitigates credit risk using remote sensing to assess usage characteristics, in order to avoid both asset-value impairment theft.

The development of the leasing industry and pioneering peer-to-peer lending schemes indicate that fast-growing firms are not as sensitive to the interest rate, as long as they’re getting the right financial product.

Asset-intensive Gazelles benefit from the expansion of leasing operations, despite the relatively high cost (> 20% pa). Leasing doesn’t rely on a secured finance framework, in that the lessor retains ownership of the asset for the duration of the lease, therefore reclaiming the asset entails less exposure to legal risk.

The Cambodia Investment Club (CIC, Figure 22) is implementing uncollateralised peer-to-peer loans for SGB and SHB using their own credit assessment. This ranges from US $10,000 to $200,000, for three months to one year (renewable), with interest charged according to credit worthiness. For illustration, interest on US $10,000 for 12 months ranges from 14.4% (highest credit score) to 24% (lowest credit score), including CIC brokerage fees and interest accruing to the creditors. This CIC service proves profitable: they plan to extend the service to non-members and are developing an online platform to scale the service.

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23 In particular, since the RGC imposed an 18% cap on MFI loans, and due to general concerns that MFIs’ core rural HH market is saturated.
Financial Sector Development Action Plan 2016-2025

The third Financial Sector Development (FSD) Action Plan outlines ongoing plans to “develop a sound, efficient, diversified and inclusive market-based financial system that can broadly fulfil domestic demand for financial services and is able to effectively support sustainable economic growth”. An updated 10-year action plan is issued every five years. The current 2016-2025 edition, developed with support from the Asian Development Bank, contains many initiatives relevant to credit and capital markets to improve SME access to finance, as described in Figure 23. In general, the FSD also seeks to improve financial system resilience to macro-economic shocks and promote governance standards and confidence in the financial system.

Figure 23: Cambodia's Financial Sector Development Action Plan

<table>
<thead>
<tr>
<th>FINANCIAL SECTOR DEVELOPMENT ACTION PLAN 2016-2025</th>
</tr>
</thead>
<tbody>
<tr>
<td>A 10-year Financial Sector Development Action Plan is issued every five years. The current 2016-2025 edition, developed with support from the Asian Development Bank, contains many initiatives relevant to credit and capital markets, to improve SME access to finance. The following table contains a selection of actions, relating to constraints identified in sections on Credit and Risk Capital.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CREDIT</th>
<th>Management to address online registration, privacy Inclusion of sole proprietorships</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Faster cheaper hard land titles</td>
</tr>
<tr>
<td></td>
<td>Amend Law on Secured Transaction Implement secured transaction registry</td>
</tr>
<tr>
<td></td>
<td>Improvements to regulatory framework</td>
</tr>
<tr>
<td></td>
<td>Implement laws and regulation</td>
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<tr>
<td></td>
<td>Adopt new MFI strategy, including service diversification</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>RISK CAPITAL</th>
<th>Management for listing, in particular state-owned enterprises and financial institutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cambodian Stock Exchange (CSX)</td>
<td>Ongoing improvements and incentives to list, in particular state-owned enterprises and financial institutions</td>
</tr>
<tr>
<td>SME listing</td>
<td>Streamline regulations to facilitate SME listing, in particular disclosure Introduce legal and regulatory framework</td>
</tr>
<tr>
<td>Crowdfunding</td>
<td>Grant initial licenses</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>OTHER</th>
<th>Promotion of Riel / eventual de-dollarization</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Develop monitoring and early warning system</td>
</tr>
<tr>
<td></td>
<td>Promote financial literacy in schools and media</td>
</tr>
<tr>
<td></td>
<td>Improvements to regulation of financial intermediaries and service providers</td>
</tr>
<tr>
<td></td>
<td>Strengthen accounting and auditing standards</td>
</tr>
<tr>
<td></td>
<td>Introduction of e-commerce law</td>
</tr>
</tbody>
</table>


5.2 Risk Capital

We identified a current supply of approximately US $70 million risk capital managed in Cambodia. The largest proportion of these funds comes from development finance sources, and consequently, most – though not all – of this capital carries a social impact investment mandate. The largest of these Cambodia-based investment managers have multi-country mandates, reflecting the small size of the domestic market. Private sector fund sources comprise a minority of this total, although this is growing rapidly. These investors are mainly active in seed- and early-stage investing.

Across both groups, deal volume is driven significantly by investment managers with locally based operations – Cambodia-Laos-Myanmar Development Fund II (managed by Emerging Markets Investment Advisors, EMIA24), Insitor Impact Asia Fund (Insitor), Smart Axiata Digital Innovations Fund (Mekong Strategic Partners, MSP), Belt Road Capital Management (BRCM), Cambodia Investor Club (CIC), and Obor Capital – and individual, locally-based

24 EMIA (formerly EMI) shares common ownership with Emerging Markets Consulting
entrepreneurs and angel investors. The majority and the largest of locally-based investment managers are foreign owned and/or managed. Of these, most are relatively recent compared to EMIA (formerly EMI) and Insitor, which have operations in Cambodia for approximately 10 years. However, Obor Capital is a spin-off from an earlier well-established local investment advisory firm (Devenco, 2007) and MSP was established in 2014 by banking executives with years’ experience in the Kingdom and manages the Smart Axiata Digital Innovations Fund (SADIF) since 2017.

Several KII with experienced stakeholders, including investors, indicated that the challenge is lack of investible entrepreneurs and business ventures, rather than lack of available capital. This is less of a problem for investors with a strong track record and local roots, due to lower pipeline development costs.

