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PRIVATE SECTOR DISCUSSION No. **11**

**The Private Manufacturing
Sector in Cambodia:
A SURVEY OF 63 FIRMS**

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ACRONYMS

ASEAN	-	Association of Southeast Asian Nations
CMT	-	Cut, Make, Trim
FDI	-	Foreign Direct Investment
FOB	-	Freight on Board
GDP	-	Gross Domestic Product
MPDF	-	Mekong Project Development Facility
ODA	-	Official Development Aid

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INTRODUCTION

This report advocates the position that local entrepreneurship and initiative are the fundamental underpinnings of sustained economic rehabilitation and development in Cambodia. In so doing, it seeks to balance alternative arguments that place external resources such as overseas development aid (ODA) and foreign direct investment (FDI) as the key determinants of Cambodia's economic future. The report presents the findings of a survey of some of Cambodia's most successful domestic entrepreneurs and addresses how well prepared they are for competition on a global scale and what means should be used to support their further growth.

The domestic private manufacturing sector described in this report is quite young. Still, it has already taken significant strides and shown its potential to make significant contributions in major areas of concern for national economic policy makers. Particularly noteworthy given Cambodia's rapidly growing work force is the average per firm labor growth rate of 25 percent a year seen over the short lives of sample firms. Such accomplishments are particularly impressive when put in the context of Cambodia's ongoing transitions to political calm and a market economy, wherein business support services are scarce and the business environment still suffers from lack of transparency and predictability.

The global marketplace, of course, will not make exceptions for Cambodia because of its past. With the government committed to greater stability and openness to the world, Cambodian business is set for inevitable and substantial change. In particular, domestic firms are clearly set to experience a significant rise in competitive pressures. Cambodia's first wave of entrepreneurial pioneers has shown great ingenuity and perseverance in succeeding in the difficult present environment. There is, therefore, good reason for optimism that, given fair access to basic commercial resources, they and those soon to follow will continue to adapt and broaden their success within the evolving framework of a more global, rules-based market.

I. SURVEY OBJECTIVES AND METHODOLOGY

A. Objectives

1.01 Based on the assumption that local entrepreneurs are central to any effort to significantly contribute to Cambodia's sustainable economic development, this survey report has three primary objectives: (i) to document the current status, opportunities, and constraints of the domestic private manufacturing sector; (ii) to identify opportunities and constraints that can be addressed by government, donors, and the private sector itself; and (iii) to identify specific opportunities for MPDF programming to directly assist individual private sector firms with viable investment plans and, more generally, to strengthen the full range of business support services available to the entire domestic private sector.

B. Methodology

1.02 *The Approach.* The survey concentrated exclusively on companies that: (i) have 20 or more employees; (ii) are formally registered with the government; (iii) are located in the greater Phnom Penh area¹; (iv) operate in the manufacturing industry; and (v) are majority owned by private individuals of Cambodian nationality. The goal was to interview a total of 100 firms.

1.03 Sample firms were limited to those with 20 or more employees for two main reasons. First, these larger firms were deemed best qualified to offer key insights on the prerequisites for success in Cambodia's current business environment. Size itself, to a significant extent, is a measure of success; and in Cambodia's young private sector, firms with 20 employees or more are indeed relatively large.² Second, most MPDF services are tailored for a category of enterprises that, while labeled small- and medium-sized, is still significantly larger than the average-sized private Cambodian firm. Focusing on larger firms also had practical research benefits, as nearly all firms in the defined group could be identified, whereas doing the same for the entire private enterprise sector was not feasible.

1.04 The legal registration criterion was designed to focus attention on the firms most important to future economic growth and job creation. It is well documented in many developing countries that informal sectors are invaluable sources of income generation, particularly for low-income and marginal groups, but informal sector contribution to overall economic growth is limited. Informal sectors are relatively inefficient producers of goods due to their small size and are rarely sources of significant creation of new, salaried jobs as few ever grow large enough to hire even one paid employee. Additionally, legal registration is a prerequisite for numerous key factors behind firm-level expansion, including formal bank lending.³

¹ The greater Phnom Penh area was defined as the city proper, plus a surrounding area extending up to 30 km away from the city.

² MPDF used a higher minimum cutoff of 100 employees for its survey of larger manufacturers in Vietnam, considering that country's greater number of large domestic private firms. See *Vietnam's Undersized Engine, A Survey of 95 Private Manufacturers* by Leila Webster and Markus Taussig, MPDF Discussion Paper #8, June 1999.

³ Many sample firms had registered locally but not nationally, i.e., with the communal or district authority prior to full registration with a national ministry even though the current law specifies that registration with the relevant national ministry is all that is required. Incentives to stall the full registration process, such as partial shielding from potential taxation, sometimes motivate manufacturers to delay the process as long as possible. As firms grow,

1.05 Limiting the geographic scope of the survey to the greater Phnom Penh area reflected the fact that while only about 18 percent of Cambodia's population resides in or near the city, the manufacturing industry is centered in Phnom Penh. This is in large part due to the area's superior infrastructure and disproportionately large share of national buying power.⁴ The geographic limitation also had a practical cost/benefit advantage: time and money spent would be much higher for reaching individual companies outside the general area of the capital, while the number and size of such firms appeared to be quite small.

1.06 The survey focused only on manufacturers because it is these firms that typically invest the most of their own capital and thus assume the greatest financial risk. Manufacturers also tend to be labor-intensive, in keeping with Cambodia's comparative advantage in low-cost labor. While agriculture is sure to remain the country's main employer for a long time to come, manufacturing is likely to be an important creator of much-needed new, salaried jobs for Cambodia's young population. These will generally be higher value-added and, as a result, higher wage jobs than those in primary agriculture. MPDF's own experience has also concentrated largely on the manufacturing sector.

1.07 Finally, the survey was limited to firms with majority private Cambodian ownership. Unlike in neighboring Vietnam, manufacturing is almost entirely privatized in Cambodia.⁵ And while foreign investment in manufacturing grew in significance over much of the 1990s, ultimately it will be domestic entrepreneurs who propel the economy forward, employ large numbers of Cambodians, and build the foundation of a viable tax base.⁶ Ultimately, the majority private, domestic ownership criterion also reflects the MPDF's own guiding mandate for action.

1.08 *The Survey Population.* A single, comprehensive database of registered companies is not yet available in Cambodia. A list of firms in the defined target group was created by combining MPDF's in-house list of companies with additional directories compiled by the Ministry of Commerce, Ministry of Finance, and other official government sources.⁷ Data from different sources was merged, filtered for duplication, and then each firm was contacted to verify it was still in operation and fit

it becomes beneficial to complete the process and become a fully licensed company. The impetus to complete the registration process is provided by such factors as access to government contracts, theoretical protection from petty graft at district or commune level, potential access to bank loans, and the right to import raw materials and export manufactured products.

⁴ Statistics on GDP distribution by region was not available at the time of this report. For population statistics, see "General Population Census of Cambodia 1998, Final Census Results" p. 9. The municipality of Phnom Penh had a reported population of 999,804—or 9% of the nation's total. The Province of Kandal, which surrounds Phnom Penh, had a reported population of 1,075,125—also 9% of the nation's total. The districts of Takmau, Kien Svay, Kandal Steung, and Khsach Kandal, the most densely populated of Kandal Province, are economic suburbs of Phnom Penh. Combined, the population of Phnom Penh and Kandal Province is 2,074,929—18% of the nation's total inhabitants.

⁵ Official statistics on state and private shares of the economy are unavailable in Cambodia. Drawing on lessons in other countries, the government has decided that state firms cannot be relied on as potential leaders of future growth because of their well-documented low levels of efficiency.

⁶ After climbing to US\$854 million in 1998, foreign investment approved in 1999 actually fell to US\$471.7 million in 1999, due to political instability. The government target for 2000 is US\$500 million (EIU Country Report Cambodia—August 2000, p. 12 of 16). It is also worth noting that a significant amount of foreign investment up until now has been of a short-term and fairly speculative nature.

⁷ Additional sources included Council for the Development of Cambodia, Ministry of Interior, Ministry of Social Affairs, Labor, Vocational Training and Youth Rehabilitation.

survey selection criteria. The final database of target group firms consisted of 145 companies. As explained below, however, most of the 63 firms in the final sample did not come from this database.⁸

1.09 *Sample Selection.* All 145 target group companies were sent a letter explaining the survey's objectives, requesting an interview, and promising a copy of the final report. Letters were then followed up with direct telephone calls to firm managers. In many cases, contacts in the government or business community intervened to convince individual managers of the value of establishing a relationship with MPDF through participation in the survey. Still, this process yielded interviews with only 23 firms.

1.10 Alternative means were used after it became clear that the database would not produce a sufficient number of firms. Seven firms agreed to participate after being introduced by MPDF staff and 14 after being introduced by local consultants who were paid per firm referral. Another three interviews were secured through newspaper advertisements.⁹ Finally, MPDF resorted to directly approaching firms that appeared on sight to meet survey criteria. In those cases where companies indeed did qualify, the purpose of the survey was explained and an interview requested. This latter method proved highly successful and in the end accounted for 16 of the firms included in the sample.

1.11 Given the relatively small number of firms that actually fit target group criteria as well as the significant number unwilling to participate, the final sample of 63 surveyed manufacturers was not randomly selected and may represent certain biases. Surveyed firms could be assumed to be, on average, more open-minded and optimistic about the benefits of contact with external parties than their peers who declined to participate. On the other hand, the latter group may not have felt any need for outside assistance. In any case, while the final group of 63 fell short of the targeted 100, it still did represent a significant share of total qualified target firms and allowed for findings that reflect the general state of the private sector.

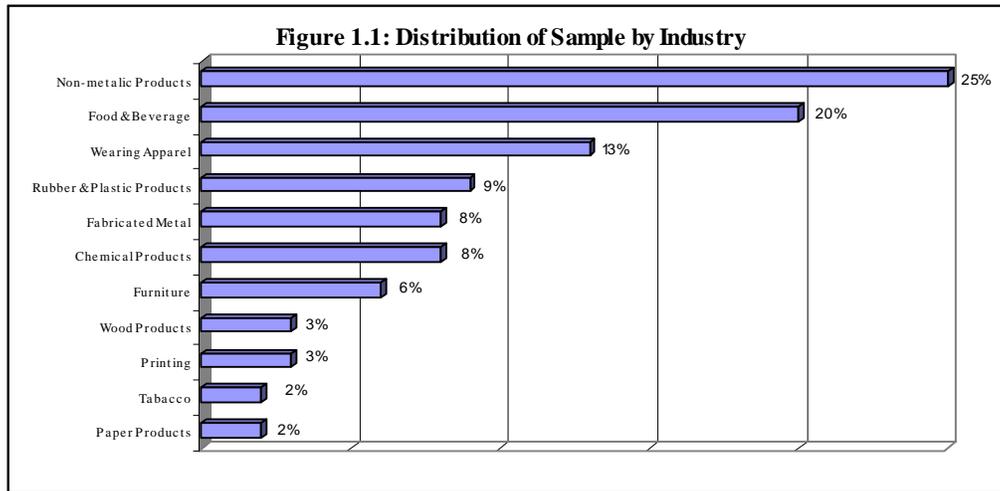
1.12 The final sample represented a diverse group of manufacturers ranging in size from 20 employees to 1,000 and across a wide variety of industries (see below). With few exceptions, all business operations—production, sales, storage, and management—were conducted at a single site. Facilities ranged from large garment factories equipped with modern, imported machinery to a small inner-tube manufacturer operating out of a wooden building with a dirt floor. Most firms openly displayed signs and lights denoting the location as a business.

1.13 A quarter of sample firms were in the non-metallic products sector, i.e. produced construction materials such as bricks and tiles. Twenty percent were food and beverage businesses—including water bottlers and rice millers—and the

⁸ That so many firms were found that were not in government databases reflects the reality that government has very limited information about the private manufacturing sector. This lack of communication clearly has implications for the government's ability to implement good public policy.

⁹ A newspaper advertisement was published in Phnom Penh's most prominent local newspaper *Resmei Kampuchea* for three consecutive days. It provided a basic explanation of the survey, a list of company criteria, and offered firms and individuals US\$10 for a successful interview. The same offer was made to individuals acting as freelance scouts looking for eligible firms.

remaining 55 percent were fairly thinly spread across garments, plastic goods, pharmaceuticals, metal, wood, and paper products.¹⁰



1.14 *The Questionnaire.* The survey questionnaire was based on one used by MPDF for a comparable exercise carried out in Vietnam.¹¹ It comprises 185 questions covering issues about: (i) the manager’s background and current status; (ii) the firm’s labor force, access to and use of capital, and main sources of markets, inputs, and competition; (iii) the business environment; (iv) the firm’s relations with government; and (v) the main constraints to firm-level growth.

