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FOR GOOD

Promoting SME Competitiveness in Cambodia

Enhanced resiliency through inclusiveness



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About the paper

Cambodia's small and medium-sized enterprises play a central role in the country's economy and development, but face a number of challenges that have been further complicated by the COVID-19 pandemic.

Drawing on data from the SME Competitiveness Survey, this report shows how competitiveness factors affect the resilience of companies in the face of crises. It illustrates how quality-focused and innovative firms were less affected by COVID-induced economic shocks and how companies that engaged with business support institutions were better informed about COVID-related support programmes. Lessons offered by the survey results are being used in developing policy recommendations for fostering more competitive and resilient SMEs with the potential to contribute to Cambodia's economic recovery.

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For more information on the SME Competitiveness Survey, see: <http://www.intracen.org/SMEBenchmarking/>

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Foreword

Structural transformation and productivity growth are driving rapid economic development in Cambodia. Income growth has been very strong in recent years, with the gross domestic product (GDP) growing by 7.1% in 2019, the fastest rate among the ASEAN economies.

However, as in many other countries, growth turned negative in 2020 as a result of the COVID-19 pandemic's economic impact. While Cambodia has so far avoided the worst effects of the disease in terms of public health, restrictions on travel and economic activity put in place to manage the spread of the virus at home and abroad are disrupting production and value chains as demand in many sectors declines or changes.

Small and medium-sized enterprises (SMEs) are particularly vulnerable to the effects of the crisis, given their limited internal resources, capacities and networks. However, the dynamism and innovation potential of Cambodia's SME sector will be critical to the economic recovery.

New government initiatives have been introduced to assist firms in managing the crisis and adapting to changing conditions. Going forward, the government, business support organizations and firms will need to find new approaches to new challenges. Policy on SMEs and the business environment will play a major role in shaping the response to the pandemic and in 'building back better'.

This report provides insight on SMEs to inform the design of these policies. The International Trade Centre (ITC) has partnered with the Ministry of Industry, Science, Technology and Innovation (MISTI) to assess the competitiveness of Cambodian SMEs through surveys on their characteristics and performance, as well as their experience during the pandemic.

Under this collaboration, the ITC SME Competitiveness Survey questionnaire was administered to 400 businesses across Cambodia between December 2019 and August 2020. In June-August 2020, 272 of these respondents took part in a follow-up interview about the impact of COVID-19 on their businesses.

Competitive firms drive economic growth, diversification and exports. During crises such as the current pandemic, these firms are fundamental to the resiliency that will make recovery possible. The results of the two surveys show that, with the right support, Cambodian SMEs have the potential to succeed and to make significant contributions to the country's development.

ITC and MISTI share a vision to build the competitiveness of small enterprises so they can withstand shocks and compete in local, regional and global markets. We see this report as an important step to make this vision a reality.



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Business and Marketing Research Solutions (BMRS) Asia conducted the interviews.

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ITC was established in Geneva, Switzerland, as a joint agency of the United Nations and the World Trade Organization dedicated to strengthening the competitiveness of small and medium-sized enterprises to build vibrant, sustainable export sectors that provide entrepreneurial opportunities, particularly for women, young people and poor communities.

The Ministry of Industry, Science, Technology and Innovation (MISTI) aims at facilitating business and investment in Cambodia and at supporting industries adoption of technologies for innovation. MISTI chairs the Sub-Committee on SMEs.

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Acronyms

Unless otherwise specified, all references to dollars (\$) are to United States dollars, and all references to tons are to metric tons. Percentages in some figures may not add up to 100% due to rounding.

BSO	Business support organization
ITC	International Trade Centre
GDP	Gross domestic product
MISTI	Ministry of Industry, Science, Technology and Innovation
MSMEs	Micro, small and medium-sized enterprises
SMEs	Small and medium-sized enterprises
SMECS	SME Competitiveness Survey
TVET	Technical and vocational education and training

Executive summary

The performance of Cambodia's small and medium-sized enterprise (SME) sector is central to the country's economic growth and development. SMEs represent 99% of registered businesses in Cambodia and employ about 70% of workers. As a result, sustaining sector performance will also be critical to successfully navigate the economic challenges associated with the COVID-19 pandemic, which is slowing domestic activity and drastically reducing demand for key export products.

SMEs face a number of challenges, and fostering competitive and resilience firms capable of thriving in regional and global markets will require implementing informed reforms and initiatives. In support of an improved understanding of the SME sector, ITC partnered with MISTI to assess the competitiveness of Cambodian SMEs. The goal was to perform a diagnostic on the state of these firms to better understand their strengths and weaknesses, and identify opportunities to improve their competitiveness for trade and resilience.

Under this collaboration, the ITC SME Competitiveness Survey questionnaire was administered to 400 businesses across Cambodia between December 2019 and August 2020. In June-August 2020, 272 of these respondents took part in a follow-up interview about the impact of COVID-19 on their businesses. This report presents the findings of both surveys while taking advantage of an overlap in respondents to identify factors that lead to both competitiveness and resilience.

The pandemic strongly affected many firms, although many learned to adapt

Travel restrictions and other measures put in place domestically and abroad to manage the spread of the virus complicated SMEs' operations, while falling incomes and changing patterns of demand disrupted markets and value chains. Survey data show that one-third of Cambodian firms were strongly affected by the crisis. Fortunately, 86% of respondents said they felt that they would not need to shut their business down. Companies adopted a number of strategies to manage the challenges arising as a result of the pandemic, with



permanent and temporary reductions in employment being the most common.

Connections between firms drove resiliency

Many Cambodian firms take advantage of print, broadcast or online channels for advertising and building demand for their products and services. Better access to information about customers is associated with higher rates of advertising. While no firms with 'low' information on buyers engage in advertising, 69% with 'average' information advertise, as do 82% of firms with 'high' information. At the same time, about four-fifths of surveyed companies in Cambodia struggle to obtain detailed information about their customers.

Market information is not just gained through firms' own efforts, however, and within-sector collaboration can be an important means of collecting and understating information. Most Cambodian firms engage in some form of information sharing or cooperation with other firms in their sector, and those with higher levels of cooperation and information sharing report greater availability of information on buyers and suppliers.

Firms also collaborate through the business support organizations (BSOs) with which they work, and benefit from the services these organizations offer. BSOs reach

many Cambodian firms; 46% of survey respondents are actively engaged with at least one BSO. These firms appear to benefit from these connections; for example, they are more likely to find it easier to access information on government assistance programmes implemented for SMEs in response to COVID-19.

Ability to change and innovate is critical to surviving and thriving

While the pandemic highlighted the importance of firms' adaptability, capacity for change is central to competitiveness at all times. Companies need to be able to innovate, plan and make effective use of financial resources and services, and hire workers with relevant skills to improve their performance today and in the future.

Innovation is important to a firm's competitiveness and resilience. Survey evidence shows that highly innovative firms tend to be less affected by the COVID-19 crisis. They are also more likely than others to customize or create new products in response, while moderately

innovative firms are more likely to cope by loaning employees to other businesses.

Many firms can upgrade their capacities for financial and business management. Women-led firms, which have typically faced additional challenges in accessing finance and other business services, are particularly affected. While 27% of men-led firms rate their ability to manage cash flows as 'high', only 5% of women-led firms have a similar response. These differences can have considerable implications on firm performance and ability to manage shocks.

Access to finance in Cambodia improved with the expansion of the financial sector – nine out of 10 surveyed firms were found to have a bank account – but many firms do not make use of banking and other financial services. Those without bank accounts also tend to be less likely to have high financial management capacities.

Skill gaps are a source of concern for many Cambodian firms. Only 12% of surveyed firms reported an abundance of skilled workers meeting the company's needs.





However, firms with strong recruitment mechanisms were more likely to find workers with skills matching their needs.

Enhancing productive capacities through firm and business ecosystem factors

Survey results show how firms emphasizing quality and diversifying input sourcing have been more competitive and resilient, and how good access to utilities is also associated with more productive firms. Among certified firms competing by offering quality products, 29% said they were 'strongly affected' by COVID-19, although among firms competing by offering low prices, this value was 49%. Offering higher-quality and certified products and services can ease firms' expansion into new markets; allow them to reach new customers at home and abroad, including through their involvement in global value chains; and increase the value of their output.

Resilience in the face of shocks like the pandemic is also supported by firms that diversify their input sourcing. Respondents with fewer suppliers – which tend to be smaller firms – were more likely to identify a risk that they would need to permanently close in the near future. Difficulties in importing inputs are also a cause for concern among some SMEs.

By providing essential inputs, utilities such as water and electricity, and internet access are critical to the emergence of competitive and resilient SMEs. Firms with better access to utilities are weathering the COVID-19 crisis better than their peers. Because Cambodian firms vary in their access to and use of these services, there is potential to improve the immediate business environment through further infrastructure development and upgrading.

New approaches can foster a stronger SME sector

The survey results highlight areas where policy interventions may be most relevant for strengthening SME competitiveness and resiliency. Priorities include policies supporting the development of business networks, the growth of innovative firms, access to finance and financial management capacities, skills development and job matching.

The development of business networks for improved information sharing, cooperation and delivery of support services may be supported through policy interventions to strengthen business support organizations, make use of information and communications technology in connecting with firms, and exploring new means of working together, such as through export consortia.

Improving efficiency and innovation will require further development of the legislative and regulatory framework on innovation and its alignment with investment, trade and education policy.

Continued expansion of access to finance among SMEs through the use of new technologies, improved financial literacy, and better financial and business management capacities among SMEs and entrepreneurs also need to be considered.

Better matching of worker skills and firms' needs will take place through skill development in the education system and stronger recruitment systems at the firm level. All forms of training can be designed to be better aligned with the needs of firms, which may also benefit labour market reforms and programmes to improve skill matching.

The business environment and firm competitiveness can be supported by enhancing quality and pursuing recognized and potentially beneficial certifications, providing supports and implementing reforms to foster diversification in input sourcing, and investments in expanding and upgrading utilities and improved planning.

Cambodian firms have demonstrated their competitive potential, adaptability and resilience, even in trying times, although serious challenges remain to be addressed for SMEs to realize their potential at home and in export markets. This report, along with complementary events and collaborations, aims to trigger a dialogue on SME competitiveness and suggest policy-based solutions that the Government of Cambodia can apply to build both competitiveness and resilience to crises.





Chapter 1

Unleashing the potential of small businesses

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Unleashing the potential of small businesses

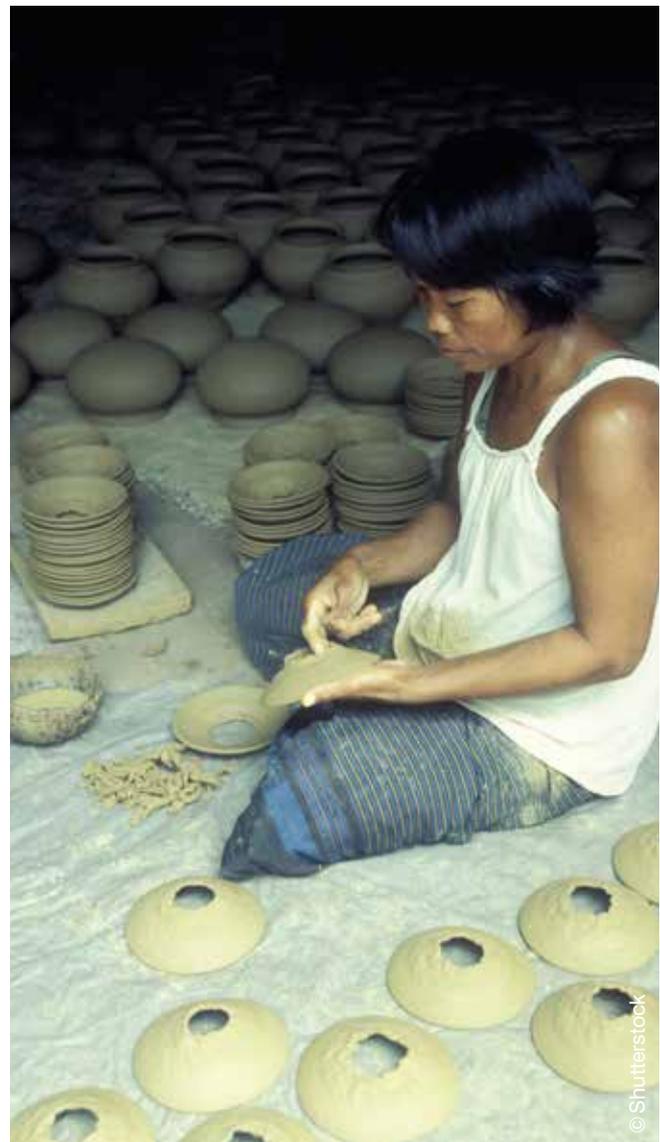
Although COVID-19 pandemic is primarily a public health crisis, it has also caused a major economic calamity, with a global collapse in production, consumption and business activity. This crisis is affecting both larger and smaller companies. However, its effect on SMEs is often especially severe.¹ Smaller companies tend to have fewer resources to adapt to a rapidly changing environment than larger firms and face a bigger risk of collapsing or shutting down their business.²

At the same time, SMEs play an important role in the economy of Cambodia. They are a major source of employment (70% of total employment), represent a critical part of the country's production base (99.8% of companies) and contribute to 58% of the country's GDP³ They are indispensable in promoting inclusion, sustainable development and poverty alleviation. In 2017, there were 157,162 enterprises in the manufacturing sector – 99% of which were SMEs – which provided more than one million job opportunities throughout the country. Most of these jobs were taken by poor and marginalized groups, such as women and youth from rural areas.⁴ The sector is also key to the country's economic resilience during crises like the COVID-19 pandemic, and provides the capacity to boost growth through exports.

Recognizing the important contribution that SMEs make to economic development and employment, the Cambodian government has endeavoured to create a business ecosystem conducive to their development (see Box 1). This set of policies has provided significant opportunities for Cambodian SMEs, which often underperform compared with their peers in neighbouring countries.⁵

In this context, it is crucial to Cambodia's economic development that the persistent issues that hamper the development of the country's SMEs are addressed. This requires identifying the bottlenecks that the companies face, as well as revealing the areas of greatest potential that could drive the country's export success and be the source of interesting partnerships and investment for foreign firms.

To help inform this work, ITC partnered with MISTI to assess the competitiveness of Cambodian SMEs. The goal was to perform a diagnostic on the state of these firms, better understand their strengths and weaknesses, and identify opportunities to improve their competitiveness for trade and resilience.



Box 1 Government policies for small and medium-sized enterprises

In 2004, the Cambodian government formed the SME Sub-Committee as the key body to organize SME development strategies. The key output of this committee was the SME Development Framework 2005, which aimed to 'create a conducive business environment, which will lead to a competitive SME sector contributing to the creation of quality employment and improve the range of goods and services available to the people of Cambodia'. This framework was the first attempt by the Government of Cambodia to identify barriers and introduce measures specific to promoting the development of the country's SMEs.

Since then, the promotion of small and medium-sized firms has been considered one of the essential elements of Cambodia's economic development. The four consecutive Rectangular Strategies for Growth, Employment, Equity and Efficiency have reduced minimum requirements for the registration of SMEs and the company registration fee, simplified the accounting system and financial report mechanism, improved SME access to finance and supported business development services. The National Strategic Development Plan 2018-2023 formulated for implementing the Rectangular Strategy Phase IV aims to strengthen these developments further and continue to modernize SMEs, promote entrepreneurship, attract investment, and enhance exports.

The National Strategic Development Plan 2009-2013 focused on subsidizing SMEs for export and helping them to be a part of global value chains, as well as on accelerating the 'One Village, One Product' movement, which is a key element of the national poverty reduction strategy. According to the Industrial Development Policy 2015-2025, one way to maintain sustainable and inclusive high economic growth of the country is by developing and modernizing its SMEs by expanding and strengthening the manufacturing base, modernizing registration of enterprises, and ensuring technology transfer and industrial linkages.