Figure 24: Investment managers with significant presence in Cambodia

<table>
<thead>
<tr>
<th>MANAGER</th>
<th>PORTFOLIO FIRMS</th>
<th>TICKETS</th>
<th>MANDATE</th>
<th>ACTIVE SINCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emerging Markets Investment Advisors (EMIA)</td>
<td>10</td>
<td>3-7M</td>
<td>PE</td>
<td>2009</td>
</tr>
<tr>
<td>Insitor</td>
<td>4</td>
<td>250K–3M</td>
<td>Impact</td>
<td>2009</td>
</tr>
<tr>
<td>Uberis Capital</td>
<td>6</td>
<td>250K–2M</td>
<td>Impact</td>
<td>2012</td>
</tr>
<tr>
<td>Cambodia Investment Club (CIC)</td>
<td>4</td>
<td>&lt;200K</td>
<td>Flexible</td>
<td>2013</td>
</tr>
<tr>
<td>SADIF (Mekong Strategic Partners)</td>
<td>4</td>
<td>&lt;500K</td>
<td>VC/Digital</td>
<td>2017 (2014)</td>
</tr>
<tr>
<td>Belt Road Capital Management (BCRM)</td>
<td>2</td>
<td>2–7M</td>
<td>PE/Digital focus</td>
<td>2017</td>
</tr>
<tr>
<td>EMIA (Foreign)</td>
<td>1</td>
<td>2–7M</td>
<td>All/PE</td>
<td>2017</td>
</tr>
<tr>
<td>Insitor</td>
<td>2</td>
<td>250K–3M</td>
<td>Impact investing</td>
<td>2013</td>
</tr>
</tbody>
</table>

Tech Startups

There are available grants for tech entrepreneurs to kickstart or validate their ideas through corporate-funded programmes, including Cellcard Lab, SmartStart and Business Model Competition (BMC). Usually, winners receive a grant of US $3,000 to $5,000 to develop the business concept to the next stage.

In 2016, the ADB-supported Mekong Business Initiative (MBI) established the Mekong Angel Investment Network, promoting investment tours for international angel investors across CLMV. By the close of 2017, this had resulted in one co-investment with a domestic angel investor group, Corco Angels in Cambodia. In 2017, Obor Capital made a US $100,000 investment in Camboticket, an online ticketing platform.

A more recent addition is the Smart Axiata Digital Innovation Fund (SADIF) launched mid-2017 and managed by Mekong Strategic Partners (MSP). Smart Axiata is one of the top cellular network operators in Cambodia, owned by Malaysian corporate, Axiata. Ticket sizes are a maximum of US $500,000, although key informant interviews forecast approximately 20 to 30 investments averaging US $250,000 each. To the end of 2018, SADIF had made four investments: Joonak Delivery (last mile logistics), Morakot Technology (IT and financial services), Nham24 (food delivery) and most recently participated in series A funding of Agribuddy (agriculture). Although ticket sizes were not announced, these appear to account for the substantial proportion of publicly announced investment by a domestic investor in tech start-ups.
Belt and Road Capital Management (BRCM) was established late 2016 and aims to invest between US $2 million and $7 million in digital tech orientated firms with proven revenues, operating throughout the Mekong region. To date, they have two portfolio firms based in Cambodia: Digital Classifieds Group (operator of real estate portal, Realesate.com.kh), and Sabay Digital Corporation (online gaming and media).

Overseas, regional and international angel investors and venture capitalists have not been active in Cambodia until recently. 500 Startups made two investments in Khmerload (online media) and Khmerhome (real-estate portal), which share common founders. Most recently during late 2018 Clik, a Cambodian digital payments start-up closed US$ 2.0 million seed funding, and Agribuddy, which networks farmers, agricultural service providers and financial institutions, closed US $2.8 million series A funding. Both funding rounds had substantial overseas investor participation.

**SGBs and SHBs**

By comparison, startups and growing businesses in traditional sectors are funded via friends and family, founders and small loans. In the case of social impact startups, grants and concessionary finance is available from impact investors and development aid-funded programmes.

Cambodia Investment Club was established to make early stage equity investments in members’ startups. CIC is member-owned and raises its investment capital through members’ subscriptions to its own equity. Due to expansion of lending operations (see Credit section) and limited capital, CIC has made three investments, though is currently in the process of exiting one of these and executing another (as of mid 2018).

Obor Capital has a portfolio of two Cambodian SMEs – Khmer Water Supply Holding (piped water) and Bio Organic Fertilizer (bio-fertilizer), in addition to the online ticketing platform, Camboticket (end 2017). Impact Investors, such as Insitor and Uberis, have funding to target SHBs and in some cases, startup ventures, that fit with their social impact and base of the pyramid mandate. Other regional investors and platforms have local representatives to develop and advise on investment pipelines, but deal volume is low.

**Gazelles**

Financing late-stage growth is only directly relevant to a small proportion of SMEs: medium size, high-growth firms with proven business models in need of investments greater than US $1 million.

EMIA is the only frontier market private equity fund manager – with US $65 million under management – that has significant operations in Cambodia. EMIA has been making investments across Cambodia, Lao PDR, and Myanmar since 2009. As of mid 2018, it has a portfolio of ten Cambodian firms across both funds in which it holds a significant minority stake. Aside from Insitor, this is significantly longer than most other groups active in Cambodia. EMIA’s limited partners are exclusively development finance institutions (DFIs); however, the fund managers’ investment mandate does not explicitly target social impact. In Cambodia, the minimum ticket size is now about US $3 million for a ‘significant minority stake’, implying approximate valuation of more than US $10 million per firm.

Insitor and Uberis are market-orientated impact investors with funds under management. Like EMIA, Insitor (fund size undisclosed) has headquartered its operations in Cambodia since 2009 and serves a regional market that includes Pakistan, India, and Myanmar. Uberis Capital has a long track record in Cambodia and also serves Lao PDR, Myanmar and Vietnam.
Gaps

Information

There is a lack of comprehensive, accessible information on investment activity in the Kingdom. Information on investments in Cambodia is not aggregated and publicized by regional platforms, in contrast to Myanmar and Vietnam, which are actively covered by DealStreetAsia, among others. Institutional investors (such as MAIN, SADIF, CIC, Obor, EMIA, Insitor) and their limited partners tend to announce deals on proprietary platforms; however, non-institutional investors typically do not, leading to an underreporting of activity.

