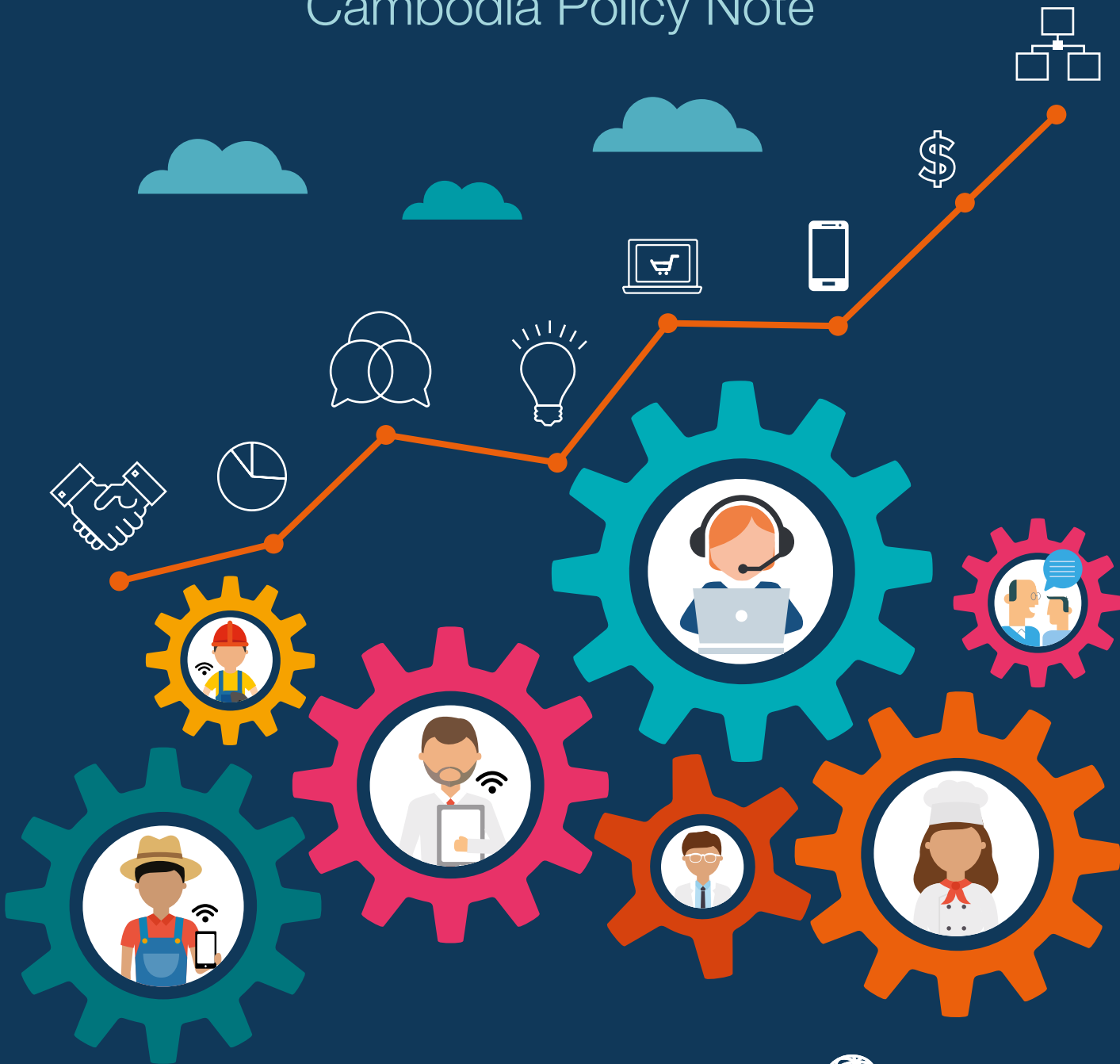


ENTREPRENEURIAL CAMBODIA

Cambodia Policy Note



© 2018 International Bank for Reconstruction and Development / The World Bank
1818 H Street NW, Washington, DC 20433
Telephone: 202-473-1000; Internet: www.worldbank.org

Some rights reserved
1 2 3 4 18 17 16 15

This work is a product of the staff of The World Bank with external contributions. The findings, interpretations, and conclusions expressed in this work do not necessarily reflect the views of The World Bank, its Board of Executive Directors, or the governments they represent. The World Bank does not guarantee the accuracy of the data included in this work. The boundaries, colors, denominations, and other information shown on any map in this work do not imply any judgment on the part of The World Bank concerning the legal status of any territory or the endorsement or acceptance of such boundaries. Nothing herein shall constitute or be considered to be a limitation upon or waiver of the privileges and immunities of The World Bank, all of which are specifically reserved.

Rights and Permissions

This work is available under the Creative Commons Attribution 3.0 IGO license (CC BY 3.0 IGO) <http://creativecommons.org/licenses/by/3.0/igo>. Under the Creative Commons Attribution license, you are free to copy, distribute, transmit, and adapt this work, including for commercial purposes, under the following conditions:

Attribution—Please cite the work as follows: Ebst, Michael; Sak, Sambath; Sanchez Martin, Miguel Eduardo; Van Nguyen, Lan, 2018. *Entrepreneurial Cambodia. Cambodia policy note*. Washington, D.C.: World Bank Group.

Translations—If you create a translation of this work, please add the following disclaimer along with the attribution: *This translation was not created by The World Bank and should not be considered an official World Bank translation. The World Bank shall not be liable for any content or error in this translation.*

Adaptations—If you create an adaptation of this work, please add the following disclaimer along with the attribution: *This is an adaptation of an original work by The World Bank. Views and opinions expressed in the adaptation are the sole responsibility of the author or authors of the adaptation and are not endorsed by The World Bank.*

Third-party content—The World Bank does not necessarily own each component of the content contained within the work. The World Bank therefore does not warrant that the use of any third-party-owned individual component or part contained in the work will not infringe on the rights of those third parties. The risk of claims resulting from such infringement rests solely with you. If you wish to re-use a component of the work, it is your responsibility to determine whether permission is needed for that re-use and to obtain permission from the copyright owner. Examples of components can include, but are not limited to, tables, figures, or images.