1.15 *Implementation.* Survey teams interviewed the 63 sample firms between December 6 and December 24, 1999. Interviews were conducted by two person teams.¹² Interviews typically lasted approximately three hours and were conducted on-site with the company owner.¹³

1.16 *Data Processing.* Statistical software was used to calculate means, medians, and ranges for continuous variables and frequencies for discrete variables. Open-ended, qualitative answers were sorted using basic word processing software.

1.17 As a second step, a series of “mini-analyses” were designed to reveal trends in the data. Specifically, these sought to answer two related questions: (i) first, what were the main predictors of firm-level performance, i.e. what kinds of firms were performing best at the time of the survey; and (ii) second, what were the main predictors of firm-level access to resources, in particular to formal bank credit. Six

¹⁰ MPDF was unable to access either regional or national statistics from any official sources on sectoral distribution of firms within manufacturing.

¹¹ Questions from a survey tool used by MPDF in Vietnam were re-tooled for the Cambodian context. See Webster and Taussig, June 1999 and *A Survey of Medium and Large Private Companies in Lao PDR* by Leila Webster and Pat Dye, MPDF Discussion Paper #2, March 1998. These also built on earlier survey work by Ms. Webster in the transitional economies of Eastern Europe and the Middle East.

¹² Each team consisted of a foreigner with extensive international business development experience and one Cambodian who provided local knowledge and undertook the difficult task of effective translation.

¹³ The majority of interviewees were conducted with each firm’s primary owner/manager. In a few cases, interviewees were other management-level employees or majority shareholders with intimate knowledge of the company and the owner. Interviewees are referred to throughout the report as managers.

variables were hypothesized to be predictive of firm performance and access to resources. These were date of registration, number of full-time employees, employee growth rate, exporters vs. non-exporters, manager's ethnicity, and manager's previous employment. A seventh variable, identifying firms as either "winners" or "the rest", was created by combining a series of answers to questions addressing trends in sales and profits. The most interesting results of this analysis are presented in a "Mini-analysis" box in Chapter IV.

II. COUNTRY CONTEXT

A. A Brief History

2.01 The current state of Cambodia's economy and private sector must be seen in the context of the country's still-ongoing transition from centrally planned to market economy and evolution from protracted civil war to post-war reconstruction and stability. Only since the mid-1990s has a fledgling manufacturing base begun to emerge, diversifying the long stunted economy away from a traditional dependence on agriculture. A quick summary of Cambodia's history offers insights into why local manufacturing has been so slow to develop.

2.02 Cambodia was colonized in 1863 by the French, who claimed the move necessary to protect the flank of Cochinchina from Siamese aggression. French colonial control lasted 90 years until 1954, with a brief break in 1945 when Japanese forces named a young King Norodom Sihanouk as the country's nominal leader. Manufacturing during this time was minimal, limited mostly to rice processing and rubber. Most profits from both of these two industries went into foreign hands, either through direct ownership or heavy colonial taxes.¹⁴

2.03 Following 1954 multi-party peace talks in Geneva and French withdrawal from Southeast Asia, King Sihanouk abdicated his throne and led his own political party, the Sangkum Reastr Niyum, to electoral victory. Under Sihanouk, Cambodia tried to maintain a precarious balance of political neutrality, even as the growing war in Vietnam gradually spilled over the border. Increasing instability severely constrained business development. Meanwhile, even though Cambodia had taken control of judicial, military, and diplomatic affairs, control over imports and exports, including the lucrative rubber trade, remained largely in the hands of French merchants.¹⁵

2.04 In 1970, Sihanouk was overthrown in a coup by Lon Nol, ostensibly to re-establish a modicum of stability through reassertion of Cambodian sovereignty over territories lost to Khmer Rouge or Vietnamese control. As the government in fact progressively lost sovereignty over greater and greater parts of the country and fighting further intensified, Cambodia became almost completely dependent on American aid and manufacturing activity ground to a halt.¹⁶

2.05 Khmer Rouge forces captured Phnom Penh and created Democratic Kampuchea in April 1975. For the next 44 months Cambodia was governed by the Pol Pot regime, which systematically and completely dismantled the economy, with the stated aim of establishing an agrarian utopia. The result of this strategy was economic chaos and starvation.

2.06 With the assistance of Vietnamese forces, a rebel faction of Khmer Rouge leaders, led by Heng Samrin and Hun Sen, overthrew Pol Pot in 1979 and established the People's Republic of Kampuchea. This prompted an outflow of ethnic Chinese—traditionally Cambodia's merchants and manufacturers—who feared hostility from

¹⁴ Chandler, "A History of Cambodia" pp. 138-142

¹⁵ Chandler, "A History of Cambodia" p. 186

¹⁶ Shawcross, "Sideshow, Kissinger, Nixon and the Destruction of Cambodia" p. 183

the new regime.¹⁷ To a certain extent, ethnic Chinese merchants were replaced by immigrant merchants from Vietnam. For much of the decade, civil war with the Khmer Rouge continued, keeping the country in a constant unpredictable, martial-law-type state and stunting general economic development. Still, under the new leadership, small-scale manufacturing did re-emerge—paralleling the evolving Vietnamese system built around state-owned enterprises and cooperatives.¹⁸

2.07 Upon withdrawal of Vietnamese troops in 1989, a coalition of domestic factions began governing the country as the State of Cambodia. Large numbers of Vietnamese merchants and tradesmen left along with Vietnamese troops, allowing local entrepreneurs to fill the vacuum.¹⁹

2.08 The United Nations Transitional Authority in Cambodia (UNTAC) was established in 1991 and began pushing for national elections and democratically-elected government. Political stability was slow to come in the renamed Kingdom of Cambodia, as factional infighting prevented creation of a predictable, rule-based business environment. Political infighting came to a head in June 1997, leading to a chill in relations between foreign donors and the government. Donors and the government reinvigorated cooperative efforts following a new round of elections in July 1998 that re-established Hun Sen's Cambodian People's Party as the head of a coalition government. The subsequent December 1998 acceptance of Cambodia into the Association of Southeast Asian Nations (ASEAN) ushered in a period that has so far been characterized by political calm and economic promise.

B. The Cambodian Economy Today

2.09 While an embryonic legal system and inadequate infrastructure present challenges that should not be underestimated, there are very real reasons for optimism about Cambodia's current economic picture. Among these: (i) many of the core laws and policies that underpin any market system are now in place; (ii) the government is pro-business in its general approach²⁰; and (iii) there is a growing sense of long-term political stability that should encourage investment. It is notable that, with the exception of Thailand, Cambodia is in fact the first nation in the Mekong region to officially commit itself fully to a free market system.²¹

2.11 Cambodia's economic prospects have brightened considerably in the past two years.²² Economic growth recovered in 1999 to four percent, and should continue this year and next at a higher rate of about six percent. The Cambodian currency, the *riel*,

¹⁷ Chandler, "A History of Cambodia" p 229.

¹⁸ As in Vietnam, inefficiencies in the state sector left a limited space—one that fluctuated in size with the political mood of the day—that was filled by informal private enterprise. This space grew somewhat in the late 1980s, again paralleling the evolving economic system in Vietnam (Webster and Taussig, pp. 10-11, 86-89).

¹⁹ Desbarats, "Prolific Survivors, Population Change in Cambodia 1975 – 1993", p. 101.

²⁰ Cambodia's foreign investment law, on paper, is widely considered the most attractive in the region.

²¹ Cambodia Investment Guide, p. 7.

²² The East Asian regional economic crisis of 1997 and 1998 undercut the economic strength of the countries that serve as Cambodia's chief export markets and its chief sources of investment capital. This external shock coincided with the political instability that came to a head in the summer of 1997 and resulted in a period of relative isolation *vis a vis* donor countries. Foreign donor aid inflows account for 157 percent of Cambodia's government revenues, placing Cambodia sixth in the world in terms of aid as a percentage of government revenues (Cambodian Development Review, Vol. 3, Issue 4, p. 6).

has stabilized, as has inflation. Together, calmer political and macroeconomic environments are having positive effects on general business confidence. Also contributing is the general regional recovery, which has reawakened demand for Cambodian exports and foreign interest in Cambodian investment opportunities. In the first half of 2000, combined domestic and foreign investment rose 7.6 percent, while tourism led all industries with year-on-year growth of some 42 percent. The rise in tourism revenues is a particularly significant indicator of the economic benefits of Cambodia's improving international image.²³

Box 2.1: Case Study—The Cost of Poor Infrastructure

Business has expanded rapidly over the past five years for one poultry farmer in the northeastern suburbs of Phnom Penh. The farmer began with a modest business of selling live chickens to a select group of customers in and around the city. Over time, the farmer found that his geographic location gave him a valuable competitive advantage that would enable him to expand his business. Located far enough out of the city to enjoy lower land, labor and raw material costs, yet close enough to charge higher urban prices, the poultry farmer became profitable enough to begin commercial egg production in 1998, increasing his cash flow by almost fifty percent.

Significant further expansion under current conditions, however, will be difficult. Transporting eggs has become more and more costly, not only because he must pay bribes to keep his two trucks on the road, but primarily because the rate at which his eggs break during transport has increased as road conditions continue to deteriorate. Transporting live chickens has also become troublesome because the low speeds he can travel on particularly poor roads has increased the mortality rate of the chickens during transport. This is because, at such slow speeds, poor air circulation is detrimental to the chickens health, leading many of the birds to suffocate.

Because of the uneven quality of Cambodia's road infrastructure, the farmer is finding that his costs are rising, while some lucky competitors with transport routes along better roads are undercutting his business. Unable to get a bank loan to upgrade the efficiency and scale of his operations, the poultry farmer finds himself slipping farther and farther behind his competitors. At present, he finds that all he can do is demand that his drivers redouble the care with which they drive down the rutted and pot-holed roads of their assigned delivery routes.

Table 2.1: Gross Domestic Product

	1995	1996	1997	1998	1999
GDP at current prices (CR bn)	7,200	8,251	9,100	10,750	11,806
Real GDP growth (%)	7.6	7.0	1.0	1.0	4.0
Consumer Price Index (%)	1.0	10.1	3.2	14.7	5.6

Source: EIU Country Report, Cambodia Laos, 1st Quarter 2000, page 7.

2.12 Cambodia remains an economy in transition; one growing from a very low base, with annual per capita income at only about \$280.²⁴ Lack of basic infrastructure is one of the greatest obstacles the government must now overcome. Cambodia has the lowest electrical consumption (35 Kilowatt hours) and lowest electrification ratio in the Asia-Pacific region.²⁵ Plans to have a new telephone network installed by the

²³ Country Report Cambodia, Economist Intelligence Unit, August 10, 2000, p. 5.

²⁴ Cambodia Poverty Assessment, p.1

²⁵ World Development Report, p. 204.

end of the year, for the first time serving all of the country's provinces, is a significant step in forward²⁶—as is a planned Japanese-funded project to build Cambodia's first bridge across the Mekong River. Greater spending on physical infrastructure, and other fundamentals such as health and education, is unfortunately, however, still being crowded out by the government's continued high use of scarce revenues on military spending.²⁷

C. The Cambodian Private Manufacturing Sector

2.13 Agriculture is still the heart of Cambodia's economy, accounting for 43 percent of the country's GDP and 78 percent of national employment in 1998. Services accounted for 37 percent of GDP and 18 percent of employment and industry (consisting of manufacturing, utilities, construction and mining) for 20 percent and 4 percent, respectively.²⁸

2.14 Manufacturing itself has recorded double-digit growth over the past few years, contributing 9 percent of GDP in 1998.²⁹ The largest manufacturing firms are rice millers and cigarette producers, while the fastest growing are a variety of food processors and garments producers.³⁰ Manufactured exports grew by 14 percent in 1998. Export growth, however, is somewhat precarious at present, given that Cambodia's top two export categories, garments and processed wood, face unclear futures: garments due to the eventual limitations of the US quota system, and wood products due to a moratorium on timber harvests.³¹ These two categories represent approximately 34 percent of total exports.³²

2.15 The private manufacturing sector represents Cambodia's best chance of ridding itself of its persistent trade deficit. The deficit at present results largely from heavy imports of fuel, machinery and consumer goods.³³ The deficit is hardly unusual considering Cambodia's underdeveloped status and large inflows of foreign aid.³⁴ Moving forward, however, the trend will be for Cambodia to reduce

²⁶ Cambodia is far behind the rest of the region in telecommunications: there are currently only 2 telephone main lines for every 1,000 people, fewer than in even-poorer, neighboring Lao PDR (World Development Report 1999/2000, p. 266).