Domestic Commercial Capital

Although domestic wealth exists, it is not mobilized for investment in SMEs. This significantly impacts growth oriented entrepreneurs with small businesses, who may be unattractive to foreign capital and investment managers due to small ticket size, relatively high transaction costs and an intolerance for country-specific risk.

There is a lack of domestic angel investment for small growing businesses. Corco Angels – comprised of approximately 10 members – is loosely formalised and has done far fewer joint investments than most of its members have done individually. Rather than a lack of domestic capital, the difficulties of establishing an angel investment network is substantially due to the lack of accelerators and other platforms, which would better assure a sufficient deal flow of investment opportunities (see Business Support Services section).

Cambodian ‘big business’ has not been involved as a corporate investor in Cambodian entrepreneurs and small business. However, key informant interviews with local entrepreneurs indicated that Cambodia’s corporates are not necessarily welcome strategic investors in the younger generation of entrepreneurs due to ‘cultural differences’. Further, there is an absence of domestic legal institutions that can mobilise the population’s savings for domestic investment. The senior board on the Cambodia Stock Exchange has only five firms since inception (April 2012) and has low market capitalisation, valuation ratios and trading volume.

Tech Startups

Seed- and early-stage investors report challenges finding quality entrepreneurs and investment opportunities amongst graduates from the tech and innovation ecosystem. There are likely several reasons for this, discussed in Business Support Services section. Most likely is that much activity in the tech and innovation system is oriented towards first-time, student and graduate entrepreneurs with explicit social impact and innovation mandates, who are unfamiliar to domestic investors and difficult to evaluate.

SGBs and SHBs

There is a significant gap in the availability of risk capital for early stage firms, with the exception of digital tech firms eligible for SADIF investment. Impact investors have both the scale and broad sectoral mandate to address this gap. However, aside from Insitor and Uberis, they lack domestic market operations and struggle to develop deals, particularly for small investment quanta. In general, KII indicate Cambodian entrepreneurs have little knowledge of impact investing.

Gazelles

There are limited options for high-growth medium-sized businesses. Private equity in nearby Thailand and Vietnam view Cambodia as a relatively unattractive market, due to pipeline development costs and small size and unfamiliarity, which limit growth potential in many sectors.

There is a lack of available exits to growth investors, which limits potential for private equity and venture capital markets. The weak performance of the Cambodian Stock Exchange makes ‘going public’ an unattractive exit option for a firm’s owners, and to date, there are no Cambodian firms listed on regional exchanges. As noted above, Cambodia does not draw significant interest from larger overseas private equity. Therefore, for domestic private equity investors, the primary exits are to existing shareholders and regional strategic or ‘trade’ investors – that is, operating companies rather than financial investors – looking to extend their regional footprint into Cambodia via acquisition.
**Signs of Change**

One of the most significant emerging trends is in the mobilisation of domestic capital at all levels of investment ecosystem.

**Tech Startups**

Capital to tech startups continues to grow, in particular from domestic sources. SADIF brought Forte Insurance, Cambodia’s leading general insurer, as a co-investor to its fund. In June 2018, Cambodian tycoon Rithy Sear, founder of Worldbridge Group, announced establishment of Ooctane Cambodia to invest from US $25,000 in startups that have at least a minimum viable product. The startup fund will be initially capitalised with US $5 million and claims up to US $50 million in ‘soft commitments’ from other Cambodian high-net-worth individuals.

**Startups, SGBs and SHBs**

CIC has announced an acceleration programme (‘BIO’) that will target young entrepreneurs in nontech sectors. CIC aims to co-invest with other partners in the accelerated firms. Uniquely, the BIO programme will operate a separate acceleration track to develop Cambodian ‘angel’ investors, thus increasing supply of domestic risk capital to early stage ventures. The Securities and Exchange Commission of Cambodia (SECC) is working on the legal framework for collective investment schemes. This will enable Cambodians to invest in firms via licensed investment managers. CIC is operating under a pilot license.

**Gazelles**

In December 2017, the Cambodia Securities Exchange (CSX) launched a “growth board” targeting SMEs looking for growth capital. Although any SME with a minimum capital of US $500,000 can be listed on the stock exchange, it is recommended that the SME seek to raise at least US $1 million to accommodate all the fees involved in listing. No SMEs are currently listed. In December 2017, the SECC also published a listing rule for corporate bonds in Cambodia, which will allow PE invested firms to refinance and therefore pave potential exit opportunities for their investors.

6. **Business Support Services**

Cambodia’s tech and innovation ecosystem primarily targets youth and social impact but rarely reaches traditional industrial sectors. Most activity is focused in Phnom Penh, though events, rather than programmes, are extended to major provincial capitals. The scene is in itself entrepreneurial and grassroots driven. In general, the government is not an active participant in the provision of Business Support Services and there’s a lack of entrepreneur policy to align interests of all parties. The following table describes key organisations that are providing capacity development programmes directly to entrepreneurs, based on a combination of longevity, variety of services and scale.

<table>
<thead>
<tr>
<th>ORGANIZATION</th>
<th>ORIGIN</th>
<th>MANDATE</th>
<th>ESTABLISHED</th>
</tr>
</thead>
<tbody>
<tr>
<td>SHE Investments</td>
<td>Founded in Cambodia</td>
<td>Women entrepreneurship, all sectors</td>
<td>2015</td>
</tr>
<tr>
<td>Impact Hub</td>
<td>Global network of social impact hubs</td>
<td>Social tech orientated entrepreneurship</td>
<td>2014</td>
</tr>
<tr>
<td>Cambodia Investors Club (CIC)</td>
<td>Founded in Cambodia</td>
<td>Financial services and acceleration, all sectors</td>
<td>2013</td>
</tr>
<tr>
<td>SmallWorld</td>
<td>Founded in Cambodia</td>
<td>Technology start-ups</td>
<td>2011</td>
</tr>
<tr>
<td>Cambodia-Japan Cooperation Centre (CJCC)</td>
<td>International cooperation between governments of Japan and Cambodia</td>
<td>Business services and entrepreneurship, all sectors</td>
<td>Over 10 years</td>
</tr>
<tr>
<td>Social Innovation Lab</td>
<td>Based at National University of Management</td>
<td>Lab space, incubation program</td>
<td>Over 10 years*</td>
</tr>
</tbody>
</table>

Figure 25: Organisations offering startup and acceleration services)
SHE Investments was co-founded by Cambodian and expatriate social entrepreneurs, focusing exclusively on formalising existing women-owned micro, small and medium businesses until they are investment ready. They run incubation and acceleration programmes, some financing activities and the annual SHE Conference, focused on women entrepreneurship.