All queries on rights and licenses should be addressed to the Publishing and Knowledge Division, The World Bank, 1818 H Street NW, Washington, DC 20433, USA; fax: 202-522-2625; e-mail: pubrights@worldbank.org.

Cover design: Florencia Micheltorena, Buenos Aires, Argentina.
Interior photo: Market Stall. Photo: Chhor Sokunthea, The World Bank.

ENTREPRENEURIAL CAMBODIA

Cambodia Policy Note

July 2018



Foreword

Thanks to rapid and sustained growth, Cambodia has become one of the world's leaders in poverty reduction and shared prosperity. Cambodia's success so far has ridden on openness to trade and investment, preferential trade treatment, and an abundance of low-skilled, low-cost labor. This facilitated the establishment of an export-oriented and foreign-owned garment sector, which—together with tourism, agriculture, and construction—has been driving growth over the past two decades.

Several factors suggest that Cambodia will not be able to rely on its current drivers of growth going forward. With the country becoming more prosperous, it is receiving less generous donor financing, and preferential trade treatment is expected to phase out eventually. At the same time, rising wages are making it increasingly difficult for Cambodia to keep exporting unprocessed rice and low-end garments. Meanwhile, around the globe, automation is displacing jobs, and digital technologies are transforming certain sectors. Coinciding with the possibility of diminished economic prospects are the rising expectations of Cambodian citizens, fueled by the rapid spread of information through mobile phones, the internet, and social media.

In light of these factors, Cambodia's current drivers of growth need to be diversified. While the country's economic outlook remains positive, Cambodia could begin to explore new drivers of growth that will create jobs and boost prosperity over the next 20 years. The country's next economic transformation will rest on its ability to empower domestic entrepreneurs and citizens with capabilities and tools for the modern economy of tomorrow.

Drawing from the knowledge gaps identified in the *Cambodia Systematic Country Diagnostic*, the Cambodia Policy Notes analyze four relatively under-analyzed policy areas: Entrepreneurship and Innovation, Digital Economy, Microfinance and Household Welfare, and Social Assistance. These topics are interrelated and will be crucial for catalyzing or complementing reforms in traditional sectors. For example, digital platforms are expected to play a key role in enabling local entrepreneurs to participate in global value chains more effectively. Financial technology (fintech) can provide expanded access to finance for both enterprises and individuals as well as facilitate the growth of e-commerce. Social assistance could help mitigate shocks for households and contribute to building a stronger human capital base to take advantage of new opportunities and safeguard the impressive economic gains of the last two decades.

Ellen Goldstein

Country Director for Cambodia, Lao PDR, and Myanmar
World Bank Group



Acknowledgements

This policy note has been prepared by a World Bank Group team led by Michael Ehst, with contributions from Sambath Sak, Miguel Eduardo Sánchez Martín and Lan Van Nguyen.

It benefits from guidance provided by Ellen A. Goldstein, Inguna Dobraja, Deepak Mishra, Jennifer Isern, Ganesh Rasagam, Shabih Ali Mohib, Mark Austin, and Lars Sondergaard. Minna Hahn Tong and Maria Dumpert helped editing the note.

The team is grateful to Cambodian Government Institutions for the support provided during the preparation of this Policy Note, especially to H.E. Ken Chanmeta, (Secretary of State, MPTC), H.E. Dr. Phan Phalla (Under Secretary of State, MEF), H.E. Teung Siny (Under Secretary of State, MIH), H.E. Laim Kimleng (Director General, SME and Handicrafts, MIH), H.E. Penn Sovicheat (Director General, Domestic Trade General Directorate; MoC), and Mr. Suon Vichea (Director, Trade Training and Research Institute, MoC).

Further contributions were provided by private sector representatives, including Mr. Samnang Chou (Founder, BioLAB), Ms. Sandra D'Amico, (Vice President, CAMFEBA), Mr. Charles Esterhoy (Chief Operations Officer, Kerry World Bridge Logistics Limited), Mr. Samboeun Hean (Director of Cyber University and Multimedia Center, Institute of Technology of Cambodia), Ms. Kate Heuisler (Chief of Party, DAI), Mr. Pisey Khin, (Nuppun Institute for Economic Research), Mr. Chansamrach Lem (Managing Director, CIC), Mr. Savin Moa (Emerging Markets Investments), Madame Keo Mom (President, CWEA), Mr. Vansann Nou, (Communication Manager, InSTEDD iLab Southeast Asia), Mr. Kouch Pheng (President, G Gear Co. Ltd.), Ms. Nary Phon (Executive Vice President & Group Chief Operations Officer, ACLEDA), Mr. Matt van Roosmalen (Manager, EMC), Ms. Panchak Sam (Assistant Manager, Angkor HUB), Mr. Piseth Sok (CEO & Co-Founder, G Gear Co. Ltd.), Ms. Phalyka Sok (InSTEDD iLab Southeast Asia), Mr. Heng Sok (Zaman School), Mr. Pheap So (Executive Director, YEAC SR), Mr. Justin Stewart (Ithink Asia), Ms. Bopta Touch (Assistant Manager, Lub D Cambodia Siem Reap) and Mr. Hiroshi Uematsu (CEO, Phnom Penh Economic Zone).