²⁷ A third of the 1999 national budget went to spending on defense and security (EIU Country Report: Cambodia, Laos, 4th Quarter 1999, p. 16). The government has publicly pledged to downsize the military by one-third by 2003. Meanwhile, life expectancy in Cambodia is 53 years for men and 55 for women, with much of the population having no access to health and education facilities or safe water. Public expenditure on health is only 0.7 percent of GDP—or about 6% of government revenues (World Development Report, World Bank, 1999, p. 232, 242).

²⁸ General Population Census, p.22. The definition of the three primary sectors of the economy used here are based on those specified in the glossary of the General Population Census, p.30

²⁹ EIU Country Profile 1999-2000 (Cambodia, Laos), p. 15.

³⁰ Ibid., p. 21. More detailed and standardized sectoral information is not available in Cambodia.

³¹ After four successive years of rapid growth, garments exports fell 5%, year-on-year, in the first quarter of 2000. A 5 percent increase in the US quota for Cambodia is likely, but the quota system clearly represents a limitation on the industry's potential (EIU Country Report, Cambodia, Laos) June 2000, p. 18. Beginning in 2005, however, the end of the Multi-Fiber Agreement is expected to mean quota free trade with the US (Cambodia Investment 2000—Conference Report, US-ASEAN Business Council/Dataconsult, p. 21).

³² 1998 Import-Export Statistics p.126.

³³ Cambodia is entirely dependent on imported petroleum. Roughly two thirds of imports comprise fuel, vehicles and machinery (Weekly Business Roundup, vol. 100 p.25). For a country of Cambodia's size and with its apparent lack of domestic natural energy resources, significant imports are likely to be a long-term component of any drive towards greater industrialization.

³⁴ The large amounts of official development aid flows into Cambodia rarely go to directly producing goods, let alone exports, and usually go to projects that require imported inputs—as in the case of most infrastructure projects, for example. More fundamentally, the capital account surplus that results from the aid inflows must be

dependence on foreign aid and increase its national economic self-sufficiency. Other successful economies in the East Asian region provide examples of how dynamic labor-intensive manufacturing sectors can be central to achieving rapid economic growth and providing new, better-paid employment, while at the same time matching the flow of needed imports with a steady volume of foreign currency generating exports.³⁵

Table 2.2: Trade Balance

	1995	1996	1997	1998	1999
Exports (\$m)	855	643	736	705	n/a
Imports (\$m)	1,186	1,071	1,064	1,096	n/a
Current-account balance (\$m)	-185	-184	-209	-223	n/a

Source: EIU Country Report, Cambodia Laos, 1st Quarter 2000, page 7.

counterbalanced with a current account deficit. Since Cambodia's growing tourism industry revenues go towards strengthening the services account within the current account, the trade deficit is a natural consequence.

³⁵ Primary agriculture is generally not a viable option for producing the quantity of export earnings needed to satisfy an appetite for imports like that exhibited by Cambodia. Countries relying heavily on primary agricultural exports are also vulnerable to the widely fluctuating prices of agricultural commodities.

III. THE MANAGERS

A. General Characteristics

3.01 The median age of sample managers was 45 years old. Managers therefore represented a mature segment of the population, rather than a wave of new, young entrants. Fifty-two managers (83%) were men, 11 (17%) women. Most managers were ethnically Chinese, Cambodia’s traditional merchant class. Specifically, 28 (45%) claimed pure Chinese origins; 22 (35%) were ethnic Cambodian; 11 (18%) were mixed Chinese and Cambodian; and one manager was ethnic Vietnamese. One ethnic Cambodian manager was born and raised in Vietnam.

3.02 Forty managers (63%) finished secondary school and 14 (23%) had a Bachelor’s Degree. None studied beyond the undergraduate level. Managers’ modest educational backgrounds reflect the destruction of the country’s education system in 1975—when the median manager was 21 years old. Eleven managers (17%) studied abroad (from 2 months to 15 years): four in Western Europe, three in North America, and one each in Vietnam, China, Thailand, and the former Soviet Union. Eight (13%) studied technical subjects, three business.

3.03 Two thirds of managers had previous private sector experience. Of these, 18 (28%) worked for another formal domestic private company and 21 (34%) worked for informal enterprises. Another three had experience with a foreign-invested company. Thirteen managers (20%) came from positions with the state: three from a state-owned enterprise, seven from a central government ministry, and three from local government. Significantly, ten managers *still* held government positions at the time of the interview.³⁶ The remaining eight managers (13%) claimed to have started their firms with no work experience at all.

Table 3.1: Professional Background of Sample Managers

Private sector experience			Government experience		No experience
67%			21%		13%
Another private company	Informal sector	Foreign-owned company	SOE	Government	
28%	34%	5%	5%	16%	

3.04 Half of sample managers (48%) had management experience of some kind before starting their businesses. Nineteen (30%) previously owned their own firm (formal or informal), and 11 (18%) had management experience as an accountant, financial controller, or manager of someone else’s firm. A third (30%) had previous production experience with the product that their company was now producing. Only 19 managers (30%) had ever participated in any relevant business training course.³⁷

3.05 Despite Cambodia’s three decades of military conflict, only five managers had served in the armed forces. This is a reflection of the fact that ethnic Chinese, who

³⁶ Considering the low pay of government jobs, the implication is that these managers believed there were other advantages to government employment—most likely in the form of greater access to certain resources, such as information, or protection from some potential government actions against their firm.

³⁷ Many managers expressed interest in taking a short-term training course: 35% were most interested in a course on marketing and advertising; 16%, some sort of management (for ex., HR or inventory); 14%, accounting and bookkeeping; 11%, production organization; and 5%, new technologies. Only 15% saw no need for training.

accounted for two-thirds of managers, were not conscripted into the ranks of the military under the Khmer Rouge or any of the subsequent governments.³⁸ Those ethnic Chinese who did not leave the country generally joined the bulk of the population toiling in rice fields, and building dikes, roads and dams. The present day result of this earlier policy is that, unlike in many other developing countries where the military has a similarly powerful political voice, the military's role in the manufacturing sector is minimal.³⁹

Table 3.2: Previous Production Experience of Sample Managers

Had experience producing the same product	30%
Had experience with a very similar product	10%
Produced a related but different product	22%
Had experience producing a completely different type of product	38%

B. Motivation and Personal Qualities

3.06 When asked why they entered into business for themselves, the overwhelming majority of managers (92%) said they were drawn in by the lure of opportunity. Most (68%) said they had seen a profitable opportunity and seized it. Another five managers (8%) were drawn into businesses by chance to build on family connections in the private sector; and four (6%) were looking for an outlet for their training. The remaining 11 (17%) said they were pushed into business because they had lost their jobs or were unhappy with their previous salaries.

3.07 Most managers were satisfied with the choices they had made. If given the opportunity to do it all again, 45 managers (72%) said they would choose the same business again. Eleven (17%) would start a business in a different industry, and only five (6%) would not have started their own business at all if given another chance.⁴⁰ Half would encourage their children to set up a private business of their own, and the other half felt that this was their children's decision and that they would support whatever path they selected.

C. Political Connections and Corruption

3.08 It is generally supposed that political connections and corruption are crucial to doing business in Cambodia. Survey findings on this topic were mixed. The business and political elite do indeed appear to be interconnected and corruption is generally seen as a fact of life in Cambodia's business environment. However, it is significant to note that few managers listed corruption as one of the most important obstacles to their businesses growth.⁴¹

³⁸ At present, the army is not taking any new soldiers of any ethnic group because it is trying to downsize.

³⁹ The military has actually reduced its well-publicized leading role in the forestry business and now, in terms of direct influence on business, is most noticeable through its control of the country's roads and the extra transport costs that this control introduces for businesses. Balancing these costs is the fact that Cambodia's roads are safer than they have been in many years.

⁴⁰ Two respondents (3%) were unable to settle on an answer.

⁴¹ This may, to some extent, be further evidence of the connected nature of many managers and the fact that the system of corruption actually serves as a useful barrier to entry for potential competitors. As such, systemic corruption may not significantly harm the business of relatively connected managers with existing businesses, but could represent a major inefficiency in the market that hurts the Cambodian economy as a whole.

3.09 *Political connections.* Connections to any specific political party were seen as unimportant by two thirds of managers. The remaining third felt that their party affiliation was important to their ability to operate successfully. In addition to the 10 managers mentioned earlier who continued to hold full-time government jobs while they managed their firm⁴², a total of 35 percent of managers had at least one family member working for the government. Theoretically, at least, this put them in a position to offer the individual company some level of information, connections, and possibly protection.

3.10 *Payoffs.* Managers reported frequent visits from government officials, ranging from low level-local police, military and bureaucrats to national ministry level officials. Eighty-four percent of managers reported that government officials visit their firms on a regular basis; and only five managers (8%) said officials never visit. More than a third of managers said they were visited at least three times a month. Three claimed official visits per month averaged over 20.

3.11 Managers also reported using bribes to avoid regulations. Both exporters and those transporting wares on Cambodian roads frequently paid small amounts of money to customs, military or police officials in order to avoid traffic or weight restrictions.

3.12 *Perceptions of Payoffs.* Three types of payoffs are common in Cambodia: (i) payments made to officials to perform their jobs correctly, e.g., to register a firm according to the law in a reasonable amount of time; (ii) payments to officials to perform their jobs incorrectly, e.g., to allow products to pass through customs without proper documentation; and (iii) payments for protection, i.e., to ensure that further problems are not created. To a certain degree, these payoffs simply take the place of what in other countries would be an official system of taxes and fees that support government bureaucracy.

⁴² See paragraph 3.03.

IV. THE FIRMS

A. General Characteristics

4.01 *Location.* More than two-thirds of sample firms resided in inner residential and commercial neighborhoods of Phnom Penh. The remainder were scattered around the edges of the city in rural-like settings. Many businesses were located in their owner's home or, in some cases, within a commercial building that also housed the owner and his or her family.

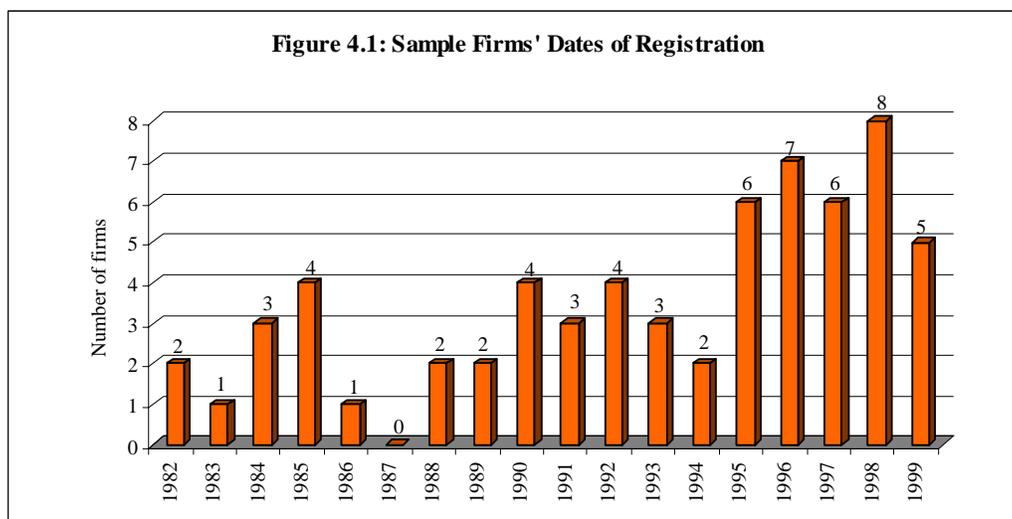
4.02 *Ownership and Legal Form.* Thirty-eight sample firms (60%) were sole proprietorships, 13 (21%) were limited liability companies, and 12 (19%) joint ventures. Only one was legally connected to a government agency. Most sample firms were 100 percent Cambodian-owned and operated, private since start-up, and family businesses. More specifically:

- 58 (92%) had 100 percent Cambodian ownership. One firm was 80 percent Cambodian-owned, one firm 60 percent Cambodian-owned, and three firms 51 percent Cambodian-owned;
- 43 (68%) were 100 percent owned by the head of the company and his or her family. Only 9 (15%) were not majority controlled by the head and their family;
- Despite the high number of firms with ownership ties to the Chinese community, only three firms reported any ownership among non-family overseas Chinese, and none claimed any ownership among overseas Chinese family members;
- 25 (40%) employed two or more family members, typically with a husband overseeing production and wife responsible for financial management.