Impact Hub Phnom Penh is part of the global Impact Hub network and specialises in tech oriented social impact entrepreneurship. They host a wide variety of events and programmes, in conjunction with domestic and foreign private sector and development partners.

SmallWorld is the original technology orientated innovation hub, founded in 2011 by Cambodian entrepreneur and ecosystem builder Rithy Thul. It is credited with assisting several Cambodian software startups in acquiring seed investment from leading investment networks, including Morakot Technology (SADIF), Nham24 (SADIF), Camboticket (Obor Capital) and BookmeBus (MAIN/Corco).

Cambodia Investors Club (CIC) is a member-owned organisation providing credit and investment to SMEs across all sectors. They also provide a range of startup and SME focused business development services, and in 2018 is launching an acceleration programme. CIC and its members are closely networked with membership of YEAC, JCI and the Cambodian entrepreneurial class.

Cambodian-Japan Cooperation Center (CJCC) has been providing a range of capacity development programmes to entrepreneurs and SMEs for more than 10 years, alongside Japanese language and cultural programmes. Aside from a broad range of SME business training, these include biannual entrepreneur startup programmes and most recently a new accelerator programme.

National University of Management (NUM)’s Social Innovation Lab was incorporated in its current form in February 2017, however is the locus of 20 years of entrepreneur development activities at the public university. These include the longest running student-focused Cambodian and regional business model competitions, whose past finalists include many of Cambodia’s notable entrepreneurs. The Lab is launching a Masters in Entrepreneurship and Innovation and is part of the EU-funded South East Asia Social Innovation Network (SEASIN) and other university affiliations.

In addition to the organisations listed above, business associations and other organisations provide a range of supplementary services, including networking events, co-location and advocacy.

Ecosystem and Services
Coworking capacity has increased substantially in recent years and is now offered in approximately 15 locations throughout Phnom Penh and Siem Reap. The providers range from universities (ITC; NUM), bilateral agencies (CJC; Korean International Cooperation Agency, KOICA), civil society and private operators. This capacity caters to domestic entrepreneurs as well as visiting ‘digital nomads’.

There is a great deal of activity to promote entrepreneurship, particularly in the tech startup sector. BarCamp has operated in Cambodia for many years, and currently is held in Phnom Penh and five provincial cities with sponsorship from Smart Axiata. There are many business model competitions and ‘pre-acceleration’ programmes that seek to inspire entrepreneurship, without holding the creation of investible startups as a principle objective. Examples include Business Model Competition & Mekong Business Challenge, SmartStart (Smart Axiata/Impact Hub), SmartSpark (Smart Axiata/Impact Hub), Toyota Business Challenge (Toyota/Impact Hub) and WeStartup. Whilst corporate initiatives would clearly desire commercial outcomes, corporate social responsibility and social benefit outweighs their profit-seeking aspirations.

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There have been four acceleration programmes in the past two years that aim to matriculate investible or financeable businesses. These programmes are recent, and consequently, the number of graduates is relatively low. However, 2018 brought two new acceleration programmes, which will increase the number of graduates in later years.

The longest running is SHE Accelerator Programme, which began in 2015, and focuses on existing women-led micro and small businesses in traditional sectors. EPIC – implemented by Impact Hub with funding support from Development Innovations – is tech and social impact oriented, and works with startups from ideation to product launch over a 12-month programme. MIST (Tourism) and MATCh (Agritech) are CLMV tech-oriented accelerator programmes offering two tracks: for established overseas startups seeking marketing entry and partnering opportunities; and for early stage domestic startups. (The figures below are for Cambodian start-ups that entered the MIST and MATCh programmes respectively).

In addition to the above, two accelerator programmes are commencing in 2018. The Cambodia-Japan Acceleration Program (CJAP) focuses on early stage SGBs, post revenue ventures, with a scheduled three months acceleration (10 ventures) followed by three months fundraising, including crowdfunding in Japan (3 ‘shortlisted’ ventures).

CIC is currently accepting applications to its new ‘Beyond Investment Opportunity’ (BIO) eight-month accelerator programme. In addition to accelerating startups, the BIO programme offers a second track that aims to accelerate potential angel investors, and thereby increase the supply of risk capital to startups, SGBs and SHBs.

SHGs and Gazelles who have attracted equity investors benefit from mentoring and advanced support. Locally-based fund managers such as Insitor, Obor, BRCM and EMIA work closely with the executive team of their portfolio companies to resolve specific growth constraints. Examples include acquiring finance, scaling operations, identifying senior managers and non-executive board members, and strengthening international networks. In the case of SADIF investees, parent corporation SMART Axiata provides a national and potentially international distribution platform for their digital services. EMIA and Insitor have technical assistance funds that portfolio companies can draw upon to procure external business services.

Business Development Support Services such as accounting, taxation and legal support services are easily available but relatively expensive for small firms. As with many frontier economies, the administrative burden of complying with essential Government regulation – such as registering a business or paying tax – is high. To mitigate these costs, SHE Investments and YEAC launched information services in 2017 to help MSMEs formalise. Ngay Ngay – the business information platform created by SHE Investments – was launched with the support of Development Innovations, and is customised to the needs of women entrepreneurs. YEAC’s Business Information Centre was launched with support from MBI.
Navigating the ecosystem and identifying appropriate sources of support can be a challenge for entrepreneurs and small businesses. Geeks in Cambodia (2013) provides a central point for information and stories on the organisations, programmes and personalities in the Hub ecosystem. Startup Cambodia (2017) was launched to fill demand for matchmaking services for domestic and overseas stakeholders. Both were created by E.C. Digital Media, an expatriate-owned startup in Cambodia. Both sites are free for public use and funded by exclusive sponsorship and associated consulting fees.