Special thanks to the private sector representatives participating in the brainstorming session on startups: Mr. Ham But (Project Manager, Nomi), Mr. Chantra Be (Co-Founder and Managing Partner, Startup Weekend & Emerald Hub), Mr. Rocardo Balmori (Market Manager, Camoticket), Ms. Lnagda Chea (Founder& Managing Director, BookmeBus), Ms. Chan Davy (Director, Davitra), Ms. Olivia Hough (Managing Director, Impact Hub), Mr. Meng Hun (Tek Hub), Mr. Hav Kongngy (Founding Director, My Dream Home), Ms. Mélanie Mossard (Community Director, Impact Hub), Mrs. Mom Mona (3Sisters Cambodia), Mr. Stephen Paterson (Co-Founder & Coordinator of the Mekong Business Challenge), Ms. Chankiroth Sim (CEO, Banji.), Mr. Rithy Thul (Founder, Small World), and Mr. Ear Uy (Co-Founder and CEO, Osja Studio).

The team is also grateful to Mr. Peng Seng for his support during team missions and stakeholder consultations.



Entrepreneurial

Key Messages

- **Cambodia's FDI-led growth strategy faces challenges** as trade preferences are reduced and labor cost advantages erode. Continued strong economic growth is expected to rely increasingly on the emergence of domestic enterprises that have the capabilities to grow into medium- and large-sized enterprises and compete in regional and global markets.
- **A well-functioning entrepreneurship ecosystem is necessary** to support the emergence of high-potential, growth-oriented enterprises (startups) and to assist existing enterprises in growing, innovating, improving productivity, and taking advantage of the global value chains in Cambodia.
- **Deficiencies in Cambodia's current entrepreneurship ecosystem include** a nascent government structure to support entrepreneurship, high aversion to risk among entrepreneurs, lack of adequate financing and business services for startups, scarce technical and managerial human capital, and few links between domestic firms and promising markets.
- **Cambodia can address these weaknesses with policy actions built around four objectives:**
 - (i) Promote a culture of entrepreneurship and build government capacity to implement entrepreneurship policy;
 - (ii) Strengthen SME linkages to national and regional markets;
 - (iii) Improve access to finance and business services through entrepreneurship support programs, developed through public-private partnerships; and
 - (iv) Attract and nurture technical and managerial talent for startups.
- **Cambodia can draw inspiration from countries** that have been successful in creating globally competitive domestic enterprises such as Singapore and China, and it can learn from entrepreneurship support programs established by regional peers such as Vietnam and Malaysia.



Introduction

Entrepreneurship is multi-faceted, with a range of factors influencing the success of growth-oriented enterprises. A well-functioning entrepreneurship ecosystem includes six pillars: skilled human capital, well-functioning markets, an encouraging policy environment, availability of financing, an entrepreneurship-friendly culture, and supportive entrepreneurship organizations and networks.¹ The ecosystem effectively brings these resources at all stages of enterprise development—from ideation through startup, expansion, growth, and maturity.

This policy note responds to a request from the government to assess the current state of Cambodia’s entrepreneurship ecosystem and to

identify deficiencies that are holding back the success of domestic enterprises. The note assesses Cambodia’s performance across the six pillars of the entrepreneurship ecosystem. Given the important role that innovation plays in entrepreneurial outcomes, this note also includes a brief analysis of Cambodia’s national innovation system.

The note provides recommendations for how the Cambodian government can use policy to create a more robust system of support for these domestic enterprises and the entrepreneurs who establish and manage them. Entrepreneurship policy aims to improve the operating environment and develop the capabilities of existing and new entrepreneurs to

Box 1: Basic Definitions of Terms in This Policy Note

Entrepreneurship is the act of starting and growing an enterprise.^a

Growth-Oriented or Opportunity-Driven Enterprises are motivated by an opportunity to increase in size and profitability, as opposed to necessity-driven enterprises that aim only to provide the enterprise owner with a viable source of income.

Entrepreneurship Ecosystem is a comprehensive system of people, organizations, and institutions that supports the creation and growth of enterprises.

Entrepreneurship Policy aims to (i) improve the environment for new enterprise creation and growth and (ii) improve the capabilities of enterprises to grow and compete.

Innovation is an improvement of an enterprise’s product, process, marketing method, or organizational method.^b

a An expanded definition of entrepreneurship, used by the Global Entrepreneurship Monitor (GEM), is “any attempt at new business or new venture creation, such as self-employment, a new business organisation, or the expansion of an existing business, by an individual, a team of individuals, or an established business” (Reynolds, P. et al, 1999).

b The full definition of innovation includes “the implementation of a new or significantly improved product (that is, a physical good or service), process, a new marketing method, or a new organizational method in business practices, workplace organization, or external relations” (OECD, 2005).

1 This framework reflects the Babson College concept of an entrepreneurship ecosystem (Isenberg, 2014; Global Entrepreneurship Research Association, 2018).



grow and compete.² Given Cambodia's struggle with the "missing middle" of enterprises, this note focuses particularly on policies to encourage the types of dynamic small- and medium-enterprises (SMEs) that grow quickly and can have a potentially transformational effect on the economy.³ To provide some useful lessons on improving support for entrepreneurship, the note also includes international examples from countries, such as Singapore and Malaysia, that started with a similar profile of FDI-led development and, over time, have successfully put in place the conditions necessary to nurture and grow a dynamic domestic private sector.