4.04 *Start Up and Registration.* Nearly all firms (84%) were privately-owned and independent since start-up. Twenty-five managers (40%) began their businesses alone. Eleven managers (17%) chose to start up their firm with their spouse or another family member; 14 (22%) with a friend, colleague, or classmate; three (5%) set up a formal joint-venture with a Cambodian partner; and four (6%) with a foreign partner. The remaining managers had taken over from the original owner: three (5%) from the state and three (5%) from another Cambodian entrepreneur.

4.05 Almost half of sample firms (42%) started operations in the past four years. Fourteen (23%) started operations five to eight years ago, and 22 (35%) nine to 13 years back. Firms typically began operations without formal registration. Some were operational for several years before any form of registration was sought. Most, however, saw legal registration as a priority and had completed the process with at least one government office by the end of their first year of operations.⁴³

⁴³ All firms interviewed were legally registered with one or more national or provincial authorities as was required by the sample selection criteria. Most were registered with multiple authorities on the national level. Twenty-four firms (38%) had registered with only one ministry on the national level. The most common choice was registration with the Ministry of Mines and Industry (17 firms, 27%). Nine firms had registered only with a district, communal, or provincial authority.



4.06 The average time required to complete registration was just under one year, however this is a distorted figure due to a limited number of managers taking and extraordinarily long time to register.. Forty-five companies (71%) took less than three months to complete the registration process; seven (11%) took three to six months; and 11 (17%) more than six months. There was no marked difference in the amount of time required to register at local or national levels. One manager claimed to have completed registration in a single day, but said this required extra payments to officials responsible for the relevant paperwork. At the other extreme, another manager reported that the registration process with one single ministry had lasted a full nine years.

4.07 *Industries.* Sample firms produced a wide variety of goods from recycled glass containers to processed lumber. The largest single industry group was the non-metallic firms group⁴⁴, which included 15 companies (25%). The three biggest groups—non-metallic products, food and beverage, and wearing apparel—account for over half (58%) of the total sample, with the remainder spread over eight industry groups (see Figure 1.1). Unfortunately, it is not possible to put this in a proper national context because of the lack of comparable official statistics on firm distribution across sectors. Fifty-seven companies (90%) produced final goods; the remaining six (10%) produced intermediate goods for the local market.

4.08 Unlike in transitional economies in Eastern Europe, but much like neighboring Vietnam, sample companies tended not to exhibit much diversification in their products. Fifty-four firms (86%) generated all their income from one single product. Those who did have secondary products were usually manufacturing a related product. A furniture maker, for example, earned 30 percent of revenue from sales of chopsticks. In another example, a tire producer derived half his annual revenue from producing inner tubes. A few firms had diversified into unrelated products. For example, a shoe manufacturer earned 40 percent of revenue from cigarette production.

4.09 *Revenues.* The *median* sample firms claimed 1999 turnover of US\$150,000. The eight garment firms in the sample were considerably larger, averaging median

⁴⁴ Non-metallic firms produce construction materials such as bricks, tiles and cement.

revenues of US\$200,000. Excluding the garment manufacturers, the median reported revenues for the remainder of the sample was US\$120,000.

B. Labor

4.10 *Size of Firm Workforces.* Median employment for the sample was 40 workers per firm. The average number of workers per firm was a much larger 103, reflecting the large difference between the largest and smallest companies in the sample. As seen in the revenue figures, the largest firms tended to be the garments firms, which averaged 372 workers per company and had a median figure of 200. The rest of the sample recorded a significantly more modest firm average of 64 employees and firm median of 35.

4.11 About half the workers in the sample (52%) were women. Distribution, however, was not even across industries. Garment firm workforces were 74 percent women, while female workers accounted for just a third of the total employment in other sample firms.

4.12 *Employment Growth Rates.* Perhaps the most clear and encouraging finding of the survey is the growing importance of private manufacturers as job creators in Cambodia. Sample firms recorded average annual growth in their workforces of 25 percent since registration.⁴⁵ Strong employment growth occurred across industries.

Table 4.1: Ave. Annual Labor Growth Rates for Sample Firms, Since Registration

Total Sample	Garment Industry	Non-Garment Industries	Non-Metallic Products	Food and Beverage	Rubber and Plastic
25%	43%	24%	16%	32%	50%

4.13 *Labor costs.*⁴⁶ The cost of labor varied greatly across firms.⁴⁷ Average expenses per employee (salary plus benefits) increased with the size of the firm. It is significant to note that garments firms, which were most likely to have organized labor and have generally received the most attention for their low wages and wage disputes, are actually in the highest paying bracket. Larger firms (100 or more employees) paid an average of 45 percent more than mid-sized firms (50 to 99 employees). The smallest firms, in turn, paid an average of 11 percent less than mid-sized firms.

4.14 *Labor Practices.* Unemployment in Phnom Penh is currently estimated to be about 13 percent and *underemployment* in the surrounding countryside is said to be much higher. As a result, managers did not have much difficulty finding labor. Forty

⁴⁵ This compares favorably with the also impressive 23% growth found in MPDF's study of private Vietnamese manufacturers (Webster and Taussig, p. 29).

⁴⁶ The means for calculating per worker wages from the survey data was to take each firm's answer to a question on the firm's aggregate labor costs and to divide that number by the number of the firm's employees. The per worker figures resulting from these calculations, however, were unrealistically high: larger firms, US\$100.08 per month; mid-sized firms, US\$69.12 per month; smaller firms, US\$61.15 per month. This was probably the result of managers rounding up their estimates of aggregate labor costs. As such, the figures are more useful for understanding labor costs across different types of firms than payments per worker.

⁴⁷ Cambodia has no minimum wage requirement, except in the garment industry where it officially is \$40 per month with 48-hour workweeks. For other industries, regulations stipulate that the wage paid must provide "a decent standard of living compatible with human dignity (Cambodian Investment Guide, p. 57)." In addition to wages, many firms offer other benefits such as one or two meals per day, accommodations and/or transportation, and some firms, specifically in the garment sector, provide uniforms to their employees.

one percent of employees were found through referrals to all their full-time employees. A few through referrals from others, and another 35 percent were found through similar means—for example, regularly hiring people from the manager’s hometown. Only 13 percent found it necessary, or useful, to fill their employment needs through advertisements.

Box 4.1: Top Problems Cited by Managers

Managers were asked to list, in order of importance, the top three problems their firms face in the current business environment. Lack of access to working capital and the severity of competition came out on top. The hypothesis that graft and corruption would be a pervasive response was not born out in the final data.

Most Important	Second Most Important	Third Most Important	Aggregate Top Three*
1. Working Capital (21)	1. Working Capital (13)	1. Working Capital (8)	1. Working Capital (40)
2. Competition (9)	2. Competition (8)	2. Illegal imports (7)	2. Competition (16)
3. Market Information (9)	3. Corruption (7)	3. Investment Capital (4)	3. Investment Capital (13)

Insufficient Working Capital. Sixty-three percent of all managers named their lack of working capital as a major problem, with a third saying it was the number one obstacle facing their business. Deserved or not, the poor image of banks was clearly a central issue: two-thirds of firms had never even applied for a short-term loan despite listing lack of short-term capital as one of their biggest problems. More so than longer-term capital (see below), managers had little success in accessing short-term bank loans: 8 of the 20 (40%) who did apply were turned down.

Stiff Competition. There were complaints about the political advantages of competitors and about illegal competition from smuggled imports, but generally it was clear that managers were chiefly concerned about their own ability to deal with direct competition—whether on a level playing field or not.

Lack of Investment Capital. Two thirds of the sample (70%) said they needed a long-term loan, yet only 11 firms (17%) had even tried to get one. This was because managers assumed a negative response. To a large extent Managers are probably right, as Cambodian bankers are conservative, undertrained, and have limited access to long-term sources of funding from which to draw. Still, of those who did apply, 8 of 11 (73%) were successful.

Lack of Market Information. There are few sources of high-quality, current market information in Cambodia. Managers noted the lack of information on key technologies, commodity prices, industry trends, and domestic and foreign markets. Information on domestic markets is largely non-existent, whereas few managers knew how to access information on foreign markets.

* Aggregate figure computes the number of managers who listed the problem anywhere among their top three problems.

4.15 Managers generally did not consider the low average level of education of Cambodian workers to be a problem, in view of the low-skill demands of most of the jobs they were looking to fill. Nearly all managers (89%) reported no problem recruiting the unskilled labor they needed, and about half (46%) said they were easily able to find skilled workers—such as engineers, foremen, and master craftsmen. Recruiting white-collar professionals for positions such as management or marketing,

was usually a non-issue as these duties were undertaken by the manager and family members.

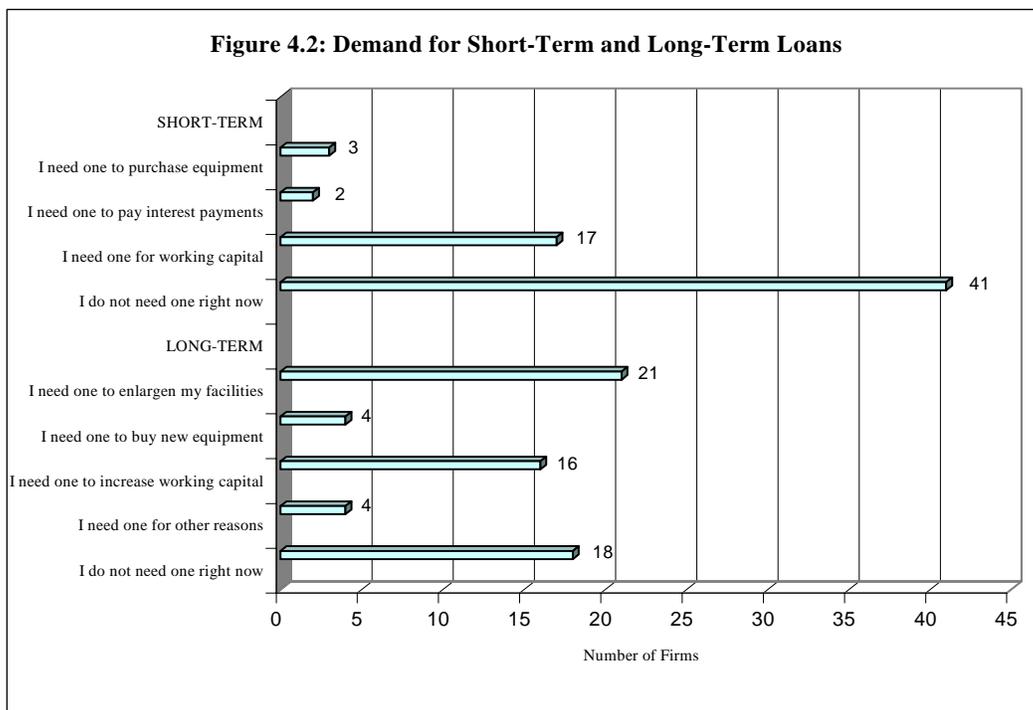
4.16 Only 11 of 63 sample firms offered lab additional firms offered contracts only for highly skilled technical and management positions, allowing the general labor force to work without any written contracts. Contracts varied in length from one day to one month to multiple years.

C. Finance

4.17 *Start Up Financing.* As in most countries, almost all managers (83%) used their own financial resources to start their businesses. Seven Managers (11%) borrowed funds from family and friends, but repaid quickly to ensure personal control of their businesses. Two managers (3%) secured commercial bank loans and another two turned to informal moneylenders.

4.18 Financing beyond the start up period typically focused on use of internally generated funds or further reliance on family and friends for short-term loans. Loans from banks or commercial moneylenders were rare (see below). Forty-four firms (70%) reported making a profit at the time of interview, and presumably were using these profits to finance further operations. Sixteen firms (25%) were not profitable and were struggling with finances. Three firms were at break-even.

4.19 *Accessing Bank Services.*⁴⁸ Use of basic bank services was quite limited among sample firms. Twenty four (38%) did not use any banking services at all—not to deposit or borrow money, transact accounts payable and receivable, or for letters of credit. Particularly significant was that only 14 managers (22%) had obtained commercial bank loans. Twenty managers (32%) worked with banks for settlement



of their accounts payable and receivable and seven (11%) used other miscellaneous bank services such as telegraphic transfers.