Entrepreneurs in traditional sectors do not have a similar ‘clearinghouse’, though as noted earlier, the Cambodian entrepreneurial class is highly networked across business associations. Facebook is an extremely popular tool for professional networking and has to a substantial degree replaced traditional websites as the means to identify and motivate shared interests in entrepreneurship and business in general.

**Mortality and Attrition**
Over the years, several incubation and acceleration programmes exited the startup scene, typically due to lack of funding. Emerging Markets Entrepreneurs (EME) was the first such programmes established and managed by Emerging Markets Consulting (EMC) from 2011 to 2013, with funding from InfoDev (World Bank Group). MOC 101 was an acceleration programme for young entrepreneurs’ start-ups implemented by the Ministry of Commerce during 2015. The programme was not repeated after a change in ministry leadership. WCREATE Cambodia (2015-2016), a women’s entrepreneur centre, was part of a global multi-country initiative of US State Department, implemented by international consultants Griffinworx. The centre ceased operation after funding expired.

**Support for Ecosystem Development**
The Government has not been a significant investor in service delivery. The most prominent Government organisation that is consistently involved in development of the ecosystem is the National Institute of Posts, Telecommunications and ICT (NIPTICT) within the Ministry of Posts and Telecommunications of Cambodia (MPTC). NIPTICT runs the annual ICT Awards since 2015, and as of 2018, has been constructing the 7,500 sq. m Innovation Centre that will provide facilities for research and coworking for startups, established firms and government in ICT sector.

Development agencies USAID and ADB – with co-funding from Australia’s Department of Foreign Affairs and Trade – have supported two entrepreneur ecosystem projects in recent years.

Mekong Business Initiative (MBI) is a Mekong focused project working in business advocacy, alternative finance and innovation across Cambodia, Lao PDR, Myanmar and Vietnam, in order to promote entrepreneur-led SME development and regional linkages between these ecosystems. In Cambodia, MBI has worked extensively in angel investment (Mekong Angel Investment Network – MAIN), fintech (BanhJi, KIU), and acceleration of tech-oriented ventures in tourism and agriculture sectors (MIST and MATCh respectively).

Development Innovations (DI, 2013-2019) funded by USAID, under the Democracy and Governance programme, is a Cambodia-focused project that seeks to address development challenges and social impact through technology (ICT4D). DI works with civil society organisations, technology companies, social enterprises and young innovators; so, whilst DI invests in entrepreneurship, those activities primarily target school-aged, student and recently graduated participants, rather than the more experienced young entrepreneurs and firms.
Technological firms are the most conspicuous corporate supporters of the tech innovation scene. Smart Axiata is the most significant corporate partner. The subsidiary of Malaysia’s Axiata Corporation supports programmes including their own Business Support Services – SmartStart and SmartSpark – as well as sponsors and numerous entrepreneur-related events including the Techno Incubation Lab (ITC), NIPTICT Innovation Centre, BarCamp Cambodia, Cambodia Young Entrepreneur Awards and ICT Awards. The Cambodian conglomerate Royal Group is also a significant sponsor of the tech scene and events via its technology subsidiaries Ezecom and Cellcard. Most recently, international firms Toyota and Grab have become visible supporters of the tech innovation scene.

**Gaps**

Coordination between all service providers in the ecosystem is low and ad hoc according to KII: several attempts to implement regular events between key individuals in the ecosystem failed to extend beyond one or two instances. As one key informant noted: “[A donor-funded development project] tried hard to bring together stakeholders: [they] arranged one meeting, no one turned up to the second!” Large corporations such as Smart Axiata and development partners such as Development Innovations and MBI have ‘convening power’ as key funders and clients of ecosystem organisations and can therefore encourage coordination. However, there is an absence of national innovation and startup policy to guide ecosystem stakeholders’ planning and implementation.

There is an absence of programmes addressing startups in traditional sectors, as represented by the membership of entrepreneur-oriented business associations. Most activity is concentrated in digital tech, social impact sectors and oriented towards young, first-time entrepreneurs.

KII indicate that this ecosystem does not graduate investible startups. There are potentially many reasons for this.

Acceleration programmes that target first-time entrepreneurs – student and recent graduates with limited or no professional work experience – are unlikely, and perhaps do not expect, to graduate startups that will attract commercial investment.

Acceleration programmes that aim to create investible startups are new and have very few graduates. It is therefore difficult to determine whether the graduates of acceleration programmes are indeed ‘investible’.

Finally, there is a limited supply of domestic early-stage investors to provide seed capital to investible startups, where those exist. Many potential domestic angel investors stem from traditional sectors and business models. Therefore they often lack familiarity with technology-led, socially impactful solutions in which they could potentially invest, likely shrinking the pool of available risk capital further. The recent accelerator programmes do not invest in their graduates and so cannot bridge that ‘supply gap’ or de-risk through co-investment. This gap aligns with feedback from the #CTGCambodia workshop, indicating a need for the creation of a PE and VC association that could stimulate demand and supply of equity-based finance.

The scalability of programmes that are substantially reliant on development aid and corporate sponsorship is not clear. Participants’ willingness and ability to pay for high quality services can fall far short of the cost of running programmes. None of the hubs take equity in their graduates, and so they cannot capture a return from successful acceleration, where those exist. Development aid and corporate social responsibility fill the financing gap for programmes that meet social objectives, but this may not be sufficient or ‘patient’ to scale successful programmes and might be subject to shifting priorities over time.