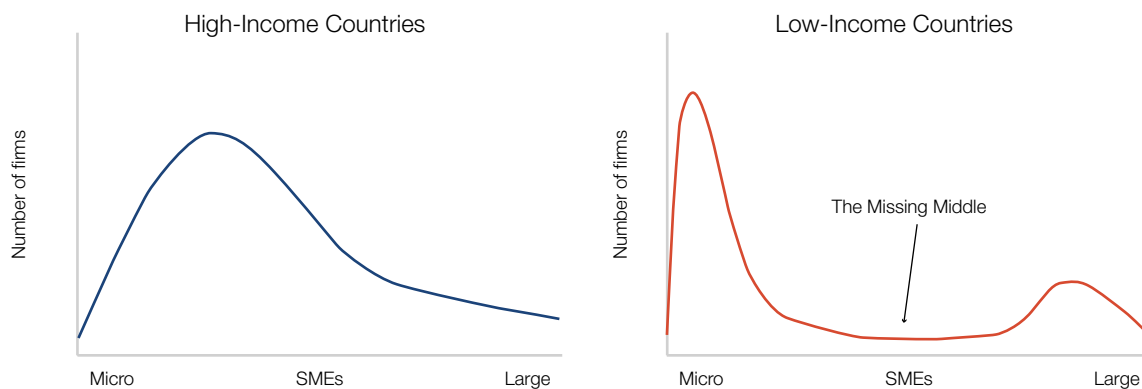
Context and Main Challenges

Cambodia can no longer depend on foreign investment as its sole engine of growth. Cambodia's strong economic growth, at an average of 7.6 percent from 1994-2015, has relied heavily on foreign investment, attracted by its comparatively low-cost

labor and favorable foreign investment incentives. This has resulted in the growth of important sectors—particularly garments, footwear, and tourism—focused on exporting to international markets. However, this engine of growth will face challenges in the medium term as trade preferences expire and Cambodia's labor cost advantages dissipate.⁴

Cambodia could address these challenges by developing its own domestic enterprises that create growth and employment and open new areas of economic activity. However, to date, Cambodian owned enterprises have not demonstrated an adequate capability to grow beyond micro- and small-sized into competitive medium- and large-sized enterprises. As a result, Cambodia's distribution of enterprises has a "missing middle," with medium-sized enterprises making up only 1.3 percent of the roughly 500,000 enterprises covered by the 2011 Economic Census. Micro- and small-sized enterprises (employing between 1-20 staff) accounted for 97.7 percent of the enterprises, while large enterprises accounted for 1 percent.⁵ This type of enterprise size distribution, common in low- and middle-income countries, is illustrated in Figure 1.

Figure 1. Stylized distribution of enterprise size in high-income vs. low-income countries



Source: Harvard Entrepreneurial Finance Lab.

2 Analysis of entrepreneurship in this note is restricted to policies that support enterprises and entrepreneurs to build the capabilities necessary to start and grow their businesses. Analysis of the overall business environment can be found in the Doing Business Report, Enterprise Survey, and Cambodia Investment Climate Assessment 2014. This note also does not focus on micro-enterprises, which generally do not grow and create significant numbers of jobs.

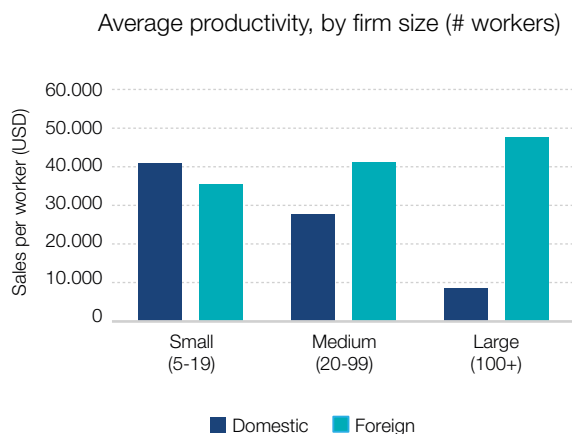
3 The "missing middle" refers to SMEs that are greatly underrepresented in many developing countries. Cambodia, has a high number of domestic micro-enterprises and a strong presence of large, exporting enterprises, but it has a relatively small share of SMEs compared to successful middle- and high-income economies.

4 World Bank, 2017.

5 Cambodia National Institute of Statistics, 2014.



Figure 2. Domestic enterprises have lower productivity at medium and large sizes than foreign enterprises

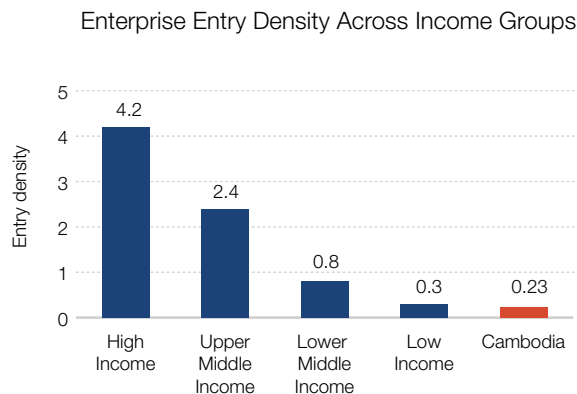


Source: World Bank Cambodia Enterprise Survey 2016.

Moreover, looking at medium- and large-sized enterprises, a large productivity gap between domestic and foreign-owned enterprises can be seen. Results of the World Bank's 2016 Cambodia Enterprise Survey show that while domestic small enterprises are more productive than foreign small enterprises, this reverses dramatically for medium- and large-sized enterprises (Figure 2). This productivity gap reflects certain challenges in Cambodia's economy. For example, few linkages have been established between domestic enterprises and large enterprises operating in Cambodia's special economic zones (SEZs), whether in garments or other sectors.⁶ Therefore, few spillovers have occurred from foreign-owned enterprises to domestic enterprises in the form of management or technological capabilities that can help the latter to increase productivity and compete in these sectors.

Many Cambodian enterprises also choose to remain in the informal sector, whether to avoid taxes and regulations or simply as the "path of least resistance" in a system that does not offer strong incentives to formalize. Competition from the informal sector came

Figure 3. Cambodia has an extremely low rate of enterprise entry



Note: Entry Density is calculated as the number of newly registered limited-liability firms in the corresponding year as a percentage of the country's working age population (ages 15-65), normalized by 1,000. Source: World Bank Entrepreneurship Snapshots, 2010.

out as the top business environment constraint in the 2016 World Bank Enterprise Survey of Cambodia. This poses a challenge to the enterprises that choose to become formal, often a necessity to attract the type of financing necessary to grow and compete beyond local markets.