Since 2013, MISTI, then the Ministry of Industry and Handicraft, has served as a focal point for SME policies and initiatives. Several professional associations, such as the Federation of Associations for SMEs of Cambodia or the Young Entrepreneurs Association of Cambodia, function as a bridge between governmental authorities and

firms, promoting SME interests and providing specialized training. With more than 300 members, the Federation of Associations for SMEs of Cambodia also supports firms in accessing benefits from the Small and Medium Enterprise Bank of Cambodia. The establishment of this bank had been considered for a long time, and it was finally launched in April 2020, partly in response to the crisis caused by the COVID-19 pandemic. With an initial capital of \$100 million, it provides affordable access to financing, technical assistance to enhance SMEs' productivity and efficiency, and downstream business advisory support, as well as facilitating access to regional markets. Priority is given to SMEs from cottage industries, manufacturing, tourism, IT and waste processing.

In May 2020, the Prime Minister issued a sub-decree to establish a Policy Action Committee on SME Promotion or 'SME Committee' under the Committee of Economic and Finance Policy. The role of the Committee is to 'lead, formulate and approve policy actions and strategies to promote SMEs; lead, facilitate and deal with structural challenges and other issues which is inter-ministries/institutions to foster SMEs; approve key performance indicators and lead the monitoring and evaluation on the policy programs on SME promotion, and facilitate policy cooperation with development partners on the Cambodian SME promotion'.

The recently drafted SME Development Policy (2020) sets out activities focusing on five priorities: promoting a legal environment and public institutional capacity, promoting entrepreneurship and human resource capacity development, promoting local trade, productivity, quality, technology and innovation, expanding the links to international and foreign markets, and improving access to financing. Furthermore, in 2021, MISTI drafted an SME Law to facilitate procedures for SMEs and support them in gaining greater market opportunities.

Besides these actions, the government has developed a series of other initiatives to support SMEs and entrepreneurship in the country. These include the establishment of an Entrepreneurship Development Fund, SME Portal, and the issue of a sub-decree (N50) on Customs incentive for SMEs and (N124) on Tax Incentive, among others.

Sources: IFC (2019). *Exploring the Opportunities for Women-owned SMEs in Cambodia*. International Finance Corporation; ASEAN (2010). *Small & Medium Enterprises Development Policies in Cambodia*. The Association of Southeast Asian Nations; Kingdom of Cambodia and Royal Government of Cambodia. *National Strategic Development Plan Update 2009-2013*. https://paris21.org/sites/default/files/Cambodia_NSDP_Update_2009-2013-English.pdf; Royal Government of Cambodia. *Cambodia Industrial Development Policy 2015-2025. Market Orientation and Enabling Environment for Industrial Development*. <https://policy.asiapacificenergy.org/sites/default/files/IDP-English-Version-FINAL1.pdf>; Khmer Times website. SMEs urged to register with the new specialized bank. April 27, 2020. <https://www.khmertimeskh.com/717402/smes-urged-to-register-with-the-new-specialised-bank/>; Royal Government of Cambodia (2020). Sub-decree (N°61) On An Establishment of the Policy Action Committee on Small and Medium Sized Enterprise Promotion; Kingdom of Cambodia and Royal Government of Cambodia (2019). *National Strategic Development Plan 2019-2023*. http://cdc-crdb.gov.kh/en/strategy/documents/nsdp-2019-2023_en.pdf; The Phnom Penh Post. Draft Law on SMEs finished, en route to industry minister. May 27, 2021. <https://www.phnompenhpost.com/business/draft-law-smes-finished-en-route-industry-minister>

Assessing competitiveness

ITC developed the SME Competitiveness Survey (SMECS) to help countries collect the data needed to assess the competitiveness of their enterprises.⁶ As of January 2021, more than 18,400 firms had been surveyed in 50 countries, including the Philippines and Indonesia.

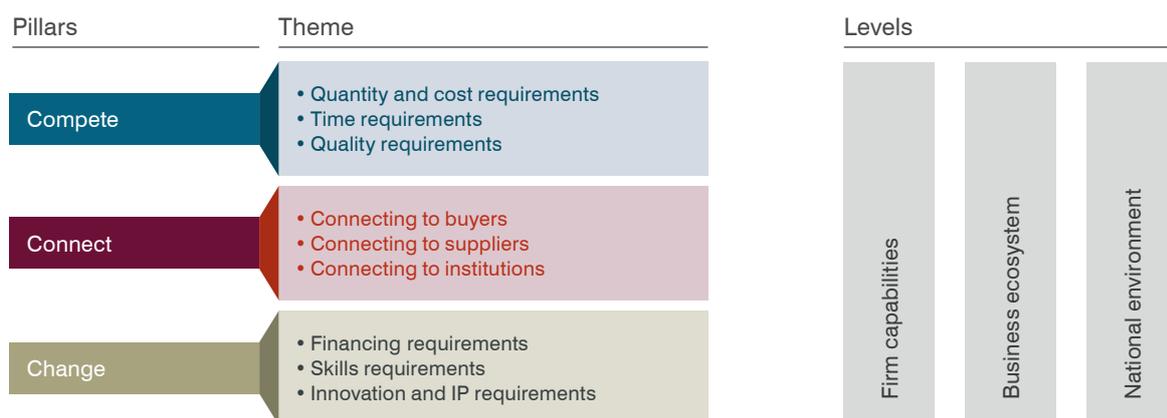
The tool is designed to combine information at the meso-level (local support ecosystem for businesses) and the micro-level (firm capacity) to provide a nuanced picture of the capacity of a country’s private sector to compete in international markets.

Small and medium-sized enterprises are defined as firms with fewer than 100 employees (see Annex). The term

SME, therefore, includes micro-enterprises. Although the focus is on micro, small and medium-sized companies, some large businesses are included in the survey so the competitiveness of SMEs and big firms can be compared.

The importance of competitiveness in driving firm survival, growth and trade makes it a central element in economic development. For this reason, ITC has developed an analytical framework to understand firm competitiveness and how it can be improved over time. The framework is built around three pillars that drive the capacity of a company to be competitive across three levels of the economy (see Figure 1).⁷ The rest of this report is structured around key themes featured in this competitiveness grid.

Figure 1 SME Competitiveness Grid



Source: ITC.

The SME Competitiveness Survey in Cambodia

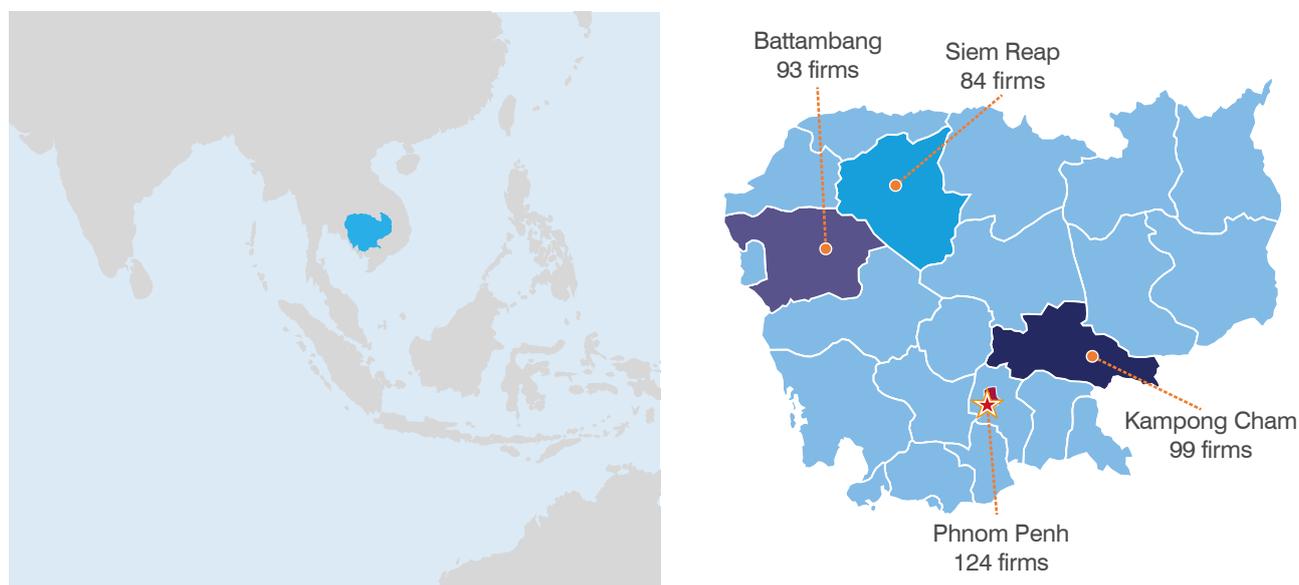
ITC implemented the SME Competitiveness Survey in Cambodia in partnership with MISTI, which provided high-level support for the initiative. BMRS Asia, a local data collection company, conducted the survey.

To simplify the collection of data, a sample of firms from across the country was randomly selected from a list of companies compiled by MISTI. The sample was spread across provinces, sectors (agri-processing, manufacturing and services) and sizes (micro, small, medium and large). Data were to be collected on firms operating in the primary

(i.e. agriculture and mining), manufacturing and services sectors from four key provinces. To the extent possible, the sample in each province was composed of both exporting and non-exporting firms.

BMRS Asia surveyed 400 enterprises between December 2019 and August 2020 using the SME Competitiveness Survey questionnaire. In June-August 2020, 272 of these respondents took part in a follow-up interview about the impact of COVID-19 on their businesses. Data were collected from four provinces: Battambang, Kampong Cham, Phnom Penh and Siem Reap. Figure 2 highlights the surveyed provinces, with the corresponding number of firms interviewed in each of them.

Figure 2 Surveved regions of Cambodia



Source: ITC based on SME competitiveness data collected in Cambodia. Maps retrieved from Shutterstock and YourFreeTemplates.com

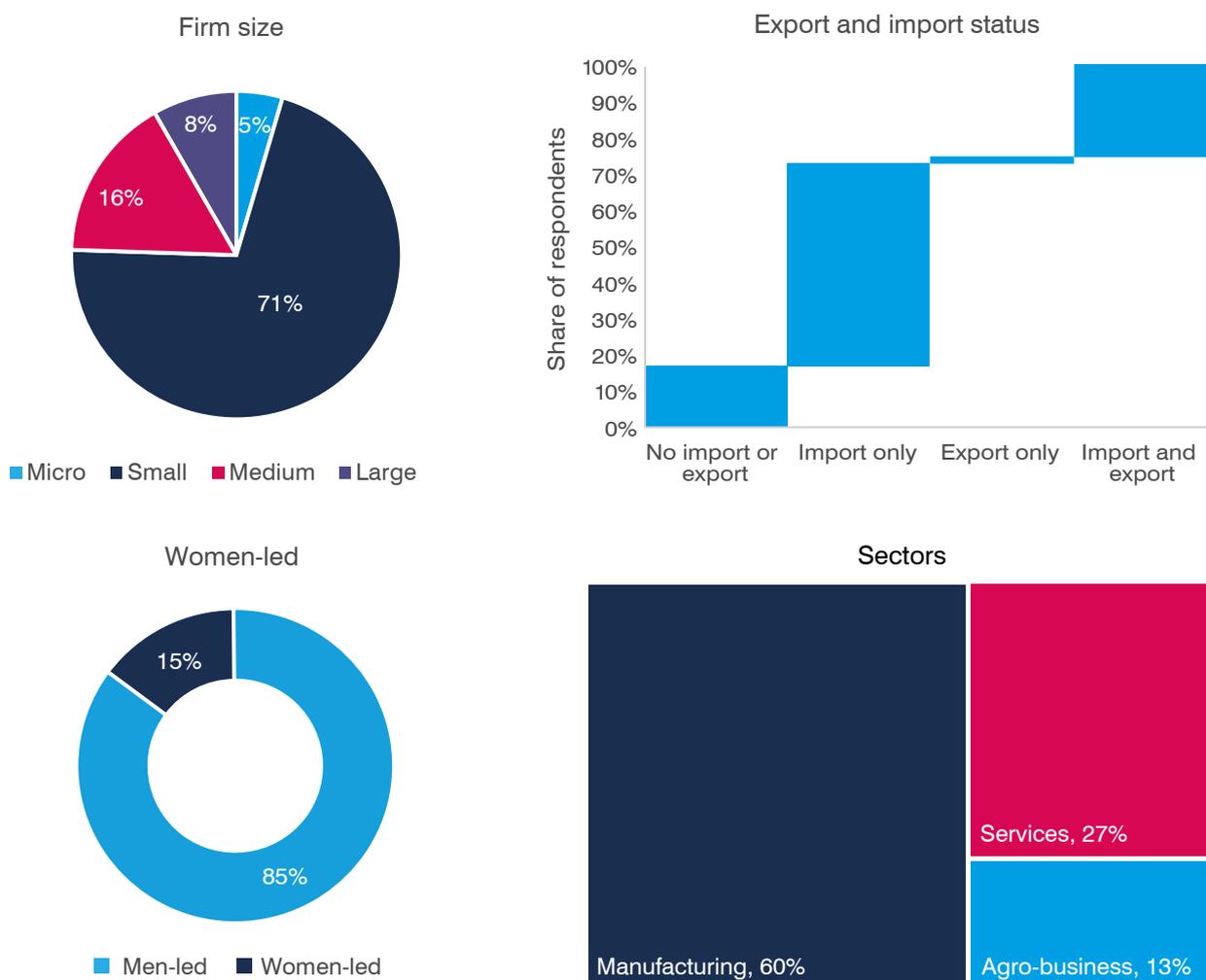


Of the companies interviewed for the SMECS in Cambodia, 92% were micro, small or medium-sized enterprises (see Figure 3). This is consistent with evidence showing that SMEs are the prevalent type of establishment in Cambodia overall as well as in the manufacturing sector (both accounting for around 99%).⁸ In 2017, roughly 30% of enterprises in Cambodia were manufacturing companies.⁹

In contrast, approximately 60% of the interviewed sample was composed of manufacturing firms, while 27% operated in services and 13% were agri-producers. Women owned just 15% of the companies interviewed for this study. The small share is partly explained by the fact that most women-owned companies are informal micro-enterprises operating in the service sector, hence difficult to identify and contact for the survey.¹⁰

The data also showed that more than 80% of the enterprises were engaged in international trade. However, only 28% of companies exported, confirming the need for further internationalization that could spread innovation and increase firms' employment and sales growth.¹¹

Figure 3 Characteristics of companies that participated in the survey



Note: Micro-enterprises are defined as those with four or fewer employees; small firms have 5-19 employees; medium-sized ones have 20-99 employees, and large companies have 100 or more employees. Women-led firms are managed by a woman and at least 30% owned by women. Source: ITC calculation based on SME competitiveness data collected by BMRS Asia in Cambodia.

Almost all surveyed firms (except one business) said they were registered with or licensed by a national authority. Informality is pervasive in Cambodia, especially among small and medium-sized firms, with estimates suggesting that only 3.4% of all firms are registered with the Ministry of Commerce (MoC).¹² As such, this study focuses on the formal sector.