These challenges may be less acute for accelerators working with existing businesses in traditional sectors. These entrepreneurs and businesses may have more reliable growth prospects and benefit more from high quality acceleration. Thus, more predictable outcomes for participants lead to greater willingness to pay, and therefore improved financial sustainability for the acceleration programme. SHE Investments reports that women-led micro and small businesses in its incubation and acceleration programmes generated additional revenue of US $867,330 (84 interviewed graduates), increased savings by 111% and reduced householder debt by 149%. In addition, 60% of SHE Investment income was generated from services and programmes (2017).
There is an absence of specific, qualified business advice and mentors from the private sector, according to numerous KII. This applies across all stages and sub-segments. First-time entrepreneurs require practical advice on business management to launch a viable business, and existing fast-growing businesses require specific experience to navigate challenges and spot opportunities quickly; they do not have time to ‘go back to school’. For the latter group, professional investors provide support to their portfolio firms, but these numbers are limited.

Until recently, Cambodian entrepreneurs and ecosystem builders have had little access to regional support networks. #CTGCambodia workshop participants noted a significant absence of matchmaking services, and services to help identify BSS providers.

Early Signs of Change
National presence is increasing. YEAC has provincial chapters in Siem Reap and Kampong Cham (launched late 2017). JCI is also establishing a Siem Reap chapter.

A new funding agreement with Smart Axiata allows BarCamp to operate in six cities in 2017 and 2018.

Acceleration options are increasing for entrepreneurs. As of mid 2018, CIC is accepting applications for the first cohort of its BIO programme, and CJAP began screening applicants in May 2018. Both aim to create investible businesses and incorporate fundraising within their programmes.

The private sector is increasingly involved in programme delivery as mentors and investors. During its final year, Development Innovations is seeking Cambodian partners to implement a localised sixmonth mentorship programme to accelerate startups with a minimum viable product towards investible ventures. Both BIO and CJAP include significant mentorship components from successful Cambodian (and in the case of CJAP, also Japanese) entrepreneurs and professionals.

There are more opportunities to link investment to acceleration programmes. CJAP and BIO incorporate international and domestic investors. In addition to accelerating startups, the BIO programme will offer a second track to incubate investors, and thereby increase the supply of seed capital.

The Cambodian ecosystem in regionalising in several ways. Regional giants Toyota and Grab support programmes with Impact Hub; Cambodian startups increasingly participate in regional initiatives and regional co-working spaces that enter the market, such as Toong (Vietnam) and Outpost (Malaysia). Two fintech startups (BanhJi and Morakot Technology) have participated in the Startupbootcamp FinTech Singapore programme.

The Cambodian ecosystem is also specialising: early 2018 has seen the launch of both the Cambodian Fintech Association and the Cambodia Community of Investment Professionals, a nascent business association associated with global Chartered Financial Analyst (CFA) community. The Government is funding the creation of NIPTICT Innovation Center and Ministry of Economics and Finance (MEF) has announced creation of an Entrepreneur Fund, which will focus on key industrial sectors of manufacturing, agro-processing and tourism as well as startups. NIPTICT is sustainably funded via a 1% tax on telecom operators, and in the longer term aims to cover the nexus of Government, academic research private sector innovation.

There is an increasing focus on entrepreneurship in Cambodia’s key economic sectors, as illustrated by the planned Entrepreneur Fund, forthcoming BIO accelerator and the recent MATCH (agriculture) and MIST (tourism) programmes implemented by MBI in 2017.

29 Includes graduates of micro-business (< 5 employees) in the incubation programme.
7. Ecosystem SWOT Analysis

The core strength of the Cambodian ecosystem is the essential free market principles established since the mid-1990s, which have underpinned growth opportunities for entrepreneurs and overarching entrepreneurial culture. In this environment, domestic entrepreneurs, corporate and ecosystem innovators have driven ecosystem development, which bodes well for sustainability and scalability. Recent RGC initiatives signpost more support for SMEs, however lack of improvement in the business enabling environment in general and macro-economic challenges can threaten that trajectory, and infrastructure and education systems remain weak. To a lesser degree, absence or misallocation of development aid support through duplication and competition with existing successful initiatives can also hinder growth of the ecosystem.

Based on the highlighted strengths and weaknesses, we suggest three major ‘gaps’ in the ecosystem, where there is significant scope for improvement.

8. Way Forward

Based on the highlighted strengths and weaknesses, we suggest three major ‘gaps’ in the ecosystem, where there is significant scope for improvement.

**Improve the Business Enabling Environment**

At the current stage of development, entrepreneurship and innovation is moving up the policy agenda as a key driver of economic growth. This is reflected in Government action, however many of these pro-business policies are very recent or are still on the drawing board. Furthermore, the Government’s track record on regulatory reform has not been strong, as evidenced by lack of improvement to Doing Business rankings. Among SMEs’ self-reported constraints, ‘Practices of competitors in the informal sector’, ‘Tax rates’ and ‘Corruption’, all ranked higher than ‘Access to Finance’, indicating that many entrepreneurs only see disincentives to formalisation, with consequent challenges to the creation and sustainability of startups and businesses, as well as access to finance and investment.

**Encourage Support Services for Growing Businesses**

There is a lot of activity around building entrepreneurial education and boosting startups that target youth, tech and social impact; however, initiatives that address larger segments of micro and small businesses with traditional business models are only emerging.

This is important because approximately 40% of firms are growing at an annual rate of 10% or more, yet they lack access to appropriate support to address expansion-related challenges: formulating a growth strategy, acquiring finance to grow, scaling operations and accessing growth markets, either geographic or via product or service innovation. As businesses grow, these requirements subsequently expand to include attracting and retaining staff with expertise and delegated authority.
HGBs and Gazelles are more likely to export than other sub-segments and thus require support to develop business relationships with potential suppliers and customers in ASEAN and the greater regional markets. This includes support for international networking and trans-border platforms where growth-oriented SMEs can access buyers and suppliers, while forging strategic relationships.

**Mobilise Domestic Capital to Expand Early Stage Finance**

Within the available credit offerings, the key gaps to resolve will be improving credit information and support for secured transactions. These should be accomplished through implementation of the Government’s Financial Sector Development Strategy and innovation by incumbents and startups in the competitive financial service sector. Availability of risk capital for larger firms appears likely to increase in coming years as new investment platforms become operational.