These factors help explain why Cambodia has a low rate of enterprise entry. As shown in Figure 3, Cambodia has an annual business entry density rate of just 0.23, meaning that Cambodia has a very low rate of formalized new enterprise formation. This is less than one-third of the average for lower middle-income countries. While new enterprise formation does not directly correlate with increases in the number of growth-oriented enterprises,⁷ increasing the entry rate can make an important contribution. Recent economic literature emphasizes the disproportionate contribution of young enterprises to the number of high-growth enterprises in an economy.⁸

In sum, the Cambodian economy is running on only one of its two legs: Cambodia has relied heavily

⁶ World Bank, 2017.

⁷ Henrekson and Sanandaji, 2014; The Economist, 2014.

⁸ Startups and young businesses, not SMEs, are the biggest job creators in the US (Haltiwanger and Miranda, 2013).



on attracting foreign investments while failing to develop its own domestic enterprises. For Cambodia to build a modern, diversified economy that can support continued strong growth well into the future, supporting domestic enterprises must become as high a priority as attracting foreign investment. Going forward, a healthy entrepreneurship ecosystem needs to be developed to grow Cambodia's base of competitive, locally owned enterprises.

Cambodia's Entrepreneurship Ecosystem

Cambodia's entrepreneurship ecosystem is less developed than regional and global competitors.

For instance, the 2018 Global Entrepreneurship Index (GEI) ranks Cambodia 113 out of the 137 countries. This is behind the lower middle-income average as well as Cambodia's ASEAN peers.

A comparative analysis across ecosystem pillars indicates that Cambodia's current ecosystem does not provide adequate support for entrepreneurs and

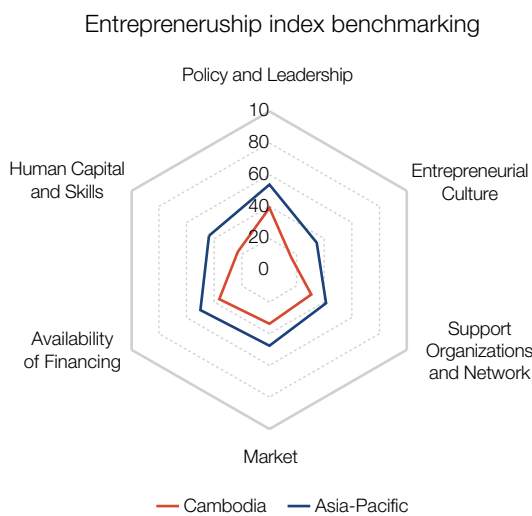
that some factors may limit the creation and growth of enterprises. Based on the Babson Entrepreneurship Ecosystem framework⁹, these pillars are policy and leadership, entrepreneurial culture, support structure and organizations, markets, availability of financing, and human capital and skills (see Figure 4). Each of these six pillars of Cambodia's entrepreneurship ecosystem is discussed in greater detail below. The findings and analysis are based on quantitative indicators for each dimension and complemented by interviews and focus group meetings conducted by the authors in December 2017.

Policy and Leadership

What this pillar measures: Government plays an influential role in entrepreneurship by providing clear signals of its support for entrepreneurship and then defining, funding, and executing a clear entrepreneurship policy and set of entrepreneurship support programs.

Finding 1: Cambodia lacks a clear and coordinated strategy for entrepreneurship development

Figure 4. Cambodia has an underdeveloped entrepreneurship ecosystem



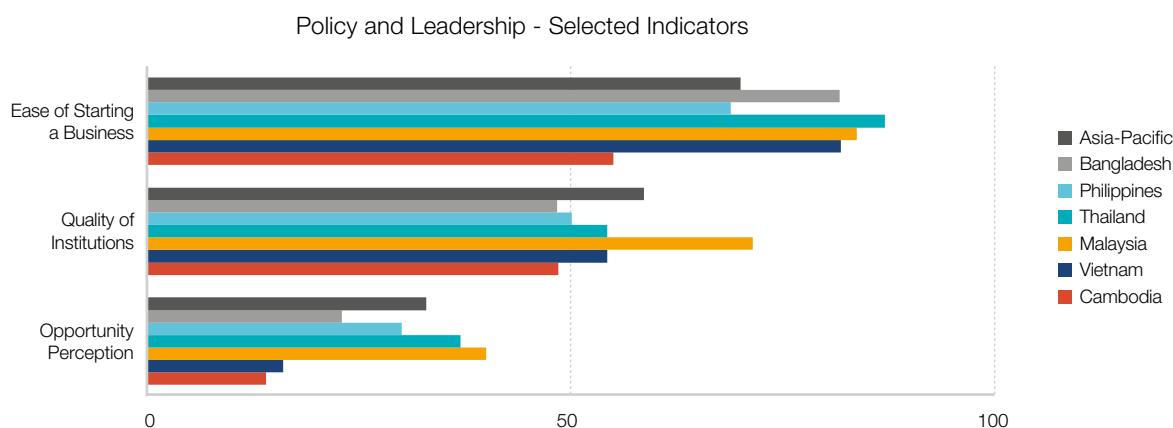
Source: Global Entrepreneurship Index, Global Entrepreneurship Monitor, Global Competitiveness Index, Global Innovation Index.