The COVID-19 shock has soured many firms' outlook

The spread of COVID-19 around the globe led the Government of Cambodia to adopt several measures in late March and early April 2020 to protect the health of its citizens and slow the spread of infection. On 17 March, it

banned travellers from several high-risk nations and, on 10 April, prohibited all travel within the country across district and provincial borders. Schools were closed on 1 April for the following six months.¹³

Apart from imposing quarantine, the government prohibited public events and gatherings, including religious gatherings and concerts for the Khmer New Year celebration. It also introduced an economic stimulus package for 'legally registered and formally verified' businesses, meaning that most firms were excluded because of their informal status.¹⁴ It should be noted that Cambodia appeared to have been successful in containing the virus; as of early December 2020, it has had zero confirmed deaths and only 359 positive cases of COVID-19 in a population of 16.7 million.¹⁵ However, given the recent

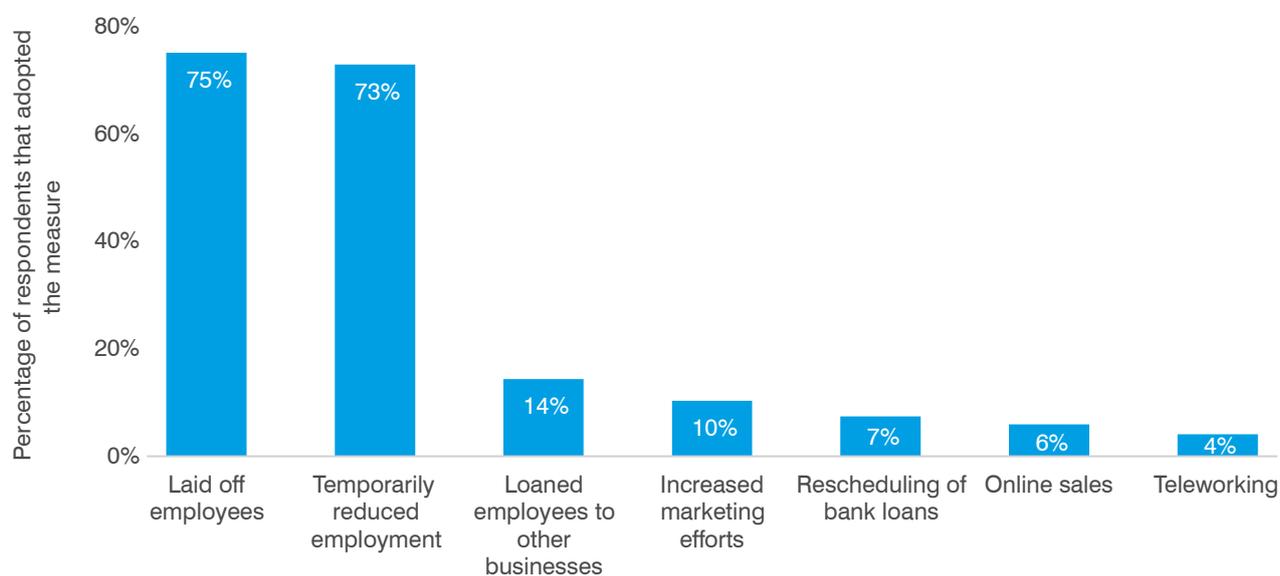
waves and mutation of the virus, reports of positive cases have escalated to 118,220, with 2,766 deaths and 114,063 recoveries by October 2021.¹⁶

BMRS Asia surveyed 272 firms in June-August 2020 about how the pandemic had affected their business. A detailed analysis shows that one-third of businesses were strongly affected by the crisis, especially those from the leather manufacturing, tourism and tourism-related sectors. One out of 10 firms said that they expected the shock would lead their business to close within the next six months.

Fortunately, 86% of respondents said they felt that they would not need to shut down their business.

Cambodian companies adopted a variety of strategies to cope with the COVID-19 crisis. About three-quarters of firms laid off employees or temporarily reduced employment (see Figure 4). Other strategies were also used: 14% of firms loaned employees to other businesses and 10% scaled up their marketing efforts. In addition, 7% of firms rescheduled bank loans, 6% moved to online sales and 4% switched to remote working arrangements.

Figure 4 Most firms reduced employment as a result of the pandemic



Note: Respondents were asked: 'What measures have you put in place to overcome the difficulties that are confronting you?' and respondents checked off all measures they had taken. Percentages indicate the share of companies that adopted that measure, but as many respondents chose two or more options, the percentages do not total 100.'

Source: ITC calculation based on COVID-19 Survey of 272 firms conducted by BMRS Asia in Cambodia.



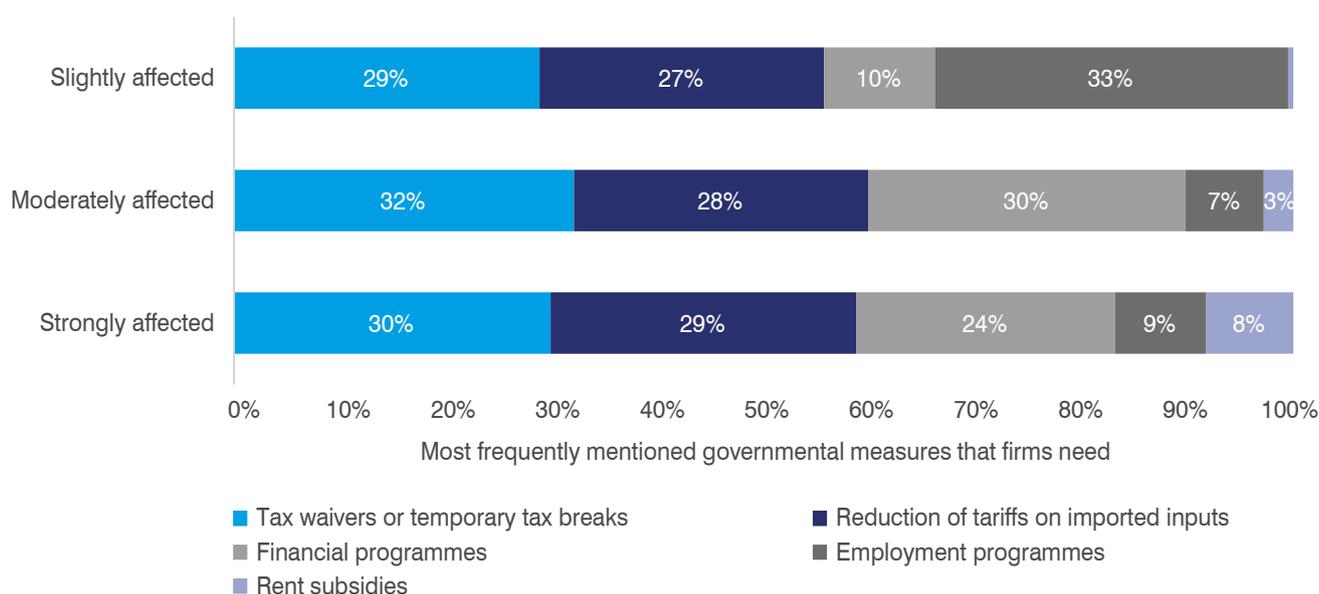
The government has developed programmes to help SMEs and other vulnerable actors in society deal with the pandemic. It has allocated \$200 million to provide credit guarantees for businesses under the Business Recovery Guarantee Scheme, in addition to packages issued to SMEs in manufacturing (\$50 million) and agricultural sectors (\$80 million).¹⁷ Furthermore, the government extended until the end of December 2021 allowance subsidies for garment and tourism sectors, tax exemptions for the tourism and aviation sectors and the cash relief programme for poor and vulnerable families.¹⁸ Additionally, as of May 2021, it has allocated \$123 million for wage

subsidies and the skill training programme for suspended workers/employees in the garment and tourism industries.¹⁹

When asked about the most needed governmental measures, firms were most likely to say that they need tax waivers, temporary tax breaks, and reduction of tariffs on imported inputs, regardless of how seriously they have been affected by the pandemic (see Figure 5). Those firms that were strongly or moderately affected by the crisis were more interested in financial programmes, while slightly affected businesses called for the government to introduce additional employment schemes.



Figure 5 Tax breaks and reduction of import tariffs: most needed government measures



Note: The survey questions were, 'How have your business operations been affected by the coronavirus (COVID-19) pandemic?' and 'Please select the top three government measures that would be most helpful as you cope with the COVID crisis'.

Source: ITC calculation based on COVID-19 Survey of 272 firms conducted by BMRS Asia in Cambodia.

As businesses start to recover from the pandemic, they – and policymakers – are focusing on how to 'build back better' to improve resiliency in the face of future crises. This starts with enhancing competitiveness. Evidence from other countries shows that companies that were more competitive before the COVID-19 pandemic were better able to cope with the crisis.²⁰

Is this also true in Cambodia? To find out, the analyses in the following chapters make use of the information gathered from the subset of 272 enterprises that participated in both the SME Competitiveness and COVID-19 surveys to understand how the pre-pandemic competitiveness of firms influenced their experience with the crisis, as well as using the data on the 400 firms that responded to the SME Competitiveness Survey.

Given how crucial competitiveness is to the ability of SMEs to participate in international trade and contribute to the transformative development of Cambodia, the following chapters focus on the aspects of competitiveness that need to be strengthened in the country to build resilience to shocks.





Chapter 2

Improving firms' connections for resiliency

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Improving firms' connections for resiliency

An important way for companies to improve their competitive position is to establish the right relationships with multiple actors in the value chain and business support networks. When a firm is able to connect, it can gather information about customers, suppliers, competitors, products, technologies and government policies. Sometimes connectivity also involves actively reaching out to provide information about the firm or its products. Examples include marketing efforts towards potential clients or outreach efforts towards actors within a value chain.²¹

Companies can adapt to a rapidly changing economic environment by using market intelligence to identify opportunities and threats. The effects of the COVID-19 pandemic and the ensuing containment measures imposed by governments have highlighted the importance of cooperation and access to sources of accurate and timely information.

Businesses require reliable information on the changing needs of their customers and ways to effectively reach them amid lockdown regulations. They also need to be informed about the implications of new safety measures and programmes on business budgets to make decisions and adjust dynamically to fast-changing situations. By collaborating with industry partners and business support networks, it is possible to get reliable information and invest in the right resources and innovative solutions to mitigate the negative impacts of the crisis.

The SME Competitiveness Survey in Cambodia finds that companies that are better informed about their customers tend to invest in advertising more than those lacking this kind of information. They were also found to have better inventory management systems than the latter. Collaboration with other companies in the same industry is prevalent among Cambodian firms and acts as an important source of market information. Firms that often collaborate reported having more complete and less expensive market information than those that are less collaborative. Moreover, survey evidence shows that

firms that are tied to business support organizations are better informed about COVID-related support programmes organized by the government.

Knowing customers is key to advertising

Effective advertising and access to and use of market information improve firm performance. Knowing customers is among the first principles of marketing and the key to a sustainable business.²² Businesses must collect and analyse information about what customers want so they can produce goods and services that meet this demand. Moreover, when companies know their customers' behaviour and preferences in detail, they can generate more appropriate and targeted advertisements. The information disseminated through marketing, in turn, provides performance feedback to managers, who use it to adapt their approaches to attracting new buyers.²³

Many firms in Cambodia engage in some form of advertising. Almost three-quarters (70%) of surveyed firms make use of at least one marketing channel among print, broadcast and online advertising. Nearly all of the firms engaged in advertising make use of online channels (i.e. internet or social media) to do so, either exclusively or in conjunction with other outlets. About half of the surveyed companies have a business website. The popularity of online advertising among firms – and, in particular, social media advertising – can be linked to its interactivity and cost-effectiveness, which are especially beneficial for resource-constrained SMEs.²⁴ Facebook and other social media marketing packages aimed at helping firms maximize their exposure are also gaining popularity.²⁵

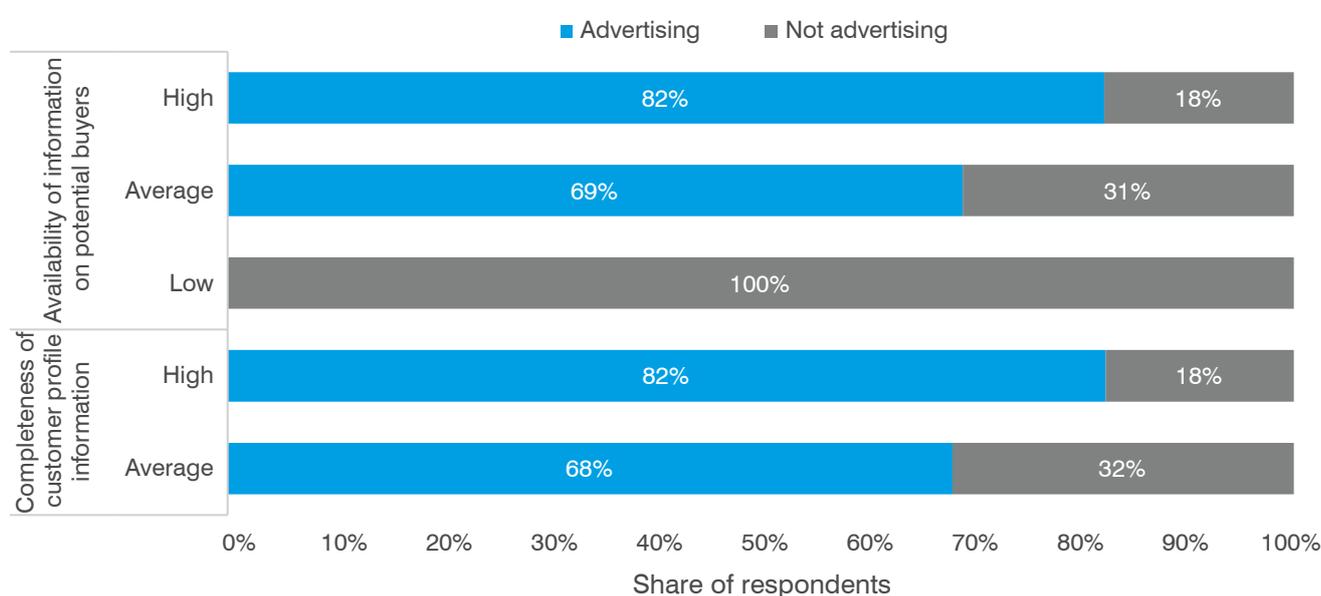
Online advertising also helps companies gain insight about current and new customers as it allows for the capture of customer data digitally by mapping users' journeys on their websites and social media pages. Growing internet access and use in Cambodia allows online advertising to reach a broad segment of the population. Cambodia has both the lowest mobile internet prices and the third-highest mobile

data usage in the world.²⁶ In August 2020, 15.2 million people in the country were using the internet, which equals about 98% of the Cambodian population.²⁷

In line with global trends, Cambodian firms are starting to think of their marketing in more strategic terms, collecting information on consumer trends to better target their advertising and improve the design of their products and services. Many realize the importance of consumer data,

and the value added for marketing when connecting them to, for example, artificial intelligence. Some marketing agencies in Cambodia are using this method to anticipate trends and reach out to the right people at the right time, as well as to improve productivity and logistics.²⁸ Indeed, the survey finds that Cambodian firms with more and better information about their current and potential buyers are more likely to advertise their business than those lacking customer information (see Figure 6).

Figure 6 Companies with better information about buyers tend to advertise more



Note: Respondents were asked: 'Please rate the completeness of this company's profile information on its buyers' and 'Please rate the availability of market information on potential buyers'. Options ranged from 1 (no information or very low) to 6 (excellent quality information or very high): answers of 1 or 2 were put in the worst category, 3 or 4 in the middle category, and 5 or 6 in the best category. These responses were then linked with the questions: 'In the last year, did this company engage in any of the following forms of advertising: (i) Leaflet, poster, or newspaper advertising, (ii) Radio or television advertising, (iii) internet or social media advertising?'

Source: ITC calculation based on SME Competitiveness data collected in Cambodia.

Firms that invest in better understanding their customers also seem to be more interested in staying informed of market trends. Cambodian companies that know their customers well tend to be more aware of their competitors and more frequently check their offerings than those with little knowledge about their customers.

When companies have meaningful insight about demand and the expectations of customers, it can also positively affect the way they manage inventory. This was seen among surveyed firms where companies with better customer information also tend to have a better inventory management system than those with low customer information.