However, there is an absence of early stage finance for domestic entrepreneurs. There are currently no functioning angel investment networks. Outside the tech sector, there is a very weak offering below US $500,000, and the SME exchange has yet to attract listings. For even smaller quanta of seed capital, existing accelerators do not incorporate a ‘seed finance offer’ and do not consistently graduate investible firms in sufficient quantity (‘deal flow’) to stimulate the supply of angel capital.

The key to increasing the availability of risk capital to entrepreneurs en masse is unlocking wealth in Cambodia. Potential domestic investors would have familiarity with local conditions and greater tolerance for country-specific risk. However, platforms that educate domestic angel and early stage investors and aggregate capital are still nascent. Specific recommendations to address this could therefore include support to:

- Scale up accelerators that aim to produce investible firms and therefore generate deal flow.
- Establish a seed fund for accelerated graduates to help stimulate supply of external early stage investors.
- Seek opportunities to capitalise locally managed funds that aim to invest in SMEs, starting around US $100,000.

In summary, the Cambodian entrepreneur ecosystem has good foundations, based on active participation of motivated ‘ecosystem builders’ and successful entrepreneurs; however, rapid progress has been limited to the past few years. Consequently, there remain gaps where support to SMEs may be improved, and there is substantial scope to scale access across the board. Ultimately, to realise SME collective growth potential and contribution to a competitive and innovative economy, the Government needs to sustain broad-based improvements to the overall business environment.
Annex 1: References


Annex 2: Notes on Methodology

The aim of the project is to understand SMEs, the entrepreneurial ecosystem in which they operate, and financing and support offerings, needs and gaps. SMEs are often addressed as a homogenous group. But in reality, they vary widely. It is important to understand the differences among SMEs. Hence our approach includes sub-segmenting SMEs for each country. This allows us to deepen the analysis, identify key challenges for each sub-segment, and to better tailor and target solutions.

The studies were implemented in three phases:

<table>
<thead>
<tr>
<th>Phase 1</th>
<th>Phase 2</th>
<th>Phase 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>SME landscape</td>
<td>In-country data collection</td>
<td>Workshop, conclusions and</td>
</tr>
<tr>
<td>and ecosystem</td>
<td>(interviews)</td>
<td>reporting</td>
</tr>
<tr>
<td>(desk study)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The desk study included a review of existing literature and analysis of data. As requested by DGGF, a major focus was utilising the World Bank’s Enterprise Survey (WBES) data for each country. Other data sources that helped describe the entrepreneurial ecosystem were also used. The WBES and these other sources are discussed in more detail below.

**World Bank Enterprise Survey sample**

DGFF recommended that the World Bank Enterprise Survey (WBES) would form an integral part of the #CTG analysis. WBES data covers 148 countries (139 of which use the same methodology), including all countries in the #CTG Mekong, and therefore provides good basis for inter-country comparisons.

Generally, the WBES surveys registered businesses with five or more employees. An exception is Myanmar, where smaller businesses (“micro”) were also included.30

The following data summarises the full WBES sample for each #CTG Mekong country.

<table>
<thead>
<tr>
<th>PROGRAMME</th>
<th>CAMBODIA</th>
<th>LAO PDR</th>
<th>MYANMAR</th>
<th>VIETNAM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sample size</td>
<td>373</td>
<td>368</td>
<td>607</td>
<td>996</td>
</tr>
<tr>
<td>% of sample that is:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Micro</td>
<td>0%</td>
<td>0%</td>
<td>6%</td>
<td>6%</td>
</tr>
<tr>
<td>Small</td>
<td>52%</td>
<td>59%</td>
<td>54%</td>
<td>30%</td>
</tr>
<tr>
<td>Medium</td>
<td>31%</td>
<td>28%</td>
<td>27%</td>
<td>40%</td>
</tr>
<tr>
<td>Large</td>
<td>16%</td>
<td>13%</td>
<td>14%</td>
<td>30%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>35%</td>
<td>30%</td>
<td>60%</td>
<td>69%</td>
</tr>
<tr>
<td>Retail</td>
<td>32%</td>
<td>29%</td>
<td>15%</td>
<td>6%</td>
</tr>
<tr>
<td>Services, non-retail</td>
<td>33%</td>
<td>41%</td>
<td>25%</td>
<td>25%</td>
</tr>
<tr>
<td>Woman ownership</td>
<td>41%</td>
<td>36%</td>
<td>29%</td>
<td>44%</td>
</tr>
<tr>
<td>Woman-managed</td>
<td>53%</td>
<td>38%</td>
<td>29%</td>
<td>22%</td>
</tr>
<tr>
<td>Registered</td>
<td>98%</td>
<td>99%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Exporter</td>
<td>9%</td>
<td>9%</td>
<td>9%</td>
<td>21%</td>
</tr>
<tr>
<td>- small</td>
<td>6%</td>
<td>1%</td>
<td>1%</td>
<td>7%</td>
</tr>
<tr>
<td>- medium</td>
<td>8%</td>
<td>16%</td>
<td>9%</td>
<td>13%</td>
</tr>
<tr>
<td>- large</td>
<td>19%</td>
<td>28%</td>
<td>40%</td>
<td>41%</td>
</tr>
<tr>
<td>Foreign-owned</td>
<td>10%</td>
<td>13%</td>
<td>5%</td>
<td>9%</td>
</tr>
<tr>
<td>- small</td>
<td>3%</td>
<td>6%</td>
<td>1%</td>
<td>2%</td>
</tr>
<tr>
<td>- medium</td>
<td>5%</td>
<td>13%</td>
<td>1%</td>
<td>4%</td>
</tr>
<tr>
<td>- large</td>
<td>39%</td>
<td>30%</td>
<td>27%</td>
<td>23%</td>
</tr>
<tr>
<td>State ownership</td>
<td>0%</td>
<td>2%</td>
<td>0%</td>
<td>4%</td>
</tr>
</tbody>
</table>


30 Although the number of micro businesses surveyed in Myanmar was quite small (see table).
The methodology for the WBES can be found here: http://www.enterprisesurveys.org/methodology

** WBES coverage

In the WBES the population is the non-agricultural economy. It comprises manufacturing, construction, wholesale, retail, hotels, IT, transport, storage, and communications. It excludes:

- **Financial intermediation**
- Real estate
- All public administration
- Mining and quarrying
- Utilities
- Professional services (legal, accounting, consulting, advertising, etc.)
- Education (including private)
- Health and social work (including private)
- Hairdressing and other beauty treatment

Businesses with 100% state ownership are also excluded. In each country, businesses in the cities/regions of major economic activity are interviewed.