Cambodia's policies affecting entrepreneurship are spread across various documents, resulting in a fragmented agenda and lack of clarity for entrepreneurs and SMEs on the government's plans and programs. Several policy documents influence entrepreneurship, but many have limitations or duplications. The 1994 Law on Investment and its 2003 amendment offer corporate income tax holidays and exemptions for the import of inputs and equipment, but there are no specific incentives for entrepreneurship and innovation. Moreover, the minimum capital investment thresholds may prevent SMEs from benefiting from these incentives. The Industrial Development Policy (2015), led by the Ministry of Industry and Handicrafts (MIH), focuses on moving toward higher-skilled industry by addressing key constraints and linking with regional and global value chains, but it has not been fully implemented. The draft SME Policy Framework (2015) is aimed at improving the

9 The comparative analysis for this study maps 18 national-level quantitative indicators against the domains of the Babson Ecosystem Framework (<http://entrepreneurial-revolution.com/>).



Figure 5. Opportunity perception for entrepreneurship in Cambodia is low



Source: Global Entrepreneurship Index, Global Competitiveness Index, Global Innovation Index.

environment for SMEs to grow, facilitating support and technical assistance to improve skills and technology, and improving access to business support services and financing. The Startup Policy, which is under development at the Ministry of Posts and Telecommunications (MPTC), is viewed as an important policy document, but this policy and the MPTC's authority is limited to the ICT sector, whereas entrepreneurship activity spans the entirety of the economy. This fragmentation and delays in policy implementation were mentioned repeatedly during interactions with the private sector. These challenges reflect the weak overall quality of institutions, as indicated in Figure 5.

In terms of institutional arrangements, the Cambodian government's support for entrepreneurship is dispersed across several ministries. Entrepreneurs noted the lack of a point of contact with whom the entrepreneurial community could interact. Various ministries were cited as being involved, including MIH, MPTC, and the Ministry of Economy and Finance (MEF), but none was viewed as the lead institution. Due to this fragmentation, the entrepreneurs expressed uncertainty over the government's commitment to entrepreneurship.

Finding 2: Cambodia's overall poor business environment limits entrepreneurial opportunity

Enterprises in Cambodia continue to face many constraints. Based on the World Bank's 2016 Cambodia Enterprise Survey results, the biggest obstacles for enterprises are informality (cited by 28 percent of firms), political instability (16 percent), inadequately educated workforce (12 percent), and access to finance (8 percent). Registering a business remains time-consuming and costly. Cambodia ranks 135 out of 190 countries in the World Bank's Doing Business rankings.

A poor business environment has the overall effect of hampering the creation and growth of enterprises. For example, interviewed enterprises cited a lack of understanding about procedures for obtaining a patent tax certificate and different types of payments as challenges for SMEs. Doing Business 2018 indicates that there are 40 tax payments per year for a private company in Cambodia compared to only 21.8 for the East Asia and Pacific region, so the confusion among SMEs is understandable. Although new regulations lay out the patent tax procedures, SMEs have limited awareness of them, and the lengthy time involved pushes SMEs to pay facilitators to process patent tax certificates. Constraints in the business environment are discussed in more detail in a forthcoming *Investment Climate Assessment*.



Such challenges are reflected in the very low Opportunity Perception score (Figure 5). It is troubling that despite Cambodia's growing economy, its entrepreneurs do not see opportunity to grow successful enterprises.

Entrepreneurial Culture

What this pillar measures: Society's positive or negative views toward entrepreneurship and acceptance of risk affect the level of opportunity-driven entrepreneurial activity.

Finding 3: Low cultural support for entrepreneurship results in low levels of opportunity-driven startup activity

Cambodia's scores on entrepreneurial culture are low, including risk acceptance¹⁰ and cultural support for entrepreneurship. This suggests that entrepreneurship is not yet viewed widely as a viable career within Cambodia, and those who choose to become entrepreneurs are isolated from supportive entrepreneurship networks. As a result, despite Cambodia's fast growth, the percentage of opportunity-driven startups (as opposed to necessity-driven startups) is low compared to the Asia-Pacific average, as indicated in Figure 6. Among the reasons cited by focus groups for the low level of cultural support for entrepreneurship are the legacy of SMEs as family-run businesses that are not structured for outside investment, challenges with “copycat” businesses that compete without regard to formalization requirements, and the economic structure of traditional sectors that provides large, incumbent enterprises with dominant market power thereby lowering opportunity for startups. Furthermore, connections between entrepreneurship support organizations and traditional SMEs are weak, meaning outside influence and support for growing these enterprises is low.¹¹

Nevertheless, entrepreneurs and startups are increasingly emerging in Cambodia, mostly among the

younger generation.¹² This is boosted by a growing young population and access to mobile phone and internet services and is supported by the growing presence of incubators, accelerators, tech hubs, innovative universities' initiatives, and entrepreneurship programs funded by development partners. Focus groups emphasized that the digital sector, particularly mobile app development, is the most active part of the entrepreneurship and innovation ecosystem in Cambodia.

Support Structure and Organizations

What this pillar measures: Support structure includes the organizations and infrastructure that nurture entrepreneurs and build the capabilities of enterprises, as well as the quality of interactions and depth of networks among these organizations.

Finding 4: Local incubators, accelerators, and tech hubs are focused on digital startups, with minimal support for other sectors or later stages of enterprise development

Support organizations play an important role in promoting entrepreneurship and innovation. They include business incubators, accelerators, co-working spaces, venture and angel investors, mentors, and other related programs and initiatives implemented by the government, universities, and development partners. These support organizations help entrepreneurs and startups refine their business models and go to market with a prototype or full-fledged product.