Box 4.2: Case Study—The Cost of Poor Relations Between Private Firms and Banks

The manager of one of Phnom Penh's most popular bakeries started on the road to success riding a bicycle, selling someone else's bread. Today, he employs up to 36 workers at peak times and keeps his ovens in operation around the clock. He prides himself on his work ethic and claimed to have gone three days without sleep due to high demand during local festivals shortly before the interview.

Annual revenues for the bakery totaled US\$180,000 in 1999 and according to its owner, supply is falling behind demand. Satisfying this unmet demand for his popular product will require the construction of additional wood-fired ovens. As this would entail a larger outlay of capital than the baker can afford at present, the logical decision would seem to be a bank loan.

However, according to the manager a loan is not possible. "Banks just aren't interested in making loans. They would want 200 or 300 percent collateral before they would consider loaning money to me. I don't need a loan like that." As is typical in Cambodia, the manager feels comfortable saying this, even though he has never actually approached a bank for a loan. He will continue to operate his business with only the working capital the bakery generates and any expansion will have to wait until his firm earns enough capital to pay cash up front.

4.20 The lack of interaction with banks does not reflect a lack of need. Managers clearly felt their businesses would benefit from greater access to credit, particularly long-term credit. Almost two-thirds (64%) said they needed a long-term loan: 21 (33%) to improve or enlarge production facilities; 16 (25%) to increase working capital; and four (6%) to buy new equipment. A third (35%) were also interested in accessing short-term loans of less than six months.⁴⁹

4.21 The dominant sense among managers, however, was that banks were not there for them, and were in fact generally disinterested in granting loans. In the words of one manager, "I never use banks because they aren't really in the business of lending money." The manager complained that even the simplest requests for services were met by demands for bribes. Seventy percent said it is very difficult to obtain a long-term loan, and another 57 percent said that it was equally as hard to get a short-term loan.⁵⁰ Unlike the manager mentioned above, however, most managers (68%) had not even even gone through the motions of applying, claiming it was a waste of time.

4.22 Of the 20 managers who had applied for loans, 12 were successful in obtaining a short-term loan and eight received long-term loans. Only three secured more than one long-term loan. Interestingly, of those who did apply, the success rate was higher for long-term loans than for short-term loans.

⁴⁹ For the purposes of this survey, a short-term loan was defined as a loan with a maturity of 6 months or less. Long-term loans were defined as loans with maturities of more than 6 months.

⁵⁰ Only 14 managers (22%) called getting a short-term loan "easy" or "very easy".

Table 4.2: Sample Firms and Loan Applications

Short Term	
Attempted But Failed	13%
Successful	19%
<i>Never attempted to get one</i>	68%
Long Term	
Attempted But Failed	5%
Successful	13%
<i>Never attempted to get one</i>	83%

4.23 Managers cited a variety of reasons why they thought banks were unwilling to extend loans to their companies. The most common answer, given by 14 managers (22%), was that banks were requiring too much collateral or would not accept their land titles as collateral. Five managers (8%) said banks simply did not have enough money to lend, chiding them for their inability to attract a significant volume of deposits.

4.24 *Foreign Exchange.* The pervasiveness of the US dollar in Cambodia meant that 56 firms (89%) had no difficulty getting the needed quantity of foreign exchange when they needed it. For those with problems, the issue was usually money lost due to the exchange rate. Among those who said they needed short-term loans, 94 percent preferred to receive the funds in dollars. When asked about long-term loans, 87 percent preferred US dollars; only six percent preferred a loan in the Cambodian riel.

4.25 Managers were asked about their expenditures in foreign currencies. Thirty-five managers (56%) used US dollars to buy inputs on the local market; 24 (38%) used dollars to purchase imported inputs; 18 (29%) paid salaries in dollars; and 13 (21%) paid office expenses in dollars. In fact, the daily operations of a Cambodian business, especially one in the Phnom Penh area, can be conducted entirely in dollars. Eighteen managers (29%) claimed they used US currency to pay for all expenses incurred by their business.

D. Physical Capital

4.26 *Equipment.* Firms utilized a variety of equipment to produce their goods, all imported. Several firms used equipment assembled on-site, but these too were built from imported components. For the most part, production equipment was fairly new: 43 (69%) used equipment that was no more than three years old. Only three (5%) relied on equipment more than 20 years old—equipment bought second-hand by the current managers.

4.27 *Land.* At least in the Phnom Penh area, the vestiges of communist land policy are limited. None of the sample managers discussed land disputes as a major issue.⁵¹ Over two thirds (71%) of firms operated on land either purchased or inherited by the manager. Another three firms (5%) operated businesses on land belonging to a family

⁵¹ As noted earlier, however, some managers did have problems with banks not accepting their land titles as collateral. Managers saw this as a fault of the banks, not an issue of unclear land ownership.

member, and four (6%) used land owned by a minority shareholder. The remaining 11 companies (18%) leased their land. Just over 70 percent of sample managers had full legal documentation for their land.

Box 4.3: The Internet

Half of sample manufacturers (51%) had computers, but most made only limited use of them.* Word processing was the most common use (44%) among computer owners, followed by accounting (31%). Fourteen percent used their computer for budgeting and forecasting, and 13 percent had computerized inventory. Only a small number of managers identified training in computer skills as a high priority.

Fifteen firms had access to e-mail in their offices, but only five reported using email for work purposes. Two had a company web page, but only one had a company Internet account. One in five businesses had at least one owner or employee with a private Internet account, and 10 had an employee knowledgeable about the Internet and new IT products.

* 16 percent had 1 computer; 9% had 2 computers; 9% had 3-5 computers; 3% had 6-10 computers, and 5% used 20 or more.

4.28 *Facilities.* Like land, factory buildings tended to be owned by the manager. Facilities ranged from small wooden structures with dirt floors to purpose-built multi-level garment factories large enough to accommodate hundreds of workers. With the exception of brick producers and rice mills, most factories were scattered within residential neighborhoods. Water supply and refuse and sewage removal were not often cited as problematic, but the poor quality and high cost of electricity was frequently mentioned as a problem.

Box 4.4: Trade Association Membership

Just under a third of sample managers (18) maintained membership with an association or chamber of commerce.* Ten were members of the Phnom Penh Chamber of Commerce; six of the Garment Manufacturers Association in Cambodia, two of the Chinese Chamber of Commerce in Cambodia, one of the China Hong Kong & Macao Business Association of Cambodia; and one of Club d'Affaires Franco-Cambodia. The 18 members of associations tended to be larger firms with a mean turnover of \$625,000 per year, compared to a mean turnover of \$150,000 for the sample as a whole and \$120,000 for non-association members. Most members expressed disappointment with the benefits received from their associations.

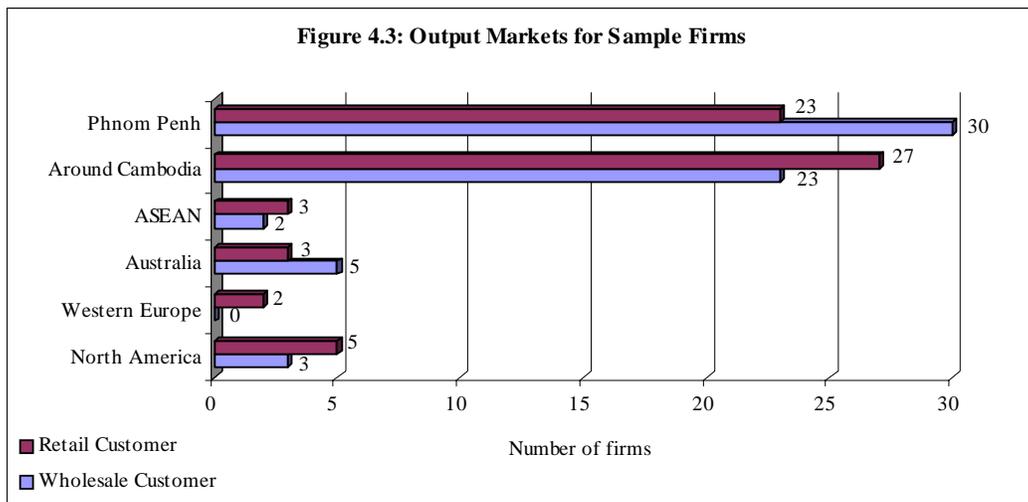
* There was no significant tendency for any ethnic group to be more inclined to join associations. Of the 18 having membership, 7 were ethnic Chinese, 6 were ethnic Cambodian, and 5 were of mixed Chinese and Cambodian ethnicity.

E. Products and Markets

4.29 *Output Markets.* Three quarters of sample manufacturers sold exclusively in Cambodian markets to Cambodian consumers, two-thirds through other private companies and a third directly to consumers. Half sold only in Phnom Penh, and half sold nationally.

4.30 A quarter of sample firms exported some or all of their production. These 15 firms included seven garment firms (exporting 100%); furniture, rubber, plastic bags, and cigarettes producers (80% or more); and four additional firms exporting 20 percent or less of production.

4.31 The main problems among exporters included: (i) the worsening condition of Cambodian roads and other difficulties in transporting goods; (ii) corrupt customs agents who create delays in shipments that threaten contractual deadlines; and (iii) the government’s tendency to alter export regulations and announce new ones with little or no warning.



Box 4.5: Case Study—The Cost of Weak Enforcement

Cambodia’s most popular soy sauce has been produced by one Phnom Penh family for three of the past four decades. The firm’s manager is looking to build on her popular brand name and has even been approached about her ability to produce her product for export to the demanding Singaporean market.

Recently, however, a new threat to the viability of her business has emerged in the form counterfeit versions of her soy sauce. A Vietnamese producer operating across the border has created a convincing copy of her brand name label and begun competing against her in the Cambodian market, passing his product off as hers. Truckloads of the counterfeit sauce come across the border at night, traveling on roads where all traffic must pass through military checkpoints. Small-scale local Cambodian producers have also taken to stealing labels and selling very cheap counterfeits.

The Cambodian soy sauce maker has submitted a formal complaint to the national economic police and asked local authorities to take action against the retailers buying and selling fake versions of her sauce but has not received any response. Without legal recourse, the manager expects to see a continued fall in revenues and loss of control over her own brand name—and the image for quality her family built over some forty years.

4.32 Non-exporters cited multiple reasons why they were limiting themselves to the domestic market. The most frequent problem (26 firms) was a lack of information about foreign markets and an inability to locate foreign buyers. Six managers said the quality of their product or of their packaging was not high enough to compete in a foreign market, and another six had judged the problems and cost associated with

transportation to be prohibitively expensive. Two wood furniture producers were unable to obtain required government permission to export their products.

4.33 *Input Markets.* The quality and delivery of raw materials and other inputs was generally not seen as a problem: 54 Managers (86%) reported they could usually or always purchase what they needed, when they needed it. A third of firms relied exclusively on imported inputs, buying them in equal proportions from local retailers, foreign suppliers, and foreign trading companies. Garment companies usually obtained inputs from their customers.⁵² Just over a quarter of firms used only locally produced inputs, purchased mainly from local private suppliers.

F. Performance

4.34 Cambodia's larger manufacturers appear to be doing quite well. Nearly three quarters (44 firms, 70%) of the sample reported being profitable in 1999, and most of the remainder expected to break even. Forty-five firms (71%) planned to make further investments in buildings or equipment in the year 2000.

⁵² Nearly all garment firms in Cambodia operate on a Cut, Make, Trim (CMT) basis. As opposed to those who employ the Freight on board (FOB) method, CMT producers receive all major inputs and specifications from the buyer, who then buys 100% of the final products. FOB producers are responsible themselves for inputs and are more flexible to search only for multiple suppliers of inputs but also a diversified set of buyers. The tradeoff for the higher value-added and higher profits of FOB production is the greater required investment and greater risk assumed by the producer.

Box 4.6: Mini-Analysis—Winners vs. the Rest

The category of “winner” was created to take a closer, more focused look at what characterized Cambodia’s most successful private manufacturers.* “Winners” were defined as profitable firms that had experienced average annual labor growth higher than the sample median and which had plans for major investments in equipment or facilities in 2000. Survey findings, however, showed only limited differences between “winner” and the rest of sample firms.