At the same time, many companies surveyed (about four-fifths) in Cambodia struggle to obtain detailed information about their customers, particularly when they are at a distance from them. Exporters in the survey, for instance, tend to have less-complete customer information than non-exporters. This could be because many of these exporters use market intermediaries or did not sell directly online or provide after-sales services and, therefore, did not have the chance for direct interaction with end consumers in foreign markets.²⁹

When there is a lack of direct contact with foreign customers, (indirect) exporters may not get enough first-hand information about the needs and requirements of foreign customers to satisfy them effectively. Often the

only information available is from market intermediaries or the parent company that may be inadequate, unreliable or supplied late.³⁰

Within-sector collaboration facilitates firms' access to information

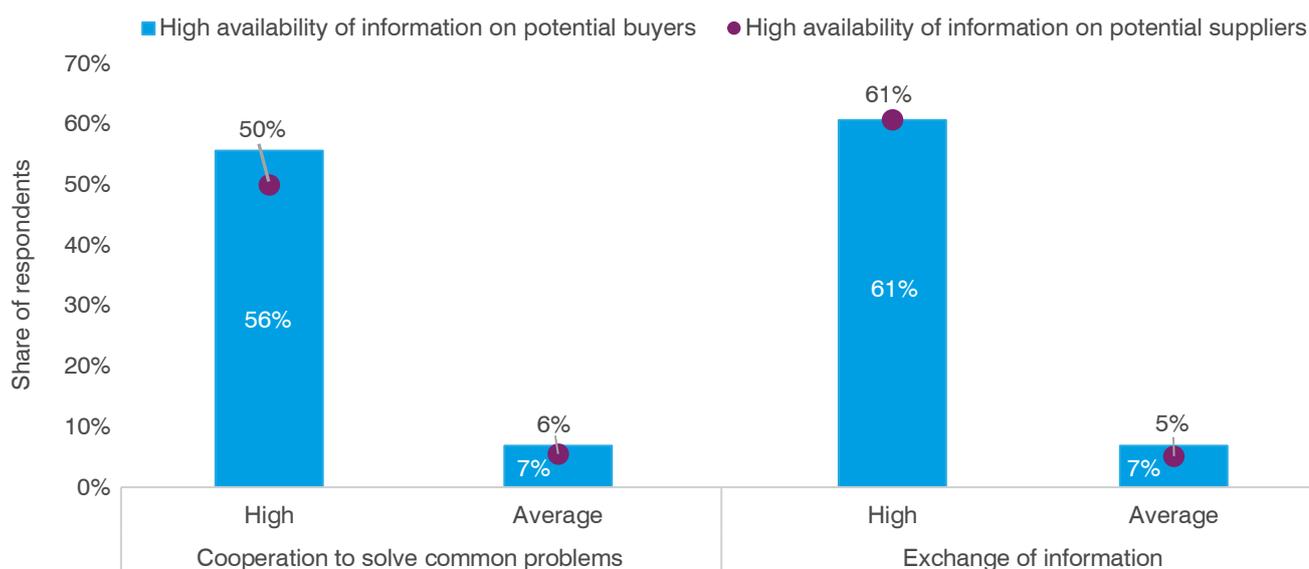
Collaboration with other companies, such as through information sharing, resource pooling and working together to address problems, can offer opportunities to improve SME performance and help industries to grow.³¹ This information helps firms to understand the commercial landscape of current and new markets, equips them to deliver offerings and customer service that are aligned with customers' needs and may permit them to capitalize on emerging opportunities.

Many SMEs lack sufficient knowledge about markets and resources to innovate individually, which hinders them from achieving their growth and export goals. By combining efforts and expertise, partners in the network are better able to overcome these barriers and increase their competitiveness.

Despite the many benefits, there are certain barriers to information sharing and common efforts between companies, particularly those operating in the same sector. Among these are competition, information privacy, and trust and reciprocity issues. In addition, power dynamics and commitments to buyers and suppliers are important determinants of information exchange between value chain partners.³² However, collaboration can take many forms and need not require companies to sacrifice their competitive advantage. Building a network in a way that allows companies to complement each other without risking their market share or intellectual property is essential.

Most Cambodian firms are engaged in some form of information sharing or cooperation with other firms in their sector. The survey results show that more collaboration through cooperation to solve problems and exchange of information is positively associated with the availability of information on potential buyers and suppliers (see Figure 7). That is, collaboration helps firms to be more informed about potential buyers and suppliers. The exchange of market information, such as market trends, which may be beneficial to the sector as a whole, is also associated with firms being better informed. The quality of such information is also reportedly better and costs less to procure.

Figure 7 Firms that collaborate have better information on potential buyers and suppliers



Note: Respondents were asked: 'To what extent do companies in your sector exchange market information which may be beneficial to the sector as a whole?' and 'To what extent do companies in your sector cooperate to solve common problems which may be beneficial to the sector as a whole?' Response options ranged from 1 (no extent) to 6 (great extent): answers of 1 or 2 were put in the 'low' category, 3 or 4 in the 'average' category, and 5 or 6 in the 'high' category. These responses were then linked with the questions: 'Please rate the availability of market information on potential buyers' and 'Please rate the availability of market information on potential suppliers'. Response options ranged from 1 (very low) to 6 (very high) and were grouped into three categories: low, average and high. Selected groups are reported in the figure.

Source: ITC calculation based on SME Competitiveness data collected in Cambodia.



Business networks can thus be valuable in improving SME information on markets. They are also useful for staying abreast of new industry trends and demands, thereby allowing enterprises to design, develop and modify products based on the requirements of target markets. Survey evidence supports this; firms collaborating with other companies in the sector are more likely to have a higher rate of innovation and are more informed about the procedures for protecting intellectual property.

Linkages with institutions enhance access to benefits and market information

While collaboration can be built by firms themselves, BSOs, such as sector associations, chambers of commerce, and trade and investment support institutions, can play a key role in facilitating interaction between firms. Through their vast networks and membership of SMEs, BSOs can fashion effective collaborative partnerships by linking firms that can augment each other's offerings. They can also educate firms on how to partner well and build the requisite level of trust. Moreover, they can provide regulatory support and invest

in relevant infrastructure to enable effective partnerships and innovative outcomes.³³

Industry collaboration is particularly important during a crisis.³⁴ Building collaborative platforms among local industry actors for communicating, gathering information and solving problems helps to create an ecosystem and social forum in which participants can plan crisis responses and assist each other. The diversity of experience allows risks and opportunities to be viewed from different angles and can lead to new solutions.

Small businesses can connect to industry associations, BSOs and other actors in their business ecosystem for information and leadership to bolster their ability to cope.³⁵ For instance, they can provide information on COVID-19 from a business perspective, perhaps through a specialized webpage or other channels, to help firms navigate the crisis.

Different types of BSOs share common responsibilities in strengthening the technical capacities of firms, generating business leads, offering foreign trade representation and trade information services, facilitating trade and contributing to the growth and internationalization of SMEs. Membership or involvement with a chamber

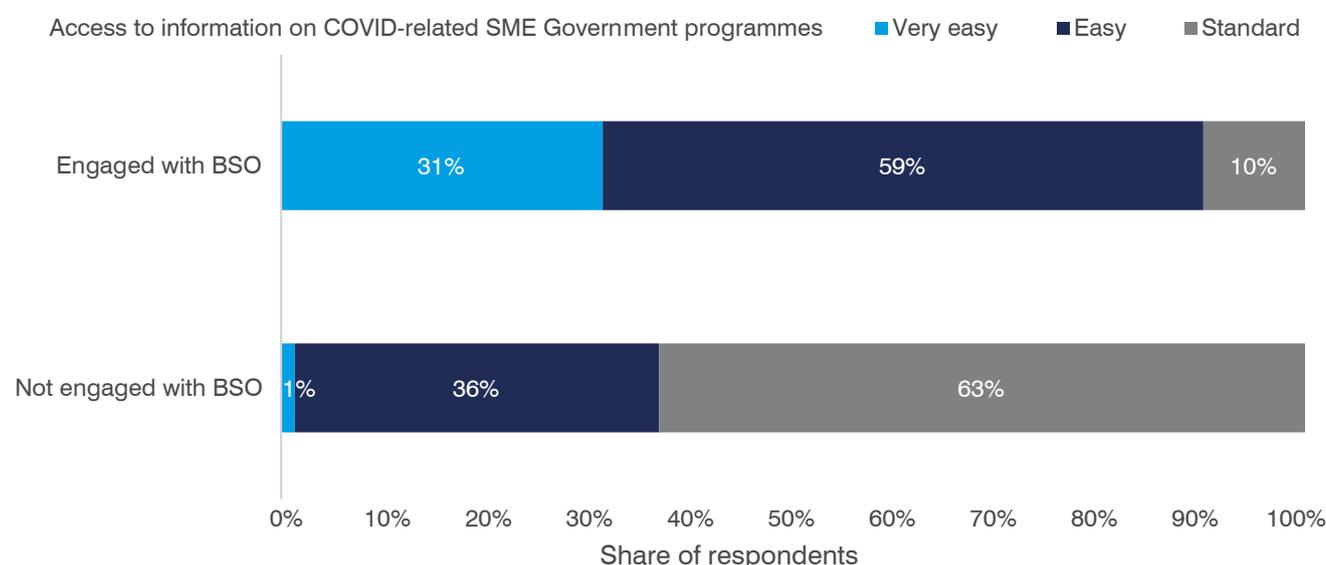
of commerce was the most common among survey respondents, followed by involvement with a TPO, then with IPAs and, finally, sector associations.

Cambodian firms appear to benefit from their involvement with BSOs. The provision of high-quality and up-to-date business information is critical to any business, as informed businesses are better positioned to make sound decisions and mitigate the negative impact of a crisis. It is particularly important for SMEs, which often have few

means of gathering the array of business information they need.

In most developing countries, the SME sector suffers from an inadequate supply of relevant information usually provided by public institutions or private associations in developed countries.³⁶ Among survey respondents, 46% of firms are actively engaged with at least one BSO. Notably, these firms tend to report easier access to information on government COVID-related SME assistance programmes (see Figure 8).

Figure 8 Linkages with BSOs facilitate access to information and benefits



Note: Respondents were asked: ‘How easy is it to access information and benefits from government COVID-related SME assistance programmes?’ Response options ranged from 1 (very easy) to 5 (very difficult). These responses were then linked with the question: ‘Are you actively engaged with any of the following types of institutions? (i) Trade promotion organizations (ii) Investment promotion organizations (iii) Chambers of commerce (iv) Sector associations.’

Source: ITC calculation based on SME Competitiveness data collected in Cambodia.



The level of engagement with BSOs differs across companies. Interestingly, woman-led companies vastly outpace man-led companies in engagement with BSOs, and reported easier access to information about government COVID-19 relief programmes. Exporters are also more likely to engage with BSOs than non-exporters, and reported better access to COVID-19 relief information than non-exporters.

Not all BSOs offer the same level of service, however. Most companies rated the quality of the services offered by BSOs to be average (i.e. neither high nor low quality), but companies that perceived the services of the BSOs to be of high quality also tended to report higher availability

and quality of market information on potential buyers and suppliers, compared to firms that had lower opinion of the BSOs.

The COVID-19 crisis has shown the importance of being united and coordinated. Even if there is support coming from the government or other sources, many SMEs need help on how to plan and efficiently use their scarce resources, as well as how to navigate new regulations and requirements. Through their large membership and networks, BSOs are well positioned to analyse the impact of the pandemic, identify solutions and advocate their members' interests regarding the government's pandemic response.

Policy insight: Strengthening business networks and supports will ease information sharing

There are opportunities to strengthen the links between small Cambodian firms, suppliers, buyers and business support organizations that facilitate information sharing and cooperation. The survey finds that better information flow helps companies cope with various challenges, including the COVID-19 crisis and other marketing and competitiveness challenges. A crucial caveat is that information needs to be timely, accurate and reliable in order to result in sound business decisions.

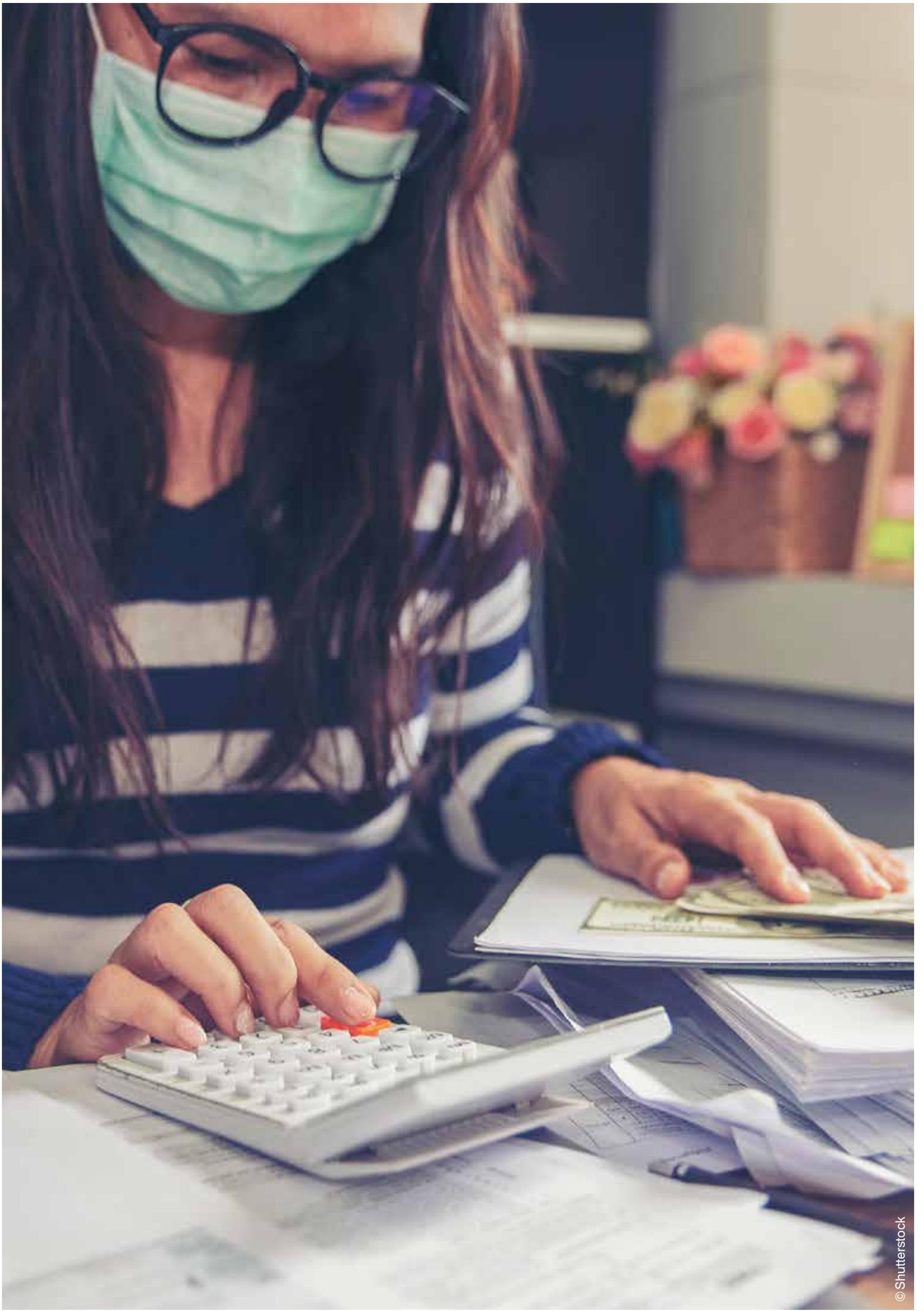
Firms can rely on their own resources for the collection and analysis of information and, through collaboration, Cambodian businesses can complement each other and pool their resources to compete in areas that are otherwise unattainable for a single small company. Networking events (face-to-face or online) are held frequently in Cambodia, providing collaboration opportunities for local and foreign companies. Encouraging all industries to organize networking events or conferences and increasing the participation of rural enterprises will ensure inclusive growth. Greater emphasis on cross-sectoral collaboration will also enhance innovation and entrepreneurship in the country. In international markets, collaboration may take place through export consortia, participation in trade fairs and cooperation on other trade promotion efforts.

Survey evidence also shows that business support networks can provide members with access to resources

that are beyond the scope of an individual business. Cambodia has a wide range of business associations that facilitate information sharing and analysis to companies and support their planning activities. However, a high proportion of Cambodian enterprises are not connected to any business support organization. Reaching out to small firms in rural areas or subsectors with high export potential and encouraging them to engage with BSOs could improve their competitiveness, trade flows and resilience.