While the support organizations that are emerging in Cambodia provide important services, significant gaps remain. As illustrated in the entrepreneurship ecosystem mapping (Annex 1), numerous organizations are emerging in Cambodia's market, including Impact Hub, Small Works, SHE Investment, Emerald Hub, TRYBE, NOMI Network, TEK Hub, and USAID-Development

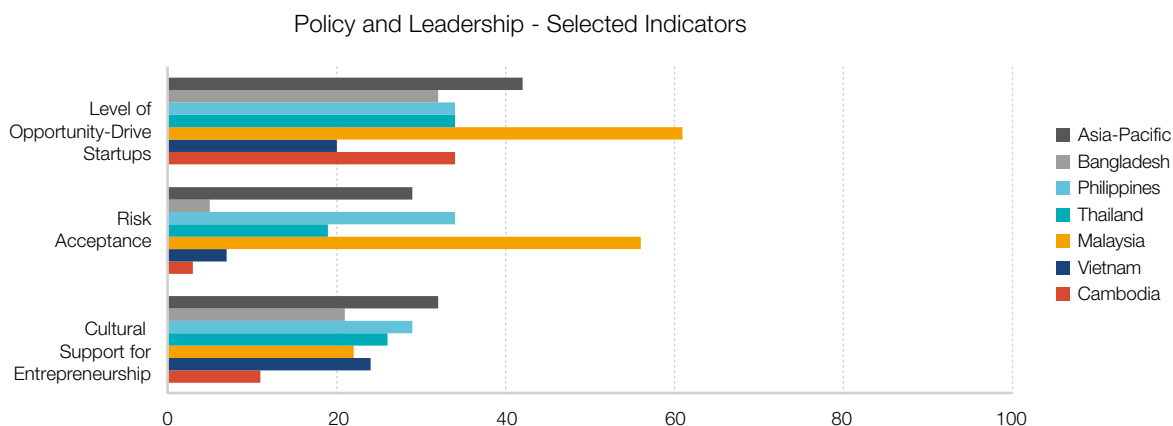
¹⁰ Risk acceptance reflects whether legal and social penalties for business failure. For instance, bankruptcy law that has harsh penalties for owners of insolvent businesses is likely to lower the risk acceptance for entrepreneurs and diminish entrepreneurial activity and investment.

¹¹ Dutch Good Growth Fund, 2018.

¹² Source: Focus group meetings.

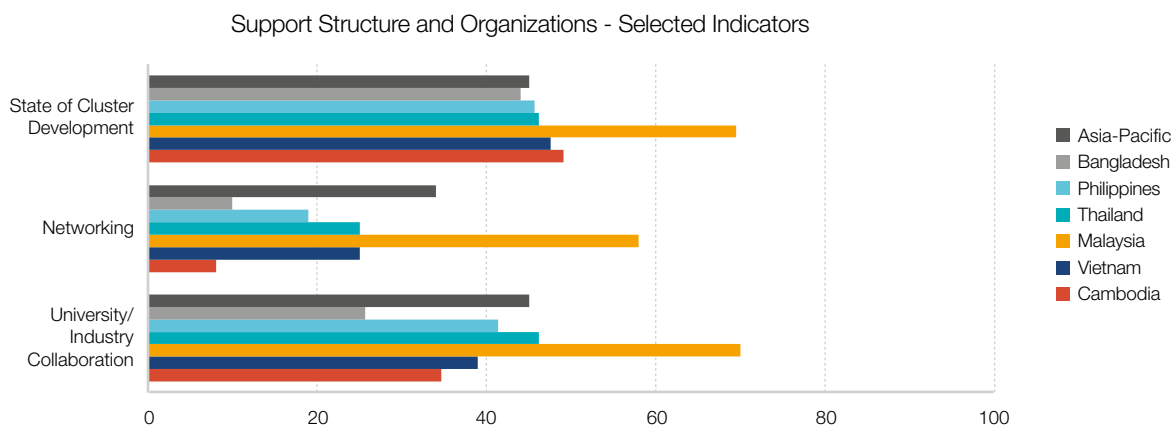


Figure 6. Cultural support for entrepreneurship and risk acceptance are low in Cambodia



Source: Global Entrepreneurship Index.

Figure 7. Cambodia fares well in cluster development, but lags behind in networking



Source: Global Entrepreneurship Index, Global Innovation Index.

Innovation. They provide services such as training, mentoring, and financing. However, given the growing needs and limited resources available, the support services provided do not always meet demand. For example, as highlighted during focus group discussions, committed and dedicated mentors are difficult to find, and there is a lack of financing opportunities after enterprises move past proof-of-concept stage. The incubators and accelerators are largely focused on the ideation and startup phases, with very few capable of providing support to the enterprise expansion and growth phases.

In addition, most of the emerging support organizations focus on the digital sector. This is not surprising, as the costs and barriers to entry are lower in the digital sector for both the entrepreneurs and support organizations. However, it leaves entrepreneurs and enterprises in other sectors without adequate support.

Finding 5: Universities have played a limited role in supporting entrepreneurship

Cambodia’s universities have been playing only a minor role in supporting entrepreneurship. According to the



study *Startup Ecosystem in Cambodia*,¹³ only 4 out of 118 higher education institutions are engaged in entrepreneurship support. Some initiatives have taken place: the Cambodian Institute of Technology (ITC) runs an Innovation Challenge for engineering students with business ideas, several universities have signed MOUs with the Young Entrepreneurs Association of Cambodia (YEAC), the National Institution of Post Telecommunication and Information Communication Technology (NIPTICT) hosted a Startup Policy Hack, and the University of Management runs the Mekong Challenge. However, these and other universities are still mostly disconnected from the wider entrepreneurship ecosystem.

Finding 6: Limited access to entrepreneurship networks prevents Cambodian entrepreneurs from obtaining high-quality mentorship and other resources needed to grow their enterprises

Cambodia is fortunate to sit within a dynamic region that includes China, Singapore, and other economic leaders with strong entrepreneurship ecosystems but has not fully tapped into them yet. The MPTC, YEAC, and local tech hubs have been establishing initial links to the entrepreneurial networks in the region. For instance, YEAC is active in ASEAN's networks for students, and MPTC is active with the Startup Nations Summit. However, Cambodia's connections to regional and international entrepreneurship networks can be made much stronger. Examples of additional international networks that Cambodia can connect with include the Global Entrepreneurship Network (government and civil society organizations), the Global Accelerator Network (accelerators), IncubatEnergy (clean tech startups), and the Aspen Network of Development Entrepreneurs (entrepreneurship support organizations in emerging markets). These networks provide a range of resources, including access to professional and committed mentors, angel and institutional investment, links to incubation and acceleration expertise, and support for policy makers. In addition, diaspora networks can provide a

pipeline of highly skilled entrepreneurs and investors with a deep interest in Cambodia's development.