	Winners (28)	The Rest (35)	Total Sample (63)
Moonlights at another job	39%	11%	24%
Moonlights at a Government job	19%	3%	10%
Has received a bank loan	54%	26%	38%
Currently needs a short term loan	29%	46%	38%
Currently needs a long term loan	100%	46%	70%
Producing a product new to them	46%	26%	35%
See themselves as a practical person	29%	60%	46%
See themselves as a risk taker	79%	54%	65%

Profile of a “Winner”. Cambodia’s most successful manufacturers have been those with the most access to formal capital. “Winners” tended to have adequate working capital available (as indicated by their limited perceived need for a short-term loan), but were all looking to expand their business through longer-term capital. Managers of these firms were about twice as likely as others to have ventured into production of a product with which they had no previous experience. At the same time, while describing themselves as risk-takers, “winners” were significantly more likely than their peers to see value in holding a second job with the government.

Where “Winners” and “The Rest” Did Not Differ. It is worth noting that “winners” were no more or less likely to be exporters than other firms in the sample. This shows that, at least at the private sector’s current stage of development, the domestic market is proving just as profitable as the global market. Both groups held similar relationships with suppliers, customers and end buyers. There was also no significant difference regarding ethnicity, challenging notions that any particular group holds an unfair advantage.

Possible implications. The finding that access to long-term capital is a decisive factor in dictating which firms are most successful in Cambodia is not surprising and is consistent with the opinion of most managers. The macro-level implication for Cambodia is that the very low volume of total credit flowing from the formal banking sector to private manufacturers is a major bottleneck to national economic growth and job creation.

* It is important to note that people who built private firms of 20 employees or more in recent years in Cambodia are all actually winners, considering the difficulty of the task, and that this is simply a mechanism by which to compare the most successful of these winners with the rest of the winners. An attempt to create a “loser” category of the least successful firms in the sample was discarded when it did not prove to reveal any significant differences.

V. FINDINGS AND CONCLUSIONS

A. What We Have Learned: Summing Up

5.01 The process of implementing this survey was in itself an education in the formidable obstacles to business development in Cambodia. The absence of reliable national or regional firm-level information, in particular, was one of the main reasons the survey was carried out and itself proved a major obstacle to subsequent data collection and analysis. That only a third of the firms in the survey sample were to be found in official government databases is indicative of the lack of fundamental information about the private sector that Cambodia's government has to draw on when formulating public policy.⁵³

5.02 Despite difficulties encountered, the final survey sample of 63 firms does represent a significant slice of the private manufacturing sector in the Phnom Penh area, Cambodia's center of industrial growth. As such, the sample offers valuable insights into general development of Cambodia's private manufacturing firms.

5.03 *The Managers.* Sample data reveals that managers of Cambodia's more successful, larger manufacturing firms:

- are on average 45 years old
- are largely of ethnic Chinese origins (65%)
- obtained private sector experience prior to starting their companies (67%)
- came into business because of the lure of profitable opportunities (92%)
- have previous management experience (48%)

5.04 *The Firms.* Sample firms exhibited the following key characteristics:

- family businesses, mostly sole proprietorships
- private and independent since startup, almost all 100% Cambodian
- young: 42% started up in past 4 years, 23% in past 5-8 years
- small: median of 35 workers and \$120,000 in revenues, if garments not included
- clustered in local resource-based production: clay, agriculture, wood
- producers of a single product (83%), final goods (90%)
- domestic market-oriented (with notable exception of garments)
- little use of bank loans or services: 40% did not use banks in any capacity
- rapidly growing source of new jobs: average annual labor growth of 25%
- successful: 70% making profits, 2/3 invested in other businesses
- optimistic: 70% planning investments and 60% expect rising profits
- in need of bank finance: 1/3 short-term and 2/3 long term

5.05 *The Environment.* According to Managers themselves, the main obstacles to more rapid growth of their own firms were:

- Insufficient working capital for day-to-day demands (63%)

⁵³ To be fair, the weak ties between the government and the private sector is a characteristic of the ongoing transition that Cambodia's economy is undergoing. Still, this reality must be considered when noting the general pro-business stance of the Cambodian government.

- Increasing competition—domestically and from imports, legal and illegal (25%)
- Lack of investment capital (21%)

5.06 The primary problem of insufficient capital, whether for short-term or longer-term purposes, was seen as the result of an inadequate banking system. Manager responses revealed a cultural and information gap between banks and private manufacturers, with neither side fully understanding their mutually interdependent need for one another to grow. Managers felt that banks were fundamentally disinterested in attracting their business.

5.07 The frequency with which managers referred to increasing competition reflected the youth of Cambodia's market economy and the degree to which many were accustomed to operating businesses in relative isolation. But while many managers referred to issues of legitimate competition, others spoke of unfair and illegal competition not being addressed by enforcement officials. In addition to eating into firm revenues, such unpunished violations of the rule of law contributed to managers' general uncertainty about how to plan and invest for the future.

5.08 The problem of corruption was mentioned by some managers as a serious issue in certain cases, but was not cited unilaterally as a principal major obstacle. Managers said informal payments to authorities were common, particularly with regard to officials overseeing the transport of goods. The relatively low outcry among managers may reflect that demand for payments were predictable enough to be taken into account ahead of time, taking on a character much like that of official payments. Also, the direct costs of bribes or inducements can be reasonably absorbed into firm operating costs, indeed may be perceived as yielding certain benefits.

5.09 Present throughout was a theme actually mentioned explicitly by some managers: Cambodia's lack of good, readily-available business information. Again this made it very difficult for managers to plan for the future. Both exporters and those not yet able to find foreign customers were frustrated by poor information regarding global markets. Modern technologies, marketing and management techniques, government regulations, and specific areas such as accounting were other areas for which managers specifically asked for assistance. It is also worth noting that, as in other developing countries, while managers were often aware that they were at a disadvantage, they did not actually have enough information to fully comprehend the extent of that disadvantage.

5.10 Poor infrastructure and scarcity of both public and private business support services were also important obstacles. The former was particularly significant in stifling domestic distribution networks. Neither of these problems, however, were mentioned prominently among the top three problems for managers.

5.11 Managers' responses show that after years of central planning and economic isolation, both government and managers themselves are relatively inexperienced in their respective roles under rules-based market competition. Cambodia's economy is in transition and much of its present day difficulties are rooted in a difficult past that severely depleted national human resources and stunted development of basic infrastructure.

5.12 Issues emerging from this report, which might be addressed by relevant, government offices and donor-funded organizations include:

- rehabilitation of Cambodia's deficient roads and utilities infrastructure, with the aim to lowering input and transport costs, opening up access to the entire domestic market, and making it more attractive for private firms to locate in more remote areas of the country;
- creation of a more predictable business environment, largely by narrowing the gap between the intent of existing law and actual implementation and enforcement, in order to achieve better levels of environmental and worker protection while also enhancing firms' abilities to accurately predict future costs and make concrete plans for expansion;
- supplementing long-term resources of domestic banks, both through direct loans and through International Finance Institutions (IFI) credit lines (ideally complementing shorter-term co-financing from domestic banks) with an aim to enable them to take-on a more active role in providing short and long term capital to private firms.

5.13 The findings of the report show a high demand for MPDF's two main areas of specialization: (i) assisting individual firms with viable investment projects to access institutional capital; and (ii) broadening and deepening available business support services.

B. Looking Ahead

5.14 The findings of this survey give cause for both optimism and concern. Cambodia is gaining benefits from an outwardly pro-business government, but suffers from dilapidated infrastructure, widespread corruption, looming competitive pressures from its neighbors, and very weak or non-existent business support institutions.

5.15 This survey documents the presence of a dynamic group of individuals who have come from all walks of life, some with significant private sector experience and others with none. Many are remarkable people who have built thriving businesses with few resources other than their own hard work, some knowledge of their products, and an instinctive sense, rather than one gained from formal training, of how to do business in a market economy. And this survey has documented the strong performance of many of these firms, particularly regarding efficient use of abundant low-cost labor resources and creation of much-needed new jobs.

5.16 Looking to the future, however, the competitiveness of these enterprises has not yet faced its toughest test, as most have been producing non-tradable goods for domestic consumption and were therefore not subject to external competition. As the first entrants, they have been able to exploit early opportunities. This dynamism is in itself encouraging, but still it must be conceded that the absence of more stiff competition has allowed a side margin of error and a forgiving environment in which to set up shop. This window of opportunity is already now closing, to the consternation of a significant number of sample managers, as more and more entrepreneurs enter the market and trade liberalization introduces new foreign products. A more competitive market will force greater productivity gains that will greatly strengthen Cambodia's private manufacturers and expand their market. The

findings of this survey provide ample reason for optimism regarding local entrepreneurial capacity to confront the challenges ahead.

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SURVEY QUESTIONNAIRE

Interviewer: _____

Date: _____

Firm Number: _____

CAMBODIA MPDF Survey

December 1999

A. INTRODUCTION

**1. // Full name of person being interviewed _____

**2. Interviewer-What is the interviewee's gender?

0. Male 1. Female

**3. Position of interviewee (Interviewer-get business card from interviewee and staple to front of completed questionnaire)

0. Owner of the company 1. Director of the company
2. Deputy Director of the company 3. Manager of a division of the company
8. Other: _____ 9. N/A

**4. // Name of firm

Khmer: _____
English: _____
Abbreviated: _____

**5. // Address of firm (be specific: mailing and physical):

Mailing address _____

Street address (location of company) _____

Telephone (Get alternative numbers when Available) _____

Fax _____

B. THE COMPANY

6. // What is this company's main business? _____

3. Two years
4. Three to five years
5. Six to ten years
6. 11-20 years
7. Over 20 years
8. Other: _____
9. N/A

18. What is the origin of this private company?

0. Started business alone
1. Started business with spouse or other family member
2. Started business with friend, colleague, classmate or other close person
3. Started with a foreign partner
4. Started business as a joint venture with a Khmer partner
5. Bought or took over business from the state
6. Bought the business from a non-family member
7. Inherited the business from a family member
8. Other: _____
9. N/A

19. What is the ownership history of this enterprise? Interviewer-note that this is intended to mean from when the enterprise first started operations (licensed or unlicensed), not from the registration date as a private company.

0. 100% privately-owned and independent since start-up
1. 100% private now, but previously fully/partly owned by or legally connected to the public sector or government
2. 100% private and independent now, but previously owned or legally connected to a larger private company at start-up
3. 100% private and independent now and at start-up, but owned or legally connected to the state for a time during the interim.
How long? _____
4. Currently majority-private but legally or commercially connected to an SOE, government agency, or state run cooperative
5. Has been an affiliate of a foreign company since start up.
6. Started private and then became an affiliate of a foreign company.
8. Other: _____
9. N/A

20. What percentage of this company is owned by a Cambodian national(s) (meaning a citizen of Cambodia)? _____ percent

21. What percentage of this company is owned by the head of the company and his/her family? _____ percent

22. Is the "owner" or head of the company also the primary investor in the company? (i.e. did s/he put up the money to get the company started?)

0. Yes 1. No. 8. Other 9. NA

If no, who was the investor? _____

**23. Who are the other owners? Interviewer-make sure that the percentages below total 100 percent and make sense

- 0. Other private Cambodian partner(s) _____ percent
- 1. Overseas Cambodian (dual national or foreign passport with Khmer ethnicity) _____ percent
- 2. Overseas Chinese I (those with family in Cambodia) _____ percent
- 3. Overseas Chinese II (without family, just investors) _____ percent
- 4. Other family members _____ percent
- 5. Other foreign investors (non Chinese) _____ percent
- 6. State-owned company, organization, or other government owned entity _____ percent
- 8. Other: _____ percent
- 9. N/A

Plus answer to Q21 _____ percent

Total 100 percent

24. If the owners include Overseas Cambodians, do they reside permanently in Cambodia? (Interviewer: Ask the time spent residing in Cambodia if relevant)

- 0. No
- 1. Yes, reside in Cambodia more than six months per year
- 2. Yes, but reside in Cambodia less than six months per year
- 8. Other: _____
- 9. N/A

25. What is the citizenship of the Overseas Cambodian owners of the business, i.e. what kind of passport do they hold?

- 0. Cambodian
- 1. Foreign
- 2. Dual citizenship
- 8. Other
- 9. N/A

26. If a foreign or dual national, from which country is the person(s) from: _____

27. What is this company's current legal form?

- 0. Sole proprietorship
- 1. Limited liability
- 2. joint venture
- 3. joint stock company
- 8. Other: _____
- 9. N/A

28. Where have you officially registered this company?

Choose all that apply

- 1. Ministry of Commerce
- 2. Ministry of Social Affairs
- 3. Cambodia Development Council (CDC)
- 4. Ministry of Labor Affairs (exist??)
- 8. Other _____
- 9. NA

29. What kind of permits or special licenses have you had to apply for when getting established and during operations?

Please list and specify the organization

License	Issuing Organization
_____	_____
_____	_____
_____	_____
_____	_____

30. How long did it take to get all the necessary licenses and permits that you needed to be fully legal in starting up your business (Interviewer: This means formal licenses)?