Improvements in the capacity of BSOs and quality of services they provide will also be important in helping firms to grow and succeed in new markets. Good business support organizations leverage their knowledge of business, convening power and credibility to represent SMEs, make their needs known among policymakers and funders, and build bridges to deploy solutions rapidly. To build resilience, BSOs could take the opportunity provided by the COVID-19 response to shift some of their support away from existing businesses to innovative, promising start-ups, from urban to rural areas, and towards climate-friendly and socially responsible sectors. ITC's 15-point action plan highlights how business support organizations have played a central role during the crisis to channel the flow of trusted information from a business perspective, for example, through specialized webpages.

Source: *Business Networking in Cambodia*. B2B Cambodia. <https://www.b2b-cambodia.com/industry-overviews/additional-information/networking/>; Chappaz, A. (2020). Resilience and recovery for good: Business support organizations critical actors for business survival. ITC Blogs. 16 April. <https://www.intracen.org/covid19/Blog/Resilience-and-recovery-for-good-Business-support-organizations-critical-actors-for-business-survival/>; ITC (2020b). *Supporting small businesses through the COVID-19 crisis and towards the future: A 15-point Action Plan*. Geneva, Switzerland: International Trade Centre. <https://www.intracen.org/uploadedFiles/15point.pdf>



Chapter 3

Driving growth through change and innovation

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Driving growth through change and innovation

Firms are regularly exposed to changes in their local environment and international situation, and adequate returns can only be achieved in a sustained manner if the firm can adjust to or embrace change. A firm's capacity to change or adapt to market trends is determined by factors such as its technology use and investment in innovation, access to funding for investments, and the capability to access and generate skills.³⁷



In addition, competitiveness implies the presence of the capacity for adaptation and resilience. External factors change very rapidly, as witnessed in the most recent pandemic crisis. Firms that manage change well have generally been better positioned to handle these challenges. Findings from the SME Competitiveness Survey in Cambodia show that many firms engage in innovative activities, which tend to be associated with greater resilience in the face of the challenges brought by the COVID-19 pandemic.

While the country has made positive strides in financial inclusion, narrowing the gender gap in this regard remains a challenge. Survey findings show that women-led firms fall behind male counterparts in meeting financial requirements. The survey also reveals a skill matching gap between the available pool of workers and those needed by companies. However, firms with a robust recruitment system reported a better match between employee skills and company needs.

Innovation has helped some firms cope with the COVID-19 crisis

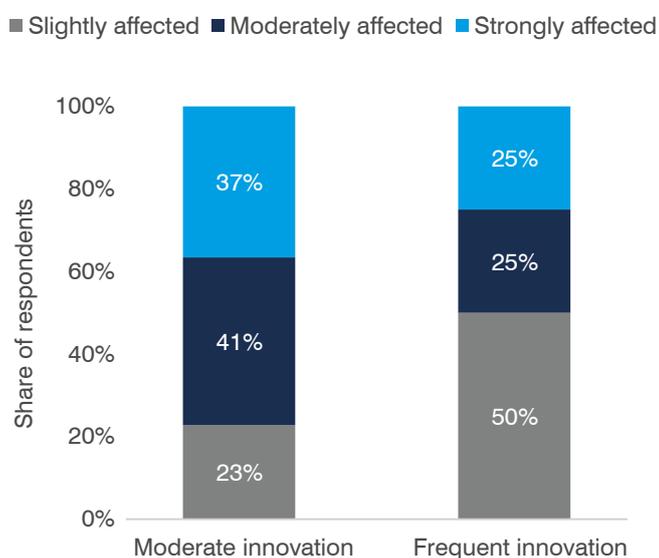
Innovation in products and processes can help to improve firm productivity by lowering costs, improving the value of output and demonstrating firm capacities for implementing change. As such, innovative firms tend to be better performers, and are often better able to withstand negative shocks than their competitors.

Indeed, more-innovative firms in Cambodia have tended to be less affected by the economic challenges associated with the pandemic. Figure 9 shows that half of the surveyed firms with a high frequency of developing new products were only slightly affected by the COVID-19 pandemic. In contrast, firms with a lower propensity to innovate were more severely affected.

Survey evidence also shows that highly innovative firms were more likely than others to customize or create new products to cope with the COVID-19 crisis. Moderately innovative firms, on the other hand, were more likely to cope by loaning employees to other businesses. These results support previous research demonstrating that investing in innovation could pay crucial economic dividends in Cambodia.³⁸



Figure 9 Innovative firms were less affected by COVID-19-induced economic shocks



Note: Panel (a) Respondents were asked: 'Please rate the frequency with which your company develops and implements new or improved processes or products'. Options ranged from 1 (rarely) to 6 (often): answers of 1 or 2 were put in the worst category, 3 or 4 in the middle category, and 5 or 6 in the best category. This question was analysed against the question: 'How have your business operations been affected by the coronavirus (COVID-19) pandemic?' Options were: not affected, slightly, moderately and strongly affected.

Source: ITC calculation based on SME competitiveness data collected in Cambodia.

In Cambodia, innovation is at an early stage of development due to market, technological and institutional constraints. With fragile infrastructure and weak legal and financial institutions that can deter or hinder innovative entrepreneurial activities, technological sophistication and innovation have played a minor role in Cambodia's economic development. As a result, expenditure on research and development and numbers of researchers are relatively low in Cambodia in comparison with South-East Asia. Research publications and patenting are also relatively low.³⁹ Evidence also suggests that Cambodia lags behind its regional neighbours in other factors that spur innovation, including human capital and research, market and business sophistication and knowledge outputs.⁴⁰



Employee skills are important enabling factors in firm-level innovation. Investment in skills can help firms develop and exploit new ideas, leading to profitable innovation.⁴¹ Survey findings reveal that firms with better recruitment processes and higher instances of finding suitable candidates tend to innovate more. Firms that actively pursue innovation made up almost two-fifths of firms with good skills matching while accounting for no more than 5% among firms with lower skill-matching cases. Moreover, about 41% of surveyed firms with relatively good hiring systems are developing new products frequently.

Research and development projects tend to entail high fixed costs and sizeable minimum scale, putting pressure on profits and increasing the risk of firms' failure. This particularly hinders resource-constrained SMEs from increasing their innovation efforts. Therefore, one way to foster innovation among firms is better access to finance. Several empirical studies on private firms across developing countries have found a positive association between external finance and innovation.⁴² In Cambodia, the SME Competitiveness Survey finds that firms with better access to financial institutions or better at cash flow

management could innovate more frequently and commit more resources to research and development. Therefore, access to finance has a vital role in enhancing a firm's capacity to change, whether directly or indirectly through strengthening its innovative capacity.

Further work is needed to narrow the gender gap in financial inclusion

Financing is essential for a firm's daily operations, implementing business strategies, and making investments for the future. Access to affordable funding to invest in innovation and diversification is a critical aspect of competitiveness. However, various market frictions may hinder financial inclusion. Some individuals or firms may lack access to financial services due to inadequate income, discrimination, lack of information, price barriers, shortcomings in contract enforcement or product features that make a product inappropriate for some groups.

In addition, some may be excluded due to the absence of financial institutions in their area, which is the case in many rural and remote areas. Furthermore, some may lack

access due to regulatory barriers such as documentation requirements of opening an account (having a valid identification, formal address or sector employment).⁴³ It may also be that some individuals or firms do not need financial services or choose not to use them.⁴⁴

The financial sector in Cambodia has experienced rapid growth over the past decade. From 2011 to 2019, credit to the private sector as a percentage of Cambodia's GDP increased from 28% to 114%, exceeding the average of lower middle-income countries (45% in 2019) and that of Indonesia and the Philippines (38% and 48%, respectively, in 2019).⁴⁵ The main financial services providers in Cambodia are banks and microfinance institutions. With the numbers of depositors, borrowers and financial institutions expanding in recent years, financial inclusion in Cambodia has reached new segments of the population and businesses.⁴⁶

The results from the SME Competitiveness Survey reflect the progress in financial inclusion that Cambodia has attained over the past decade. Nine out of 10 surveyed firms held a business bank account and had encountered banks and insurance companies that offer financial services. A large majority of firms did not face any severe



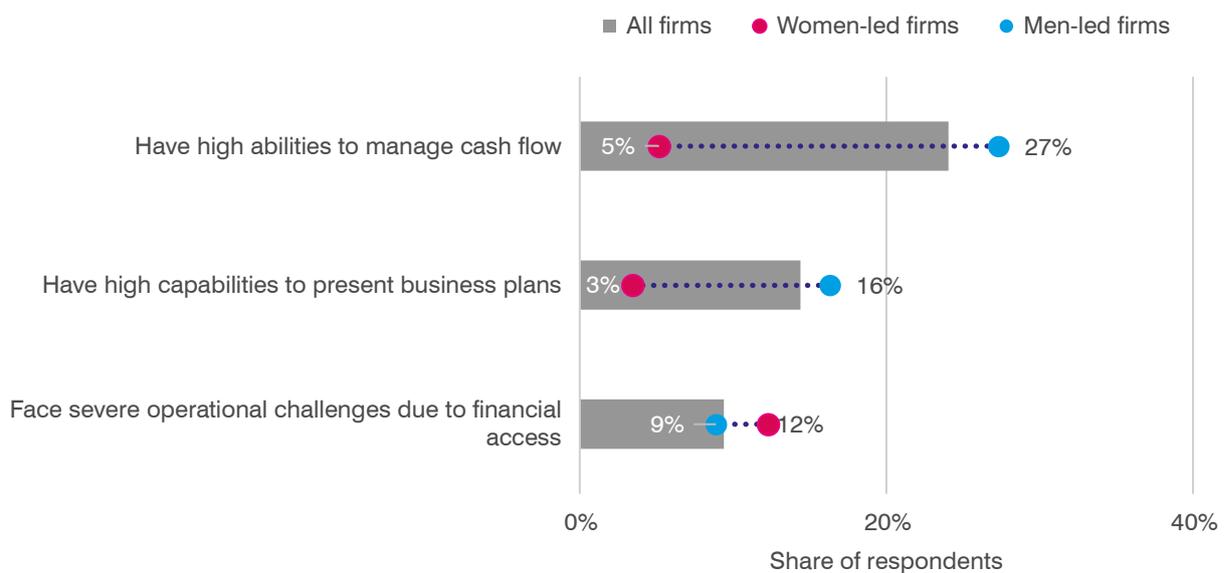
difficulty accessing financial institutions (see Figure 10). Access to finance, measured by the degree of business bank account ownership and ease of access, is high across all surveyed regions.

Despite the strides achieved in financial inclusion, findings from the SME Competitiveness Survey in Cambodia show that narrowing the gender gap remains a challenge. Findings presented in Figure 10 show that women-led firms fell behind their male counterparts in financial requirements that are key to competitiveness. Fewer than one-quarter of surveyed firms reported high ability to manage cash flow and present a fully costed business

plan for getting loans; most of the surveyed firms reported 'average' abilities only.

The fractions of women-led firms reporting bank account ownership and high ability to manage cash flow and capability to present a business plan were significantly less than those of men-led firms. Almost one-third of men-led companies considered their ability to manage cash flow as high, against 5% for women-led companies. While access to finance is more of an obstacle to current operations for women-led firms than for their male counterparts, the shares do not differ significantly.

Figure 10 Women-led firms fall behind men-led counterparts in financial management



Note: Respondents were asked: 'Please rate the company's ability to manage its cash flow to reliably execute payments', 'Please rate the extent to which this company has the capability to present a fully costed business plan to a bank for the purposes of getting a loan' and 'To what degree is access to financial institutions an obstacle to current operations?' Options ranged from 1 (no ability or very severe obstacle) to 6 (very good ability or no obstacle): answers of 1 or 2 were put in the worst category, 3 or 4 in the middle category, and 5 or 6 in the best category.

Source: ITC calculation based on SME Competitiveness data collected in Cambodia.

A virtuous cycle between owning a bank account and financial management

SMEs often lack adequate financial records, which prevent them from accessing financing to expand their business.⁴⁷ Financial records allow firms to control their cash by showing how much cash the firm should have in hand at any point in time. They show how the business performs and helps

managers identify problems before it is too late, for example, if costs are too high or if sales are falling, thereby helping plan for the future.⁴⁸

Previous survey findings show that a considerable number of Cambodian SMEs do not understand financial records and reporting, and find it challenging to keep formal financial records.⁴⁹ However, most of the SMECS survey respondents have financial records and keep track of revenue and expenses. A relatively high proportion also

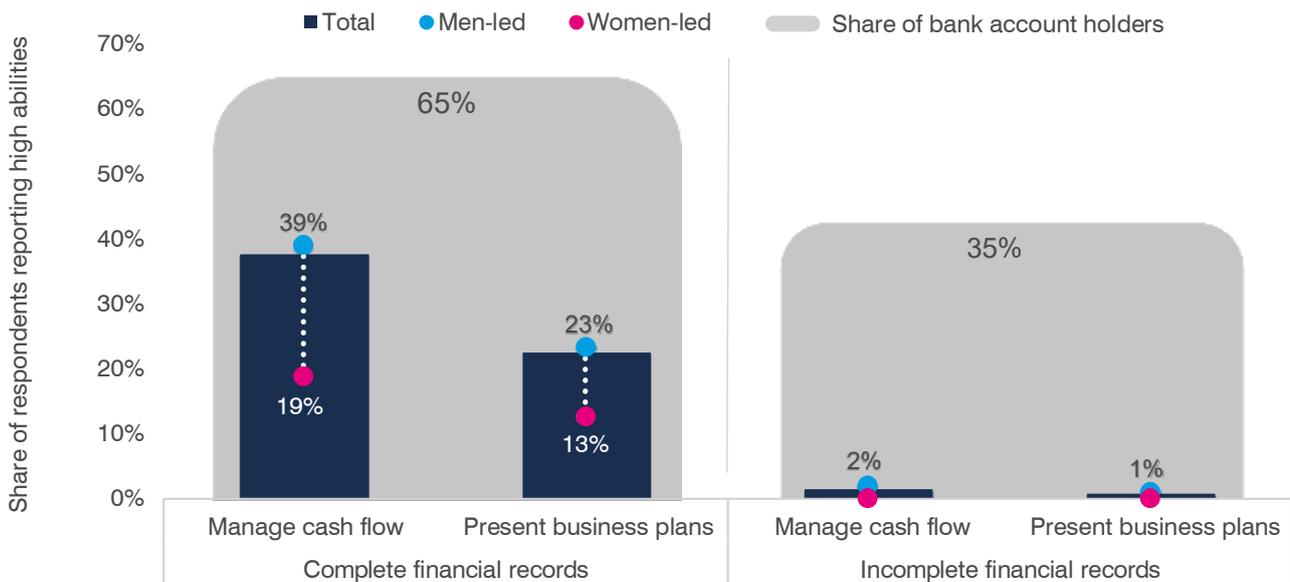
keep a record of their liabilities, but fewer firms maintain accounts of their assets. In total, 63% of surveyed firms keep records of their revenue, expenses, liabilities and assets, while the remaining 37% do not maintain complete financial records.

Having a separate business bank account can facilitate record-keeping and cash flow management. Business owners and managers who opened a bank account often find it easier to manage business operations and monitor financial records. They do so because organizing financial transactions enables their business to connect better with customers, clients, investors and financial institutions for diverse business opportunities.⁵⁰ Moreover, when they can integrate cash management with their online banking,

it gives them greater control of their cash flows and accessibility.

Insight from the SME Competitiveness Survey shows that Cambodian firms that have a separate bank account for managing business operations are more likely to maintain complete financial records (of revenues, expenses, liabilities and assets) than those without a bank account. The findings also show that managers and business owners who keep complete financial records usually report a higher ability to manage cash flow for executing payments reliably and present fully costed business plans for getting loans or other financing means (see Figure 11). Hence, there may be a virtuous cycle between owning a bank account, keeping financial records and eventually managing cash flows.