**Stratified sampling and weights**

The WBES uses stratified random sampling\(^{31}\) when building up its survey sample. This helps ensure the final total sample is not concentrated in one or two industries, for example. Or if only a few large businesses were interviewed (reflecting their share of the total number of businesses), those chosen might not be representative of large businesses. Stratified sampling avoids this. Three strata are used in the WBES: industry, establishment size, and location. For the #CTG Mekong countries, the industry strata are: manufacturing, retail, and services. The establishment size strata are: small (5 to 19 employees), medium (20 to 99 employees), and large (100 or more employees). The location stratification varies by country, but is typically the four or five regions where most businesses operate. So, for example, large businesses make up 17% of the Cambodia WBES sample, even though they account for a much smaller percentage of total businesses in Cambodia.

Since the sampling design was stratified and employed differential sampling, individual observations must therefore be properly weighted when making inferences about the population. Under stratified random sampling, unweighted estimates are biased (unless sample sizes are proportional to the size of each stratum). Any estimate or indicator that aims at describing some feature of the population should consider that individual observations may not represent equal shares of the population. The WBES dataset provides three weights (strict, median, weak) for each observation\(^{32}\). All data in the reports derived by EMC are estimates for the total population using WBES median weights\(^{33}\).

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\(^{31}\) A stratified random sample is one obtained by separating the population elements into non-overlapping groups, called strata, and then selecting a simple random sample from each stratum.

\(^{32}\) WBES Implementation Reports include more information on sampling and weighting.

\(^{33}\) Data published on the Enterprise Surveys website is also based on median weights.
SME segmentation
For segmenting the SMEs using WBES data, we followed the approach of #CTG Kenya, using the same nomenclature for the business categories, see the below illustration:

WBES Issues
- Unregistered businesses and micro businesses are excluded. These make up a significant proportion of the private sector in the #CTG Mekong countries.
- Sample size is not large, especially once segmented. Therefore, we need to be mindful of this when discussing sub-segments.
- Revenue growth data was not provided by many businesses, further reducing the sample for segmentation.
- Segmenting by revenue growth excludes young businesses; WBES provides revenue for latest year and 3 years ago, so businesses younger than 3 years are excluded by our segmentation. However, there were very few startups and early-stage businesses in the WBES samples for the #CTG Mekong countries.
- Entrepreneur age is not included in WBES, and therefore it is not possible to segment firms by age of their owner or top manager.
- WBES counts establishments, not enterprises. One enterprise (firm) can have multiple establishments (for example, a head office plus a depot). Although for the #CTG Mekong countries the majority of the WBES samples were single-establishment enterprises; Cambodia 93%, Lao PDR 91%, Myanmar 74%, Vietnam 92%.
- As with all business surveys, there can be data quality issues. For example, the reliability of small businesses accurately recalling/reporting sale revenue from 3 years ago. In undertaking the WBES, businesses were re-contacted to clarify answers where necessary.

Entrepreneurial ecosystem analysis
The framework for analysing the entrepreneurial ecosystem was the ANDE Entrepreneurial Ecosystem Diagnostic Toolkit. The first study for the DGGF #ClosingTheGap series piloted in Kenya applied a version of this Toolkit. The framework was modified slightly for #ClosingTheGap Mekong by adding entrepreneurs’ capabilities at the centre of it.
Data for ANDE themes
The WBES provides data for most of the ANDE themes and was used in the reports where possible. The WBES is particularly useful for Finance, Human Capital, Policy, Infrastructure and R&D/Innovation. Other sources also provide data closely related to the ANDE themes, including the Global Entrepreneurship Monitor, the Global Entrepreneurship Index and the Global Competitiveness Index. These were used selectively through the reports. However, some of these sources don’t cover all #CTG Mekong countries.

Hence, in addition to WBES, other secondary data sources were reviewed, and these include:
- **Infrastructure** Logistics Performance Index; GSMA Mobile Connectivity Index; country-specific data
- **Human Capital** Global Competitiveness Index; UNESCO; World Bank Human Capital Project; WEF Global Gender Gap indicators
- **Entrepreneurial Culture** Global Entrepreneurship Monitor; Hofstede Uncertainty Avoidance Index; country-specific data
- **Markets** Global Competitiveness Index; World Bank trade data; country-specific data
- **Policy** World Bank Doing Business; Global Competitiveness Index; country-specific data
- **R&D and innovation** Global Innovation Index; country-specific data
- **Finance** country-specific data, local sources
- **Support** local sources

The insights from analyzing the above data were then supplemented with key informant interviews in Phase two of the research.

Workshops
#CTG Workshops brought together entrepreneurs and service providers to review, validate and challenge research findings to date and engage in an interactive session towards elaborating solutions to address gaps identified in the ecosystem.

The #CTG Cambodia workshop comprised of 34 representatives from financial institutions, business associations, development organisations, the government, business support service providers, educators, corporates and entrepreneurs. Following a presentation of draft findings and Q&A session, participants were divided in to groups representing a cross section of stakeholders to discuss specific constraints and solutions in the thematic areas of debt finance, equity finance, business support services and human capital. Cambodian Women’s Entrepreneur Association provided the opening address and supported group-based work.

The group-based work was refined in subsequent #CTG Mekong workshops. In Lao PDR, Myanmar and Vietnam groups were asked to comment on ‘entrepreneur personas’ that typified businesses and growth challenges faced by firms in each sub-segment, identify gaps and propose solutions. Personas were selected for the main subsegments of interest and were designed to reflect research and key informant interviews. ‘Entrepreneur personas’ were developed following the #CTG Cambodia workshop.