- 0. Same day
- 1. Less than one month
- 2. One to three months
- 3. More than six months
- 8. Other
- 9. NA

31. Did you have trouble obtaining any of these licenses?

- 0. No
- 1. Yes
- 8. Other
- 9. NA

What are the three most important problems affecting your business today? List in order of importance. Question closely to get at the real problem. Interviewer-write down manager's answers in short hand and expand later.

32. The most important problem _____

33. The second most important problem _____

34. The third most important problem _____

35. // What do you need to address these problems?

36. // In what areas do you most lack information vital to your business (for example: markets, suppliers, industry)?

// _____
 // _____

37. What kind of short term training course would be most useful to you, the head of the company, today?

- 0. None
- 1. Accounting or bookkeeping skills,
- 2. Marketing, including advertising
- 3. Skills to obtain financial services from a bank
- 4. Integrating new technologies such as the Internet or other IT products
- 5. Production organization
- 6. Management (what kind of management? _____)
- 7. Entering foreign markets
- 8. Other: _____
- 9. N/A

38. Have you ever attended any short-term business training courses?

- 0. No
- 1. Yes. How many, what kinds and where? _____
- 8. Other: _____
- 9. N/A

39. Are you a member of a trade association or other business association?

- 0. No
- 1. Yes (specify: _____)
- 8. Other: _____
- 9. N/A

40. If you are a member, what benefits do you receive from membership?
(For example: information on markets, technology, laws and regulations,
political representation, education, insurance, special access to low-
interest loans, other financial services)

// _____
 // _____

Labor issues

41. How many owners and their family members work full-time for this
business? (Interviewer-This includes nieces and nephews and such)

42. Officially, how many full-time wage workers and contract employees
officially registered with the state do you employ (excluding family)?

**43. Interviewer-place the above answer to Q41 in the appropriate category
below:

- | | | | |
|-----------------|------------|------------------|----------|
| 0. Less than 20 | 1. 20-39 | 2. 40-74 | 3. 75-99 |
| 4. 100-149 | 5. 150-199 | 6. More than 200 | |
| 8. Other: _____ | | | 9. N/A |

44. In actuality (including non-registered workers), how many full-time wage
workers and contract employees do you employ? _____

**45. Interviewer-place the above answer to Q43 in the appropriate category
below:

- | | | | |
|-----------------|------------|------------------|----------|
| 1. Less than 20 | 1. 20-39 | 2. 40-74 | 3. 75-99 |
| 4. 100-149 | 5. 150-199 | 6. More than 200 | |
| 8. Other: _____ | | | 9. N/A |

**46. Interviewer-based on the interviewees responses to Q41 and Q43:

- 0. The number of official employees and actual employees is the same
- 1. The number of actual employees is greater than the number of official employees
- 2. The number of official employees is greater than the number of actual employees
- 8. Other: _____

9. N/A

Interviewer-subsequent questions are intended to refer to actual, not official, numbers:

47. How many part-time workers and/or seasonal workers do you currently employ? _____

48. Do you have labor contracts with your regular full-time workers?

0. Yes 1. No 8. Other 9. N/A

49. What percentage of your full-time workers have some kind of labor contract or labor agreement? _____ percent

**50. Interviewer-place the above answer to Q51 into the appropriate category below:

0. None 1. One to ten percent 2. 11-25 percent
3. 26-50 percent 4. 51-75 percent 5. 76-90 percent
6. 91-99 percent 7. 100 percent
8. Other: _____ 9. N/A

51. What type of contract are most of your full-time employees working under?

0. Day-to-day contracts
1. Monthly contracts
2. Multiple month contracts of less than 6 months
3. Multiple month contracts of 6 months or more (but less than a year)
4. Yearly contracts
5. Multiple year contracts
6. No contracts, they are permanent employees
8. Other: _____
9. N/A

52. How many of your full-time employees are women? _____

**53. Interviewer-calculate this afterwards. What percentage of the total number of full-time workers are women? _____ percent

**54. Interviewer-place the above answer to Q51 into the appropriate category below:

0. None 1. One to ten percent 2. 11-25 percent
3. 26-50 percent 4. 51-75 percent 5. 76-90 percent
6. 91-99 percent 7. 100 percent
8. Other: _____ 9. N/A

55. What was the total number of people working full-time (family, short-term, and long-term - basically all people working within the company) when the business first started operating in any form? _____

**56. Interviewer-place the above answer to Q53 into one of the categories below:

0. Less than 20 1. 20-39 2. 40-74 3. 75-99
4. 100-149 5. 150-199 6. More than 200

8. Other: _____ 9. N/A

57. What was the total number of people working full-time (family, short-term, and long-term) when this company officially registered as a private company? _____

**58. Interviewer-place the above answer to Q55 into one of the categories below:

0. Less than 20 1. 20-39 2. 40-74 3. 75-99
4. 100-149 5. 150-199 6. More than 200
8. Other: _____ 9. N/A

59. How did you hire most of your workers?

0. Government employment agency
1. Private employment agency
2. Directly through advertisement
3. Directly through personal connections
4. Directly through referrals from others
8. Other: _____
9. N/A

60. Over the last three months, what was your average monthly cost of your labor (including wages, bonuses, allowances, taxes and social security)?

_____ USD per month
_____ riel per month

Note: This figure will mean the company's total labor overhead. Compute in both currencies.

61. Are your current workers as skilled as you need/want them to be?

0. No. Comment: _____
1. Yes. Comment: _____
8. Other: _____ 9. N/A

62. Do you provide any training to your workers?

0. No. Why not? _____
1. Yes. Please describe. (what kind, to whom, how often, for what duration?) _____
8. Other: _____ 9. N/A

63. Do you have problems recruiting unskilled workers?

0. No 1. Yes. What problems?

8. Other: _____ 9. N/A

64. Do you have problems recruiting technically skilled workers (e.g. engineers, foreman, master craftsman)?

0. No 1. Yes. What problems?

8. Other: _____ 9. N/A

- (Details on collateral: _____)
7. Bankers unwilling to lend because of interest rate cap
 8. Other: _____
 9. N/A

86. In reality, how many banks in Cambodia are willing to make loans to companies like yours?

0. None
1. A few
2. Some
3. Several
4. I don't know
8. Other
9. NA

Explain: _____

87. Would you consider selling part of your equity in order to raise capital?

0. No
1. Yes
8. Other: _____
9. N/A

88. Do you have problems getting the amount of foreign exchange you need at the time you need it?

0. No
1. Yes. What problems? _____
2. Don't know: I don't have the need
8. Other: _____
9. NA

89. What do you use foreign exchange (assuming it is USD) for in your business?

Choose all that apply

1. Pay for imported goods
2. Buy goods on the local market
3. Pay salaries
4. Pay office expenses (Specify which expenses must be paid in USD _____)
8. Other _____
9. NA

Physical Capital

90. What is the average age of your equipment?

0. Less than one year old
1. One to three years old
2. Five to ten years old
3. 10-20 years old
4. More than 20 years old
8. Other: _____
9. N/A

91. How did you obtain the land that your business sits on?

0. Bought it. What year? _____ From whom? _____
1. Inherited it
2. It belongs to a family member
3. I lease it on a monthly basis. From whom? _____
4. I lease it on an annual basis. From whom? _____
5. I lease it on a multiple-year basis. From whom? _____
8. Other: _____
9. N/A

99. Where do most of the final consumers of your product come from?

- 0. Local Cambodians (within Phnom Penh)
- 1. National customers (around the country)
- 2. ASEAN: _____ 3. Japan 4. Other East Asian countries: _____
- 5. Western Europe: _____
- 6. Eastern Europe and former Soviet Union:
- 7. North America: _____
- 8. Other: _____ 9. N/A

100. Who are your main customers? Interviewer-this refers to the company's customers, not final consumers of the product

- 0. Cambodian individuals 1. Private Cambodian firms
- 2. Cambodian SOEs
- 3. Central Cambodian government agencies
- 4. Local/provincial Cambodian authorities
- 5. Foreign individuals
- 6. Foreign companies (meaning agents and foreign trading companies)
- 8. Other: _____ 9. N/A

101. How many main customers (major buyers) do you have?

- 0. One 1. Two to five 2. Six to ten
- 3. 11-25
- 4. More than 25
- 8. Other: _____ 9. N/A

102. Is your product exported (directly by you or through traders)?

- 0. No
- 1. Yes, export directly to customers (retailers) abroad
- 2. Yes, export directly to foreign agent(s) and trading companies who sell to customers abroad
- 3. Yes, export through SOE to customers abroad
- 4. Yes, export through a government agency to customers abroad
- 5. Yes, export through a private Cambodian trading company to customers abroad
- 6. Yes, exported through "unofficial" channels, i.e. smuggled out of Cambodia
- 8. Other: _____ 9. N/A

Interviewer-if answer to Q102 is "No" then skip ahead to Q106

103. If so, what proportion of the value of your total production is exported? _____ percent

****104. Interviewer-place above answer into the appropriate category below:**

- 0. None 1. One to ten percent 2. 11-25 percent
 - 3. 26-50 percent 4. 51-75 percent 5. 76-90 percent
 - 6. 91-99 percent 7. 100 percent
 - 8. Other: _____ 9. N/A
105. If you are exporting, what is the main obstacle you face?

- 0. None 1. Special export taxes
- 2. Lack of knowledge about foreign markets 3. Have to pay too many bribes
- 4. High tariffs on imports needed to produce export-quality goods
- 5. Policies and regulations discriminate against my particular industry
- 6. Takes too long to get all the approvals needed
- 7. Intermediaries cut too much into profit margin

8. Other: _____ 9. N/A

106.// If you are not exporting, why not? _____
// _____
// _____

107. Who are your firm's main competitors? (choose only one)

- 0. No competitors
- 1. Small private manufacturing firms
- 2. Large private manufacturing firms
- 3. smuggled goods
- 4. Foreign-owned firms
- 5. Foreign-local joint-ventures
- 6. Trading companies
- 7. SOEs
- 8. Other: _____
- 9. N/A

Computer use, IT, Internet and other computer questions

108. How many computers do you use in this company? _____

****109. Interviewer-place the above answer to Q108 in the appropriate category below:**

- 0. None
- 1. One
- 2. Two
- 3. Three to five
- 4. Six to ten
- 5. 11-20
- 6. Over 20
- 8. Other: _____
- 9. N/A

Interviewer-if your answer to Q108 is "None" then skip ahead to Q115

110. What does this company use its computers for? Check all that apply

- A. Word processing
- B. Accounting
- C. Budgeting/Forecasting
- D. Graphic design
- E. World-wide web access
- F. E-mail
- G. Inventory control
- H. Other: _____
- I. N/A

111. Is your business connected to e-mail?

- 0. No
- 1. Yes
- 8. Other: _____
- 9. N/A

112. If you have email, roughly how many email messages do you personally send and receive everyday?

- 0. Less than 5
- 1. 5 - 10
- 2. 10-20
- 3. More than 20
- 8. Other: _____
- 9. NA

113. How about your company?

- 0. Less than 5
- 1. 5 - 10
- 2. 10-20
- 3. More than 20
- 8. Other: _____
- 9. NA

114. Do you or does the business have an Internet account (i.e. are you an Internet subscriber)?

- 0. No
- 1. Yes, How many users: _____

8. Other: _____ 9. N/A

115. If you do not have an Internet account at your business, do you or your employees ever use the Internet in a Internet café or some other place?

0. yes 1. No 2. Other

116.// If yes, what do you/they use the Internet for?

// _____
// _____

117. Do you have a company web page?

0. Yes 1. No 8. Other 9. NA

118. If no, do you plan to design and host a web page within the next six months?

0. Yes 1. No 8. Other 9. NA

Why or why not? _____

119. Is there someone in your company who know quite a lot about the Internet and new IT products?

0. Yes 1. No 8. Other 9. NA

C. THE MOVE INTO THE PRIVATE SECTOR

120. What is the primary reason why you started up this business? (pulled to it by prospects or pushed to it by problems elsewhere)

- 0. Lost job, was laid off, or expected to be laid off
- 1. Frustrated by work in the government - no chance to get anything done
- 2. Few job opportunities elsewhere-private sector was only option
- 3. Previous salary was too low-anticipated greater income in the private sector
- 4. Saw a profitable opportunity and took it
- 5. Wanted to put training to use
- 6. Legal environment for private enterprise changed
- 7. Parents/relatives were in private business
- 8. Other: _____ 9. N/A

121. Are you producing the same product or providing the same service in your current business that was produced in the places that you have worked before?