Figure 11 A virtuous cycle between owning a bank account and financial management



Note: Respondents were asked: 'At this time, does the company have a bank account for daily operations which is separate from a personal account?' This closed question was analysed against the multi-select and closed question: 'Does your company keep the following types of records: Revenues, Expenses, Liabilities or Assets?' The latter was analysed against two questions: 'Please rate the company's ability to manage its cash flow to reliably execute payments' and 'Please rate the extent to which this company has the capability to present a fully costed business plan to a bank for the purposes of getting a loan'. Options ranged from 1 (no ability) to 6 (very good ability): answers of 5 or 6 were put in the 'high' category.'

Source: ITC calculation based on SME Competitiveness data collected in Cambodia.

Women-led firms are less likely to hold separate business bank accounts, and are less likely to report keeping complete financial records than men-led firms. In fact, all surveyed women-led firms without a bank account reported incomplete financial records, while one-third of women-led firms with bank account kept all records. Even among companies keeping complete financial records, a lower

share of women-led firms said they have a high ability to manage cash flow and present business plans for obtaining loans than men-led firms (see Figure 11).

More than one-third of surveyed women-led firms with complete financial records reported high capabilities for managing cash flow and presenting business plans. By

contrast, only one-tenth of women managers and businesses who have incomplete records managed to perform highly in the aforementioned financial management capabilities. Facilitating access to banks and providing women business owners and managers with relevant financial management and business planning training could help them enhance their financial capabilities for meeting financing needs.

Skilled workers are critical for competitive and innovative firms

Employing skilled workers is critical to a firm's capacity to change and innovate. Skilled employees are not only more likely to deliver high-quality inputs; but also more likely to be flexible enough to adjust when triggered by changes in the market environment.⁵¹ Access to skilled labour has been shown to increase SMEs' technical efficiency, as well as their capacity to absorb foreign technologies, enter into more knowledge-intensive activities and deal with foreign clients' quality standards.⁵² Moreover, innovative firms have higher productivity and success in global markets.⁵³ Thus, SMEs with employees' skills below a certain threshold level

are more likely to end up in the low value-added segment of international value chains.

While Cambodia has seen rapid economic growth recently, much of this has come through increased labour utilization; labour productivity growth continues to lag behind other countries in the region, such as Viet Nam and Thailand. Most employment in Cambodia is low-skilled and labour-intensive, and a large share of the workers are informally employed.⁵⁴ The completion rate of lower secondary education (57.7% in 2019) is significantly below the average for lower-middle-income economies (73.8%).⁵⁵

Over the past 20 years, Cambodian policymakers focused on promoting low-cost and abundant labour conditions to foreign investors instead of adopting a holistic approach that also addressed workforce upskilling and economic diversification beyond tourism and the garment industries. Thus, Cambodia faces extensive skill development and productivity challenges. Moreover, evidence suggests that students in Cambodia do not acquire much schooling because poverty drives children to enter the labour force and drop out of school.⁵⁶ Low levels of education quality



and enrolment in secondary education have, in turn, led to a mismatch between workers’ skills and those sought by employers.⁵⁷ Mismatches between the skills fostered by countries’ education systems and the skills firms seek are a well-known source of economic inefficiency.⁵⁸

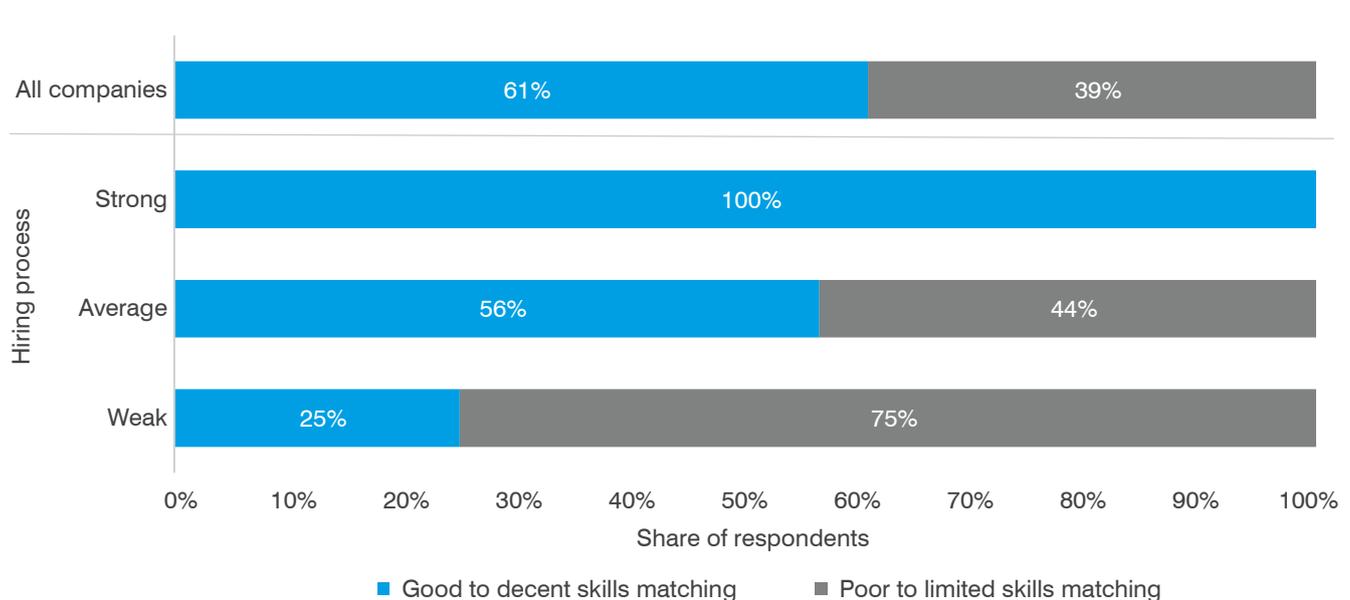
As a result of this weak record on education and skill development, many firms face difficulties in finding workers with skills matching their needs. Only 12% of surveyed firms report an abundance of skilled workers to hire or have employees who adequately meet their needs. In comparison, 87% of respondents identified a modest presence of skilled workers for hire and moderate matching of workers’ skills to the firm’s needs. These results are in line with the findings of a previous survey conducted by the World Bank, which showed that a higher share of firms in Cambodia than elsewhere in the region find the lack of an educated workforce is a significant constraint to their operations.⁵⁹

Survey findings further reveal strong recruitment mechanisms might help some Cambodian firms to overcome challenges in finding skilled workers and tend to have higher satisfaction levels regarding their current workforce.

Figure 12 compares firms with weak, average and strong hiring processes in terms of finding skilled workers to match the company’s needs. All surveyed firms with a robust recruitment system reported a good or decent match between employee skills and company needs. In contrast, only one-fourth of companies with weak hiring processes reported good or decent skills matching.

Local education systems appear to play a big role in determining the availability of skilled workers. Surveyed firms in regions with higher promotion rates of students from primary and secondary educational levels have a higher availability of skilled workers for hire. For instance, areas with a high student promotion rate, such as the capital region of Phnom Penh and the tourism hotspot, Siem Reap, also have a higher share of firms reporting good access to skilled workers than Battambang and Kampong Cham, regions with a lower student promotion rate. While 90% of surveyed firms based in Phnom Penh said that skilled workers are sufficiently available, just over 60% in Kampong Cham cited good availability of skilled workers.

Figure 12 Stronger hiring processes help finding employees with the skills needed



Note: Respondents were asked: ‘Please rate the extent to which your company has an established hiring process to hire the best candidate’. Options ranged from 1 (no established process) to 6 (strong established process); answers of 1 or 2 were put in the worst category, 3 or 4 in the middle category, and 5 or 6 in the best category. These were analysed against another question: ‘Please rate the extent to which the skill set of currently employed workers matches the needs of this company’. Options ranged from 1 (poor match) to 6 (good match); answers of 1, 2 or 3 were put in the ‘poor to limited’ category and 4, 5 or 6 in the ‘good to decent’ category.

Source: ITC calculation based on SME Competitiveness data collected in Cambodia.

Addressing regional disparities in educational attainment is therefore key to ensuring that the poorest and most remote Cambodian children can enrol and remain in

school. Bringing up the attainment levels in regions with low promotion rates will also ensure availability of skilled workers for hire in the coming years and decades.

Policy insight: Enhancing firms' adaptability and resilience

While internal factors are important in shaping firms' capacity for change, the environment in which they operate can direct how this capacity is used. Policy reforms on innovation, financial access and management, and skill development are therefore critical to support the emergence of more adaptable SMEs in Cambodia.

Innovative firms have performed better during the pandemic, and innovation will take on increasing importance to productivity and growth as Cambodia develops. A comprehensive approach to innovation includes investing in human capital to complement technological upgrading, establishing effective protections for intellectual property, and building institutions that support in high-potential areas of innovation. Aligning innovation and investment policy can help to foster technological transfer through inward flows of foreign direct investment. Financial incentives for investment in research and development may also encourage innovation activities among SMEs.

Improving financial inclusion – particularly for women-led companies – will be essential to heighten firms' capacity to change. Education and the development of finance and business skills, such as providing women managers and business owners with relevant training and guidance on maintaining financial records, could improve their ability to manage cash flow and present business plans to access financing opportunities.

In a similar vein, the association between firms' bank account use and capacity for financial management highlights the need for the continued development of the financial sector more generally in Cambodia. This will expand access to a broader range of financial services among SMEs, with direct and indirect benefits for firm management and competitiveness.

SMEs tend to be particularly affected by skill gaps, such as those identified in the SME Competitiveness Survey in Cambodia, as they do not have the financial and human resources to invest in training their workforce. In developing countries like Cambodia, firms need workers with education and skills to absorb foreign technologies and find innovative ways to adapt them. This will help firms move up the value chain or switch to high value-added activities.

The government and business support organizations can promote access to skilled labour by assisting firms with skill-matching problems in modernizing their recruitment procedures. However, to ensure skills availability, the quality of education and its relevance to the business sector must improve. Educational institutions can collaborate with firms and business support organizations to update and tailor curricula to the current and future needs of the labour market. The government can also provide training subsidies and support to employer networks that foster SME participation in training initiatives.



Chapter 4

Strengthening the foundations of competitiveness

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Strengthening the foundations of competitiveness

A successful business competes for market share by striking the right balance between quantity, quality, cost and the timely delivery of its product. Achieving such a balance is closely tied to the available resources and how management incorporates them. As such, having adequate access to resources and adopting efficient management practices can enable a business to fulfil its production potential and to fortify its market position. Productive firms expand operations, export and participate in global value chains, employ more people and, ultimately, attain sustainable growth.⁶⁰ In the face of the economic crisis associated with the COVID-19 pandemic, productive capacities have also enhanced resilience.

The results of the survey highlight the importance of quality and certification, access to utilities, as well as supplier diversification in enhancing performance. Quality and certification support firm performance and resilience, including by improving sales in export markets and facilitating participation in global value chains. However, there is a need for improved access to information on certification processes.

Supplier diversification appears to have better positioned some Cambodian firms to manage the effects of the pandemic, although more may need to be done to improve resiliency among smaller firms in particular. Access to utilities and logistics services is key for firms' daily operations, but regional inequalities hinder the potential of SMEs in some regions to contribute to economic growth.

Focus on quality helped certified firms better handle the pandemic

Recognized standards offer customers reliable information about a firm's products, and so can help businesses in expanding into new markets. Certification demonstrates a firm's ability to provide its customers products and services that meet certain standards and regulatory requirements. Numerous studies have confirmed a general positive effect

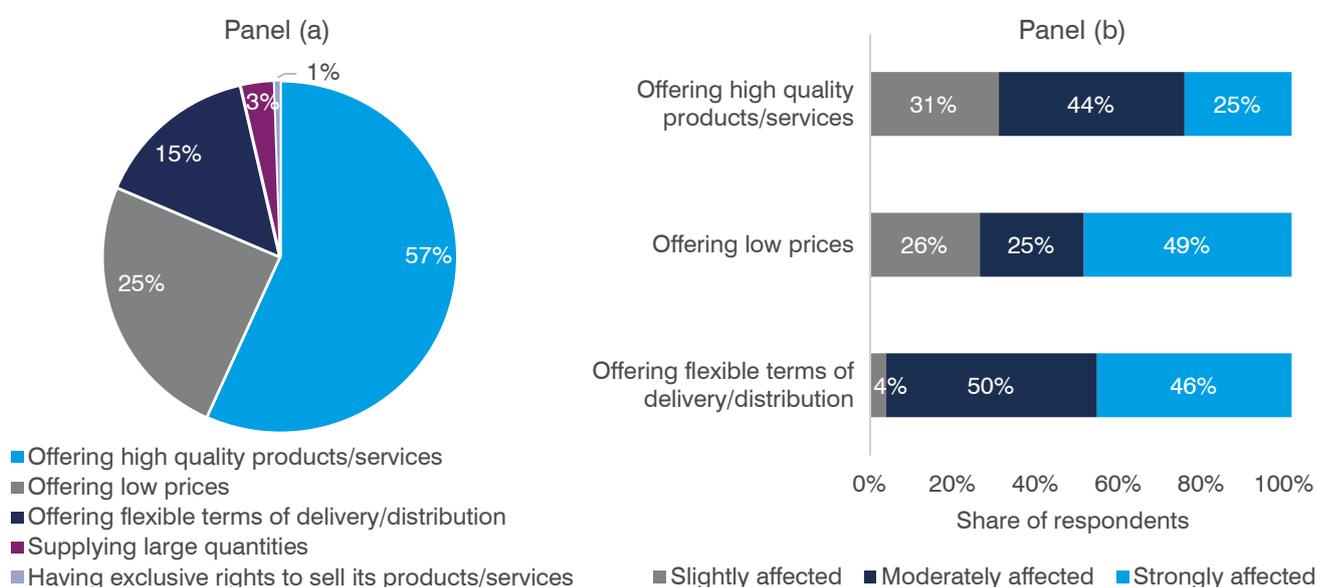
of certification on firms' performance and sales. A certified quality management system, for example, has been found to improve the internal efficiency of a company.⁶¹ Moreover, it can lead to operational improvements by redesigning the way an organization or company runs its routine operations.⁶²

Certification is quite common among surveyed Cambodian SMEs; approximately 90% of respondents, all registered companies, hold at least one internationally recognized certificate.⁶³ Moreover, one-third of firms have two certificates and one-quarter have three. More than 70% of respondents have a quality or performance certificate, half have a safety certificate, less than one-quarter have a sustainability certificate, and approximately 40% of firms hold other internationally recognized certificates (such as industry-specific certifications).

Producers of higher-quality products are less constrained by price competition. Surveyed firms were asked how they maintain their competitive edge over their competitors. Among certified firms, the most common answer was 'offering high-quality products or services', with over half of firms competing in this manner (see Figure 13 Panel (a)). Non-certified firms, on the other hand, competed mainly by offering low prices.



Figure 13 Certified producers of high quality products were less affected by COVID-19



Note: Respondents were asked: 'Does this establishment's main product or service hold any of the following types of internationally recognized certificates: Safety, Quality or performance, Sustainability and Other certificates?' This question was analysed against the question: 'Which statement best describes this establishment? This establishment competes by: offering low prices, supplying large quantities, offering high-quality products/services, offering flexible terms of delivery/distribution, having exclusive rights to sell its products or services'. The two questions were then examined against another question: 'How have your business operations been affected by the coronavirus (COVID-19) pandemic?'

Source: ITC calculation based on SME competitiveness data collected in Cambodia.

The focus of certified firms on quality appears to have helped them weather recent challenges. Certified firms competing by offering high quality products or services tended to be less affected by the economic shocks associated with the COVID-19 pandemic (see Figure 13 Panel (b)). Only one-quarter of businesses that emphasized quality were strongly affected by the pandemic while, among firms that rely on different modes of competition, about one-half of businesses were strongly affected.

These results suggest that strengthening the quality of products or services that Cambodian firms offer is important to firms affected by the pandemic. Certification might also help firms learn how to cut costs and, by enhancing knowledge transfer within a company, can potentially lead to further increases in productivity.⁶⁴ These are important factors for improving business resilience to crises.

The stronger performance and demonstrated resilience associated with quality and product or service certification is likely further supported by firms' export orientation. International standards certification stimulates firms' exports by raising productivity and bringing down transaction costs.⁶⁵ Likewise, having an internationally recognized

certificate increases the probability that an SME participates in global value chains, which can lead to increases in production, sales and exports.⁶⁶ Survey evidence from Cambodia shows that certified firms had average export sales and total sales approximately two to three times higher than non-certified firms.

In contrast, firms lacking certification tend to be less internationally focused; they are more likely to be domestically owned and are less likely to be directly involved in either exporting or importing. Among respondents without certification that engaged in exporting, most are active in the agribusiness (mainly in Battambang and Kampong Cham), manufacturing of food and beverages, and tourism or tourism-related sectors, while about half of exporters with certifications were found in the textile and apparel manufacturing or agribusiness sectors.

Given the essential role of certification in a firm's competitiveness, it is critical to provide a reliable source of information on how to obtain these certificates and other standards related to the firm's main product or service. However, the survey carried out in Cambodia revealed that it is challenging for firms to obtain this information. More



than 85% of the interviewed firms complained about the low availability of domestic information on certification and standards, as well as the cost of obtaining this information and its quality.

Diversified input sourcing limits firms' exposure to value chain shocks

Succeeding in a competitive global environment requires businesses to be flexible.⁶⁷ On the production side, diversification of a firm's supplier base is critical, as this allows it to better adapt to constantly changing market conditions and customer needs. This, in turn, fuels the firm's growth and sales.

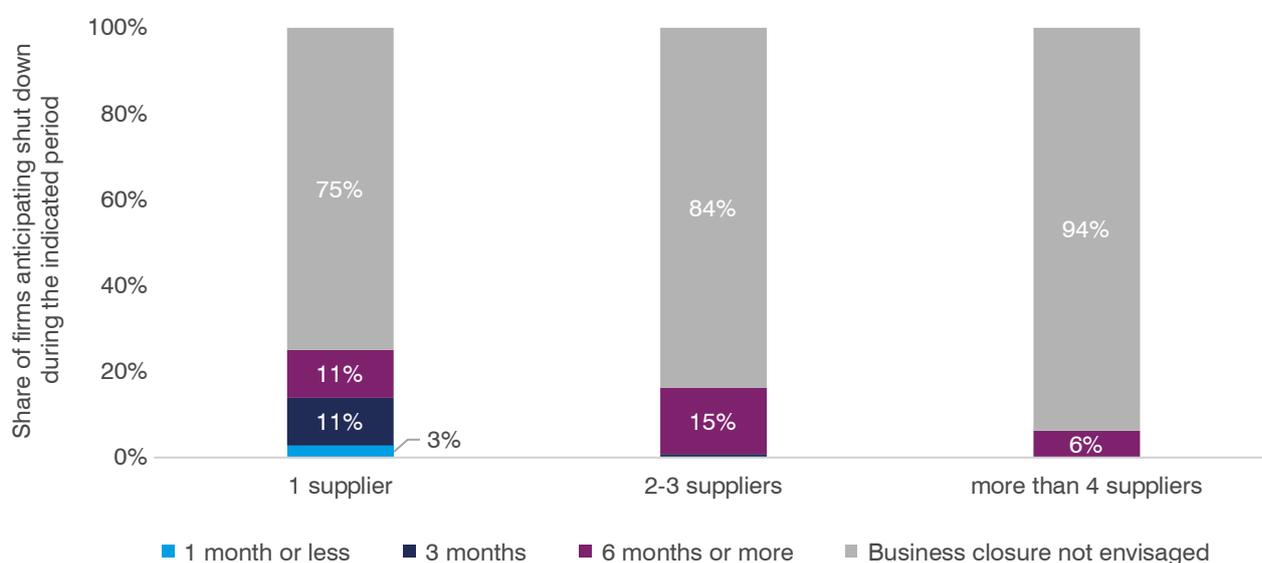
The pandemic has revealed the vulnerability of global value chains, leading to scrutiny on how they will need to adapt in future. It is forcing many companies to rethink their own value chains. Diversifying sourcing and designing smarter and stronger value chains are among the main lessons of the crisis for companies.⁶⁸ A firm's market power and global connectedness are vital in managing crises, as they serve

as buffers by allowing bigger margins of adjustments.⁶⁹ International firms, which enjoy a more diversified portfolio of suppliers and markets, are more resilient to negative domestic shocks due to their ability to make more flexible decisions in production and market management.⁷⁰

While some Cambodian firms have diversified their input sourcing, many firms – especially smaller firms – still rely on a narrow base of suppliers. According to the survey, 10% of respondents source from one input supplier, while half of the surveyed businesses have two or three suppliers, and fewer than 30% have a comparatively diversified base with four or more suppliers. The most diversified base of suppliers was found among larger firms and among manufacturers of leather, textile and apparel products; these firms had, on average, five input suppliers.

Firms with less-diversified sources of input supply faced more severe challenges during the pandemic. The survey data show that firms that are dependent on one supplier were more likely to anticipate closing their businesses in the near future than firms with a more diversified base of suppliers (see Figure 14).

Figure 14 Diversified input sourcing helped survival prospects during COVID-19



Note: Respondents were asked: 'How many suppliers do you currently have?' and 'Do you think there is a risk that your business will permanently shut down because of this crisis, and if so, when could this closure occur: 1 month or less, 3 months, 6 months or more, or Business closure not envisaged?'

Source: ITC calculation based on SME Competitiveness data collected in Cambodia.

Barriers to trade and the spillover effects of lockdowns and economic challenges elsewhere have also affected Cambodian firms. Out of the companies responding to the COVID-19 module, 27% reported having difficulty obtaining inputs from abroad due to COVID-19-related restriction measures. Not surprisingly, this problem seemed to be more pervasive among firms with fewer suppliers.

Good access to utilities enables efficient use of resources

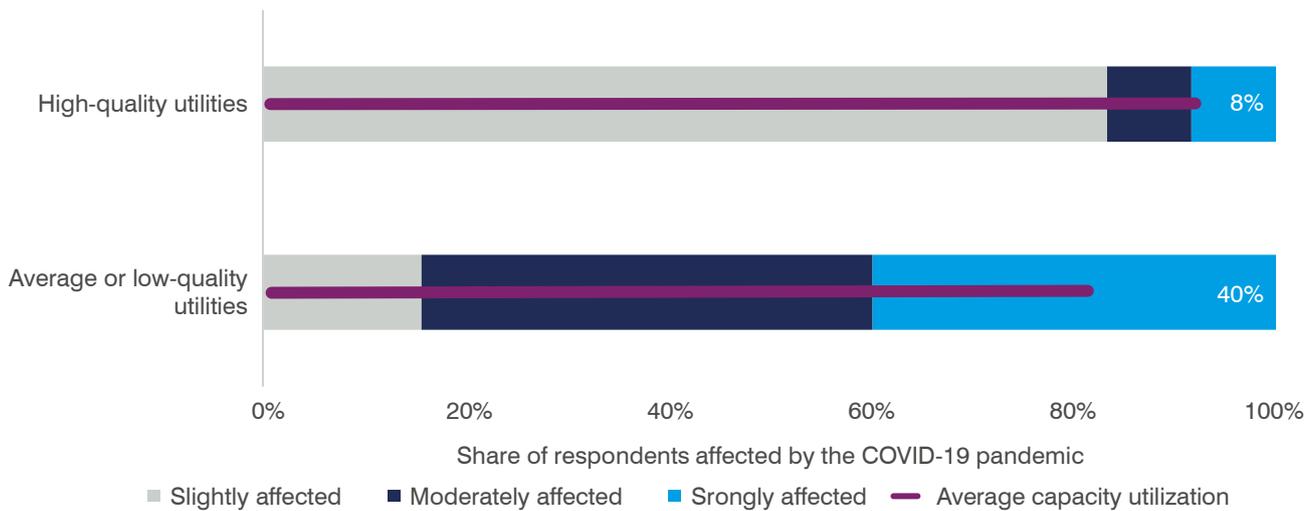
Adequate infrastructure, including continuous access to power and reliable logistics at a reasonable price, are essential factors feeding firms' value creation processes.⁷¹ Good and reliable access to utilities contributes to firms' competitiveness by enabling them to make better use of their resources.⁷² This is reflected in the SME Competitiveness Survey in Cambodia where, on average, firms with access to high-quality water, electricity and internet have 12% higher capacity utilization rates than firms facing difficulties accessing at least one of these facilities (see Figure 15).

Reliable access to utilities and the consequent efficient use of resources may, in turn, help to improve resilience in the face of negative shocks. Among the 240 surveyed firms that responded to questions about the impact of the pandemic,

good access to utilities appears to have helped Cambodian businesses to better confront the COVID-19-related crisis. Figure 15 shows that the share of firms strongly affected by the COVID-19 outbreak was five times lower among those with good access to utilities than those without.



Figure 15 Good access to utilities cushioned pandemic’s impact on firms



Note: Respondents were asked: ‘How would you rate your company’s access to water for production purposes?’, ‘How would you rate the quality of your electricity provider?’, ‘Please rate the quality of your internet connection’, ‘How have your business operations been affected by the coronavirus (COVID-19) pandemic?’ and ‘In the last year, what was this company’s output as a percentage of the maximum output possible?’. Respondents were considered to have good access to utilities if they reported facing no difficulties in accessing water, high-quality electricity and internet. Otherwise, access to utilities is considered to be average or low.

Source: ITC calculation based on SME competitiveness data collected in Cambodia.

The pandemic has confirmed the importance of digital technologies as drivers of firms’ growth and competitiveness. They have become essential for delivering information and services to society, particularly during crises.⁷³ Cambodia has one of the lowest mobile internet prices in the world.⁷⁴ This is reflected in the survey, where none of the respondents reported that internet costs were ‘high’.

Although the internet penetration rate in Cambodia has soared over the last decade, less than 60% of the population had access to 4G technology in 2018, which covered roughly 13% of the country, geographically.⁷⁵ Moreover, businesses’ uptake of fibre-optic connections remains low due to the high cost of leased lines.

This indicates that the quality of access to the internet – as well as to other utilities – varies significantly between regions. Surprisingly, firms’ perceptions of the quality of utilities are relatively poor in the capital region, Phnom Penh, where only 4% of respondents reported having high-quality utilities across the board, largely due to difficulty in accessing good internet.

Compared to other regions surveyed, firms in Kampong Cham had more difficulties in terms of access to water and electricity. While this can be expected since the region is less urbanized than the others, it has serious implications for the region’s development. Poor access to electricity can hinder the economic development of the region, for example, by decreasing the probability of non-agricultural self-employment.⁷⁶ In addition, the deficiency of water is closely related to sanitation and health, possibly posing significant challenges during the pandemic.⁷⁷

A firm’s competitiveness provides the foundation for its performance and resilience, as illustrated by the results of the SME Competitiveness Survey in Cambodia. Businesses have better adapted to unexpected challenges by focusing on quality and diversifying input sourcing. Having good access to utilities has also been an advantage. Improvements to the business environment and support for capacity building at the firm level can therefore be expected to yield positive results in terms of firm growth and employment generation. Ideally, these reforms and interventions would take place within the context of a coherent policy approach to SMEs and to private-sector development.

Policy insight: An improved business environment will contribute to enhanced firm performance

Findings from the SME Competitiveness Survey highlight the importance of quality and certification, access to utilities and supplier diversification in enhancing business performance. New policy approaches and SME support can help more Cambodian firms to place greater focus on quality, diversify input sourcing and access needed utilities.

While many respondent firms focus on quality and make use of certifications, greater awareness of and compliance with market access rules and voluntary standards will help to raise the value of output and reach new customers. Enhanced quality management at the sectoral and national level can drive improvements in sales, particularly in international markets. Government and business support organizations have a role to play in improving firms' access to information on relevant certifications, as well as helping firms to leverage their certifications to secure new buyers for their products and services.

Diversified sources of input contribute to resilience and can drive improvements in quality and productivity. Fostering improved business-to-business linkages, particularly among SMEs, and reform of trade policy on imported intermediary goods would facilitate this diversification. Broader economic reforms – such as those on competition policy – that encourage diversification more generally also support the growth of new linkages between firms.

Investment in expanded utilities networks and in improvements in the quality of service provided is needed to establish conditions favourable to the emergence of competitive firms. The alignment of future investments with sectoral and national development planning will help maximize the effectiveness of these investments. With more effective legislative frameworks and institutional capacities, public-private partnerships may provide an alternative means of financing and operating utilities systems.





Chapter 5

Policies for resilience and competitiveness

Policies for resilience and competitiveness

Cambodia's small business sector makes critical contributions to the economy. This sector generates employment, income and exports; plays a key role in driving development and structural transformation; and demonstrates the resiliency needed to help drive the post-crisis economic recovery.

However, smaller firms can also be particularly vulnerable to the risks arising from the COVID-19 pandemic; and there is a need to implement policies fostering enhanced competitiveness of SMEs, which will also support improved resilience in the small business sector. Addressing the challenges identified through the analysis of the responses from surveyed firms will require supporting the development of business networks and firms' access to information, encouraging the growth of innovative firms, enhancing access to finance and financial management skills, developing skills and efficient labour markets, and improving the business environment.

Supporting the development of business networks drives a more efficient SME sector

Business support organizations are key to strengthening firm capacities through cooperation and information sharing. The SME Competitiveness Survey results show the potential for expanding BSO membership. Similarly, the quality of services offered by BSOs can also be improved with recognition of priority areas for firms. The government has a role to play by raising the profile of BSOs in public-private consultations.

Online information portals and other information and communications technology tools have been used effectively elsewhere to lower the costs of interaction between BSOs and firms and to disseminate information in a timely manner. The use of these tools may be particularly relevant in response to the rapidly changing context of new challenges and opportunities arising as a result of COVID-19 (and that can be expected as the economic recovery takes hold). Government and BSOs can, for

example, cooperate to regularly update exporters on market access requirements in priority markets.

In addition to the services that can be offered through BSOs, firms may connect and collaborate in other ways, such as through export consortia that share the costs of promoting their products and services in high-potential international markets.





Broad reform strategies are needed to encourage efficient and innovative firms

Innovation in products and processes will be increasingly important to Cambodian SMEs to drive economic diversification, exporting and adaptability in the face of future shocks. Targeted financial and fiscal incentives for firms engaged in innovative activities may help manage risks associated with uncertain research and development investments, particularly where the benefits of these investments are most likely to be shared beyond the firms responsible. At a fundamental level, legislative and regulatory reforms may be needed to build confidence in the innovation system. Enforcement of intellectual property protections can be further strengthened as missing elements are developed. For example, there is not yet a specific law on trade secrets in Cambodia.

As innovation is the result of a range of interacting factors, its promotion requires efforts in a number of policy areas, including education and investment policy. In addition

to the direct contributions that worker skills make to firm competitiveness and resiliency, high-skilled workers with competencies related to new technologies are also complementary to innovation. Investment in general – and FDI in particular – offers an important channel for accessing knowledge flows. The potential for spillovers means that the targeting of appropriate investments can help drive innovation in domestic firms as well. Similarly, participation in global value chains can drive upgrading, where lead firms share technology with the suppliers and customers with whom they work.

Enhancing access to finance and business management skills will strengthen the SME sector

The growth of Cambodia's financial sector and increasing use of financial services by SMEs are providing these firms with new growth opportunities, although many still do not have access to the products and services they need to invest, manage revenues and limit risk exposure. In many



developing countries, information and communications technology has been shown to reduce transactions costs for financial intermediaries, allowing for significant expansions in financial access.

The rapid growth in the use of mobile technologies in Cambodia has established the conditions that allow improved access to finance by SMEs. Further work is needed to leverage the potential of these technologies and expand access, including addressing the demand side by further developing financial literacy.

Closely related to financial literacy, additional resources may also be needed to build firms' capacity for financial and business management. As the results of the survey make clear, many Cambodian SMEs – especially

women-led SMEs – identify limitations in their ability to manage cash flows and present business plans. Support for entrepreneurs through sector associations, incubators and mentorship programmes, as well as business management education, can be further developed in Cambodia alongside the growing business sector.