- 0. The same 1. Very similar
- 2. Related but different 3. Completely different
- 8. Other: _____ 9. N/A

122. What was the main reason behind this company's choice of product/service?

- 0. Previous experience with the production of the product
- 1. Local tradition of producing the product
- 2. Family tradition of producing the product
- 3. It seemed like the easiest option and the best way to make money

- 4. Imitating success of others in producing the product
- 5. Secure supply of inputs for production of the product
- 6. Friends advice
- 7. Local authorities advice
- 8. Other: _____
- 9. N/A

123. What was your own main personal experience with this company's main product/service before starting up this company?

- 0. I had no previous direct exposure to the same or any similar product
- 1. I personally bought and/or used the same or a similar product
- 2. I personally informally traded the same or a similar product
- 3. I worked for another company that produced the same or a similar product
- 4. I worked for another company that traded the same or a similar product
- 5. I worked for another company that purchased the same or a similar product
- 6. I worked for a government agency that purchased the same or a similar product
- 8. Other: _____
- 9. N/A

124. What do you think is the main source of the primary skills/knowledge you use to operate this business?

- 0. University/technical education
- 1. Experience in past jobs
- 2. Supplier of your equipment
- 3. Buyer of your final product
- 4. Trade/technical journals
- 5. Learning on your own
- 6. Foreign contacts
- 7. Training programs outside the education system
- 8. Other: _____
- 9. N/A

125. What were your primary personal goals in starting up this business? (Interviewer-let the interviewee answer in their own words and then choose the one that best matches the interviewee's answer)

- 0. Achievement-wanted to use skills you have
- 1. Status/prestige-wanted to move up in the world
- 2. Independence-wanted to work on your own
- 3. Power-wanted to be in charge
- 4. Money-wanted to earn more money than you had been earning
- 5. Economic necessity-had few other choices
- 6. Career security-this route offered the best future
- 8. Other: _____
- 9. N/A

126. Which one of these descriptions best fits you? (Interviewer-read the interviewee the list: they can choose up to three)

- A. A high achiever, easily bored with the routine, restless
- B. A practical person with practical skills
- C. Highly disciplined, committed to hard work
- D. A risk taker, willing to live with uncertainty
- E. Like to feel in control of what is going on
- F. Self-confident, fairly sure of success
- G. Independent, a loner, somewhat separate from others
- H. Grew up in a difficult, troubled family
- I. Other: _____
- J. N/A

127. If you had the opportunity to start over, would you choose this business again?

- 0. No, I would not start this or any other private business if I had a chance to choose again

1. No, but I would choose to start a business in a different industry.
Which industry? _____
2. Yes, I would start this business again if given a chance to choose again
8. Other: _____ 9. N/A

128. Would you encourage your children to set up a private business on their own?

0. No 1. Yes
2. Yes, but they should work in the government sector first
3. Yes, but they should work for another private company first
8. Other: _____ 9. N/A

// Explain: _____
// _____

D. THE ENTREPRENEUR

Interviewer-The questions in this section are all meant to refer to the head of the company or the person who started up the company. They are intended to be somewhat personal questions to better understand the kind of people behind these companies.

129. Where were you born?

0. Phnom Penh City 1. Kandal 2. Battambang
3. Kampong Som 4. Kampong Cham
8. Other: _____ 9. N/A

130. Age: _____

**131. Interviewer-place the above answer to Q130 in one of the appropriate category below:

0. less than 30 1. 30 to 34 2. 35 to 39 3. 40 to 44
4. 45 to 49 5. 50 to 54 6. 55 to 59 7. 60 and over
8. Other: _____ 9. N/A

132. What is your ethnicity (Interviewer: This does not refer to the person's nationality)?

0. Khmer 1. Chinese 2. Vietnamese 3. Cham
8. Other: _____ 9. N/A

133. How many other private businesses (formal or informal) do you and your close family members currently own some share of?

0. None 1. One 2. Two 3. Three
4. More than three
8. Other: _____ 9. N/A

134. Do you have another place of employment in addition to working with this company?

0. No 1. Yes 8. Other: _____ 9. N/A

IF NOT, GO TO Q138

135. If so, where else are you legally employed?
0. An SOE 1. The central government 2. The local government
5. A Cambodian household enterprise
6. Another registered private Cambodian company 7. A foreign firm
8. Other: _____ 9. N/A

136. And if so, what is the most valuable thing provided to you by that other employment?
0. Connections that provide access to suppliers
1. Connections that provide access to buyers
2. Connections to both suppliers and buyers
3. Income security in case this company fails
4. I need the extra money
5. Employment benefits, such as pension, social security, etc.
6. Capital for this business (Explain: _____)
7. Political connections and protection to help my business develop freely
8. Other: _____ 9. N/A

137. If you are officially working for the government, how often do you go to the office? (Interviewer: This is for people who are still on the government payroll, but do not really show up for work. They stay on with the government for other reasons.)

0. Every day 1. Once or twice per week 2. A few times per month
3. Hardly ever 4. Other 5. NA

Explain _____

138. Does anyone else (other than yourself if relevant) in your family currently work for a Cambodian government department or ministry?

0. No 1. Yes 2. Other: _____ 3. N/A

IF NO, GO TO Q141

139.// If so, who, and in what capacity? _____
 // _____
 // _____
 // _____
 // _____

140. If a family member works for the Cambodian government, what kind of benefits or assistance can s/he give to you and your business?

// _____
 // _____
 // _____

141. How important is it to maintain close contact with a political party?

0. Very important, could not do regular business without such contact
1. Important. It helps my company
2. It helps me out at times, but it is not really that crucial
3. It does not really matter
4. Not important at all

- 8. other
- 9. NA

Please explain _____

142. Will 'connections' to a political party positively affect a company's ability to get investment or working capital for the business?

- 0. Yes
- 1. No
- 8. Other
- 9. NA

Please Explain _____

INTERVIEWER: TRY TO GET A LOT OF COMMENTS ABOUT THIS ISSUE

EDUCATION AND TRAINING

143. What is the highest level of education you have completed?

- 0. Less than 12 years (specify number of years: _____)
- 1. High school diploma
- 2. Training or Associates degree
- 3. Bachelor's degree
- 4. Western-style Masters Degree
- 5. Doctorate
- 8. Other: _____
- 9. N/A

What did you study?

144. So, how many years of additional school did you complete after graduating high school (12 years)?

- 0. None
- 1. One
- 2. Two
- 3. Three
- 4. Four
- 5. Five
- 6. Six
- 7. Seven or more (specify: _____)
- 8. Other: _____
- 9. N/A

145. Have you every worked or lived in Vietnam?

- 0. No
- 1. Yes
- 8. Other: _____
- 9. N/A

When and where? _____

146. Have you had the opportunity to go abroad for study or training?

- 0. No
- 1. Yes, When _____
- 8. Other: _____
- 9. N/A

IF NO, GO TO Q151

147. If you went abroad, how many months total were you abroad for study or training?

_____ months

0. No 1. Yes, but I don't now 2. Yes, and I still do
 8. Other: _____ 9. N/A

156.// If so, from when to when? _____

****157. Interviewer-How long? Calculate and place answer into appropriate category below:**

0. Less than one year 1. One year 2. Two years
 3. Three to five years 4. Six to ten years
 5. 11 years or more (specify: _____)
 8. Other: _____ 9. N/A

158. If so, did you work for the central government or for local government?

0. Central government 1. Local government 2. Both
 8. Other: _____ 9. N/A

159. Have you ever worked for the military?

0. No 1. Yes 2. Yes, and I still do
 8. Other: _____ 9. N/A

160.// If so, from when to when? _____

****161. Interviewer -- How long? Calculate and place answer in appropriate category below:**

0. Less than one year 1. One year 2. Two years
 3. Three to five years 4. Six to ten years
 5. 11 years or more (specify: _____)
 8. Other: _____ 9. N/A

162. Have you ever worked abroad? Interviewer-this is not intended to include business trips, but instead refers to being stationed abroad with a job

0. No 1. Yes 8. Other: _____
 9. N/A

Where and when? _____

163. Have you traveled abroad for any other reasons?

0. No
 1. Yes, for business and/or training only
 2. Yes, for official government duties only
 3. Yes, for personal tourism purposes only
 4. Yes, for business and for official government duties
 5. Yes, for business and for personal tourism purposes
 6. Yes, for official government duties and for personal tourism purposes
 7. Yes, for all three reasons
 8. Other: _____ 9. N/A

164. Are you married?

0. No 1. Yes 8. Other: _____

9. N/A

165. If yes. what is your spouse's occupation? _____

**166. Interviewer-place above answer to Q167 in appropriate category below:

- 0. Professional, technical expertise (e.g., engineer, chemist, doctor)
- 1. Management
- 2. Clerical, sales, services
- 3. Agriculture, animal husbandry, forestry, fisherman, hunter
- 4. Manual worker (manufacturing, construction, transport, etc.)
- 5. Does not work outside of home
- 8. Other: _____
- 9. N/A

167. If yes, who is your spouse's employer?

- 0. The Cambodian government (past or present)
- 1. The military
- 2. The public sector: SOE or cooperative
- 3. a private sector: private company
- 4. A foreign company
- 5. Self employed, farmer
- 8. Other: _____
- 9. N/A

E. TRENDS IN YOUR COMPANY

168. What was your turnover in 1998? and 1999?

US\$ _____ US\$ _____
Riel _____ Riel _____

169. What percentage of your turnover in USD or other foreign currency?
_____ percent

170. Interviewer-place above answer to Q171 in appropriate category below:

- 0. None
- 1. One to ten percent
- 2. 11-25 percent
- 3. 26-50 percent
- 4. 51-75 percent
- 5. 75-90 percent
- 6. 91-99 percent
- 7. 100 percent
- 8. Other: _____
- 9. N/A

171. Is the business currently making profits? (i.e. is owner getting any income out of it?)

- 0. No
- 1. Yes
- 8. Other: _____
- 9. N/A

172. Do you expect the business to be more or less profitable in the year 2000 compared to profitability in 1999?

- 0. About the same
- 1. More profitable
- 2. Less profitable
- 8. Other: _____
- 9. N/A

// Why? _____

173. Did you have to change your prices on your main products during 1999?

- 0. No
- 1. Yes, raise
- 2. Yes, lower
- 8. Other: _____
- 9. N/A

174. If so, why? _____

// _____

175. By what percentage did you lower or raise your prices in 1999? ____ %.

176. Interviewer-place above answer to Q177 in the appropriate category below:

Note for Interviewer: Note if it is lower or raised.

- | | | |
|------------------|-----------------------|------------------|
| 0. None | 1. One to ten percent | 2. 11-25 percent |
| 3. 26-50 percent | 4. 51-75 percent | 5. 75-90 percent |
| 6. 91-99 percent | 7. 100 percent | |
| 8. Other: _____ | | 9. N/A |

177. Do you plan to make a major investment in equipment or buildings during 2000?

- | | | | |
|-----------------|--------|-------------------------|--------|
| 0. No | 1. Yes | 2. Not sure, it depends | |
| 8. Other: _____ | | | 9. N/A |

F. REGULATORY FRAMEWORK AND POLICY

178. How many times is your company visited by government officials in an average month (for any reason)?

- | | | | |
|-----------------|----------|----------|------------------|
| 0. None | 1. One | 2. Two | 3. Three to five |
| 4. Six to nine | 5. 10-14 | 6. 15-19 | 7. 20 or more |
| 8. Other: _____ | | | 9. N/A |

179. (Interview note: Preface this question "We all understand in Cambodia that it is sometimes necessary to ...")

Does paying a bribe accomplish the intended objective?

- | | | | |
|---------------------------------------------------------------|------------------------------------------------------|----------|-------|
| 0. Yes, generally one payment is good enough | | | |
| 1. No, I can never be sure if I will have to pay again or not | | | |
| 2. It always depends. | 3. I refuse to pay and do not get bothered too much. | 8. Other | 9. NA |

Please explain _____ (\$\$)

180. What are the major problems facing someone trying to start a new business today in Cambodia?

// _____
// _____
// _____

181. How would you rate the attitude of central government officials toward private businesses that are making profits?

- | | | |
|-----------------|------------------|------------------|
| 0. Neutral | 1. Negative | 2. Very negative |
| 3. Positive | 4. Very positive | |
| 8. Other: _____ | | 9. N/A |

// Explain: _____
// _____