Productive firms require skill development and improved matching

Improvements can be made to skill development. Priorities could include expanding access to both formal and informal education, while ensuring that these programmes prepare workers with skills suited to labour market needs. This may include the expansion of practical education, such as apprenticeships and technical and vocational education and training (TVET). Strengthening job training would also be appropriate, and the establishment of means of recognizing acquired skills would provide incentives for workers and effective signalling in labour markets to potential new employers.

Work may be needed at the firm level as well. As the results of the SME Competitiveness Survey illustrate, the firms that have established strong hiring practices are better able to find employees with skills matching their needs. Supporting firm capacities for managing human resources and accessing labour market information may therefore also help to improve efficiencies. Labour market services (including career advice, labour market orientation and job search assistance) are provided publicly in some countries to improve matching, although the extent of these services has varied within developing countries. A review of labour market and other regulatory constraints may also help identify barriers to efficiency.

A better business environment allows dynamic firms to emerge

Quality and compliance with international standards expand the range of possibilities for SMEs. Properly leveraged, certifications of products and services can drive firms' expansion into new markets, diversify their buyers and raise the value of output. The public sector and BSOs can contribute to informing firms on the certification process and opportunities associated with certification. Sector associations and others may also engage in the proactive development of connections with new buyers on the basis of firm certifications. At a more fundamental level, further development of the domestic quality management

system is needed, such as through building the institutional capacity of the National Metrology Centre.

Firms' resiliency is also largely affected by the adaptability of their supply of inputs to shocks. Encouraging the diversification of suppliers can help firms build resilience through links with other firms and the use of trade and competition policy. Government and BSOs can reduce search costs by providing information on alternative sources of inputs through business directories or other means.

Importers' lack of reliable access to necessary inputs as a result of the pandemic is an illustration of the relevance of trade in intermediate goods, and so suggests a role for trade policy in facilitating importers' access to these goods from multiple suppliers and trade partners. Competition policy is another tool to be used in reducing market concentration, where this is a barrier to diversification. Cambodia's new Competition Law represents an important step in developing the necessary legislative framework, although more work will be needed in future.

Improvements in the access to and quality of utilities are essential to ameliorate the external factors influencing firms' competitiveness. There is a need to align these investment priorities in utilities with development planning, including by ensuring that the SME sector is appropriately represented in consultation on the National Strategic Development Plan and relevant sector strategies. The private sector – including foreign investors – may also

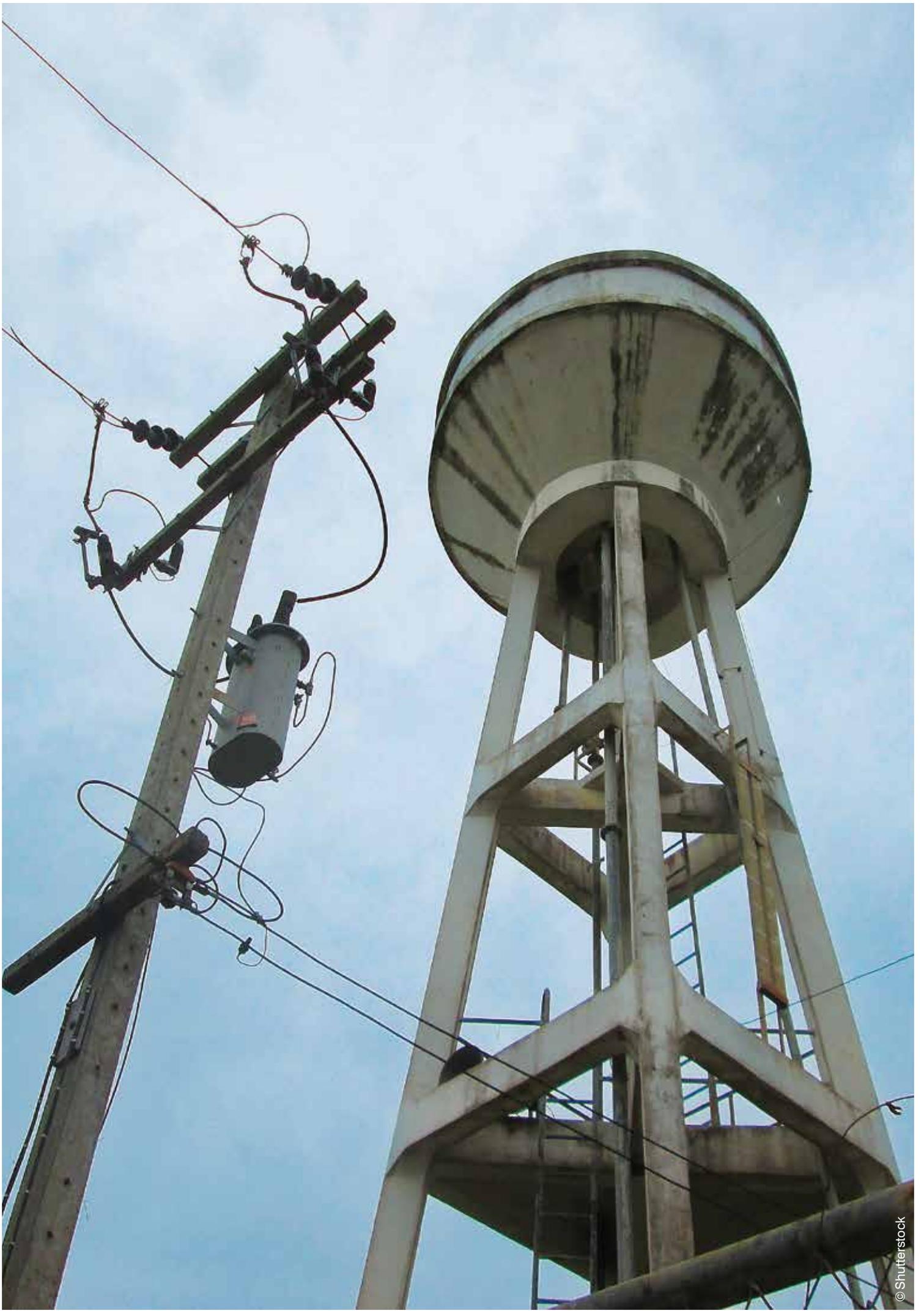
have a role to play in financing relevant infrastructure development and operations. However, the effective implementation of public-private partnerships will require the strengthening of regulatory systems and institutional capacities, despite some recent improvements in Cambodia's PPP legal framework.

Enhanced resiliency through inclusive development

This report illustrates some of the many ways in which Cambodian firms have demonstrated their competitive potential, adaptability and resilience, even in trying times. However, gaps remain in firm performance, cooperation and access to business services, and market reach. Broader improvements in important areas, such as skill development and innovation, are also needed to boost competitiveness.

Coherent policy reforms and the expansion of support programmes can help to address these challenges and realize the opportunities facing Cambodian firms. The continued growth of the private sector in general – and smaller firms in particular – will require efforts to be made in enhancing the business environment, building useful business networks, expanding access to finance and investing in skills firms need to grow. With the right reforms and interventions, Cambodia's SME sector will contribute to economic recovery for inclusive and sustainable economic development.





Annex

About the SME Competitiveness Survey

About the SME Competitiveness Survey

Many factors influence the competitiveness of an economy in domestic and international markets. ITC provides a holistic view of enterprise competitiveness in the following definition:

Competitiveness is the demonstrated ability to design, produce and commercialize an offer that fully, uniquely and continuously fulfils the needs of targeted market segments, while connecting with and drawing resources from the business environment, and achieving a sustainable return on the resources employed.

The importance of competitiveness in driving firm survival, growth and trade makes it a key element in economic development. For this reason, ITC has developed an analytical framework to understand firm competitiveness and how it can be improved over time. It consists of three pillars that drive competitiveness, each subdivided into three themes (see Figure 1).⁷⁸

The three pillars of competitiveness are compete, connect and change.

- **Capacity to compete:** This pillar refers to the static dimension of competitiveness, focusing on the current operations of firms and their efficiency in terms of cost, time, quality and quantity themes. This concept also extends to the immediate business and national environment. Examples of determinants include the use of internationally recognized quality certificates (firm capability), access to technical infrastructure (immediate business environment) and low tariffs (macro environment).
- **Capacity to connect:** This pillar centres on gathering and exploiting information and knowledge. At the firm level, this refers to efforts to collect information flowing into the firm (e.g. consumer profiles, preferences and demand) and efforts to facilitate information flows from the firm (e.g. marketing and advertising). At the immediate business environment level, this includes

links to sector associations, chambers of commerce and other trade and investment support institutions. At the national level, the capacity to connect is largely about the availability of information and communications technology infrastructure. The capacity to connect is not strictly a time-sensitive phenomenon, but gathering and exploiting information is so fundamental to current and future competitiveness that doing so is an essential link between the two pillars of static competitiveness and dynamic competitiveness.

- **Capacity to change:** This pillar pertains to the capacity of a firm to make changes in response to, or in anticipation of, dynamic market forces, and to innovate through investments in human, intellectual and financial capital. It incorporates the dynamic dimension of competitiveness. Industry phases and breakthrough or disruptive innovations all require strategy adaptations. Thus, the capacity to change includes how well firms access finance and invest in human capital, innovation and intellectual property protection. At the business or macroeconomic level, the ability of the environment to deliver these resources to companies is measured.

These three pillars of competitiveness can be examined at three levels of the economy.

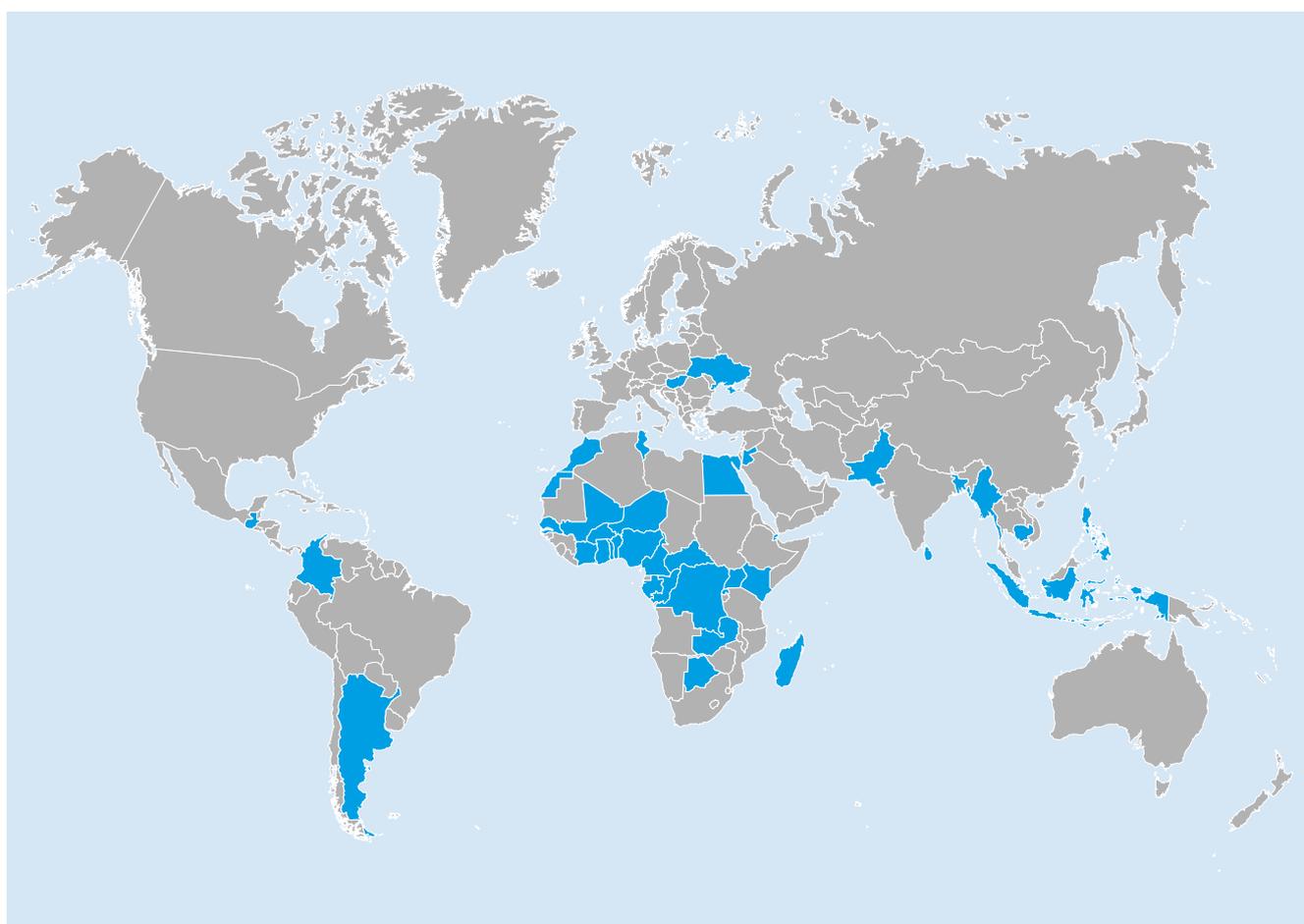
- At the **firm level**, their ability to manage resources adeptly influences their competitiveness.
- At the **business ecosystem level**, factors that support firm competitiveness but are outside the firm – including the availability of skilled workers, infrastructure and business support organizations – are important.
- The **national environment** includes the macroeconomic and governmental factors that establish the fundamentals for the functioning of markets in the economy.

The SME Competitiveness Grid bridges a gap in composite indicators that focus on macroeconomic determinants of competitiveness rather than local or microeconomic determinants. The importance of macroeconomic determinants is fully recognized, however, and is reflected in the 'national environment' level of the competitiveness grid. ITC's *SME Competitiveness Outlook 2015* provides a more detailed description of the SME Competitiveness Grid and the methodology behind it.

How to measure the competitiveness of small firms?

Measuring all dimensions of competitiveness can be difficult. ITC created the SME Competitiveness Survey (SMECS) to allow countries to collect the data they need to measure the competitiveness of their enterprises. As of January 2021, more than 18,400 firms had been surveyed in 50 countries, including Benin, Kenya, the Kingdom of Cambodia, Philippines and Zambia.

Figure 16 SME Competitiveness Surveys across the world



Source: ITC.

SMECS is typically deployed in partnership with domestic trade and investment support institutions. ITC gives these institutions the software to gather and maintain an active database on micro, small and medium-sized enterprises, and helps their staff select samples and train interviewers.

SMECS helps governments and trade support institutions better understand the needs of their enterprises. The tool is designed to combine information at the macro (national business climate), meso (local support ecosystem for businesses) and micro (firm capacity) levels to provide

a nuanced picture of the capacity of a country's private sector to compete in international markets.

Policymakers and trade support institutions can use the findings to identify and address bottlenecks to competitiveness; compare the competitiveness of enterprises based on size, sectors and location; and better match firms with potential investors and buyers.

How to understand the competitiveness of small firms?

This report uses the conceptual framework described above to evaluate the Cambodian SME Competitiveness Survey data and assess the competitive position of small and medium-sized companies in the country.

The report analyses data from three levels in the SME Competitiveness Grid: national, ecosystem and firm-level. The national environment is examined based on a review of secondary data and related literature. Firm- and ecosystem-level competitiveness are evaluated from firm-level survey data collected through SMECS.

The report is structured according to selected themes in the SME Competitiveness Grid. Themes were included in the report analysis depending on whether the data indicate that Cambodia has a particular strength or weakness in that domain, or if previous research suggests the topic is important to the country's SMEs.

A disaggregated analysis of the SMECS dataset in Cambodia yields additional insight on each theme. Subsamples from each sector are analysed to assess sector-specific challenges and strengths. Results vary by firm size, defined according to the number of employees, and women-led firms are compared to their men-led counterparts.

Where relevant, and notably in the final chapter, policy recommendations highlight opportunities to address issues that have been identified in the analysis of the data. The report presents highlights of the study of the data, given the limited space available. More analysis was conducted, and additional information can be extracted from the data.

Endnotes

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