Markets

What this pillar measures: *Growth-oriented enterprises need access to markets to grow. These may be domestic, regional, or international as needed to support the scale and goals of each enterprise.*

Finding 7: Domestic enterprises are not developing the capabilities needed to work with large, exporting enterprises in SEZs or to compete in regional and international markets

The relatively small size of Cambodia's domestic market means that Cambodian enterprises, even if they initially sell into the domestic market, eventually need to compete successfully in regional and international markets to grow to significant scale. Cambodia's ASEAN membership provides an important entry point for domestic enterprises seeking to internationalize in this way. The presence of foreign companies in Cambodia's SEZs is reflected in the Market Sophistication indicator in Figure 8 and also offers a market opportunity for domestic enterprises as well as the potential for transfer of technology and expertise to the domestic enterprises. Exploiting these opportunities should be a top priority for entrepreneurship policy.

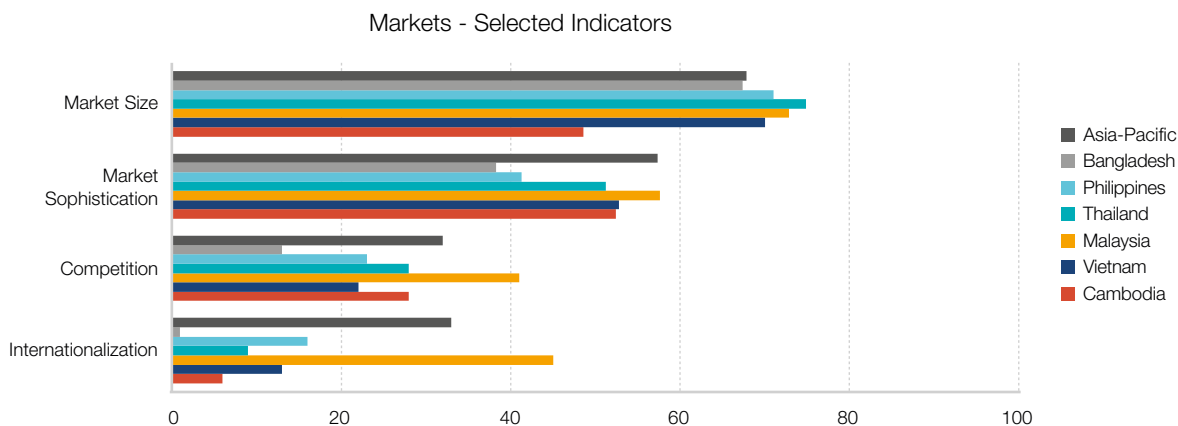
Unfortunately, few domestic enterprises seem to be taking advantage of these market opportunities. Figure 8 shows the very low level of internationalization of Cambodian firms. As noted earlier, few linkages currently exist between domestic enterprises and foreign-owned enterprises in the SEZs.¹⁴ Items like zippers are being imported to go into Cambodian-made garments rather than being sourced from local suppliers. The top reason given by foreign enterprises in the SEZs for the lack of domestic suppliers is the inability of domestic enterprises to meet quality and volume standards.

¹³ Mekong Business Initiative, 2017.

¹⁴ World Bank, 2017.



Figure 8. Despite access to the ASEAN market, enterprise internationalization is low



Source: Global Entrepreneurship Index, Global Innovation Index.

The structure of competition in the Cambodian economy reveals some possible reasons for the low capabilities of domestic enterprises. The Competition indicator in Figure 8 measures the level of the product or market uniqueness of startups, combined with the market power of existing enterprises and business groups as well as with the effectiveness of competitive regulation. In Cambodia's case, domestic enterprises are not showing uniqueness in product offerings, meaning they are not being forced to innovate. This might be attributed to an industry structure that protects a few successful enterprises instead of encouraging intense competition that fosters more, and more innovative, enterprises.

Finding 8: Niche markets with low barriers to entry can offer Cambodia new high-value markets

Cambodian enterprises could find success in some knowledge-intensive niche industries that do not rely on vast pre-existing capabilities to develop a presence. Much of Cambodia's emerging growth-oriented entrepreneurship activity is clustered in the digital sector, particularly around the development of mobile apps for the domestic market. Examples such as BookMeBus are supported by local tech hubs and incubators.¹⁵ The low barriers to entry in the digital sector—a mobile app enterprise can be started by skilled coders who possess

only a laptop and a mobile phone—allow Cambodians to compete in this sector. Similarly, the animation industry, which has a small foothold in Cambodia, offers a potential niche market opportunity as described in Box 2.

The integration of digital technologies into traditional industries lowers entry costs in many of those industries. This allows the creation of new connections between businesses and improved logistics, thus enlarging the opportunity set of local entrepreneurs for joining regional GVCs. Domestic enterprises may also be plugged into regional consumer markets through digital platforms. For example, Alibaba in China has offered a platform that allows small and medium manufacturers to compete in the supply chains of regional markets. These concepts are expanded on in the digital economy policy note in this series.

Access to Finance

What this pillar measures: Access to appropriate financing for starting or growing an enterprise is critical, particularly for entrepreneurs, startups, and early-stage enterprises. Enterprises need access to both working capital (under one-year term) for managing operations and longer-term investment capital to support the growth of their enterprises.

¹⁵ For instance, BookMeBus was part of a SmallWorld-managed bootcamp and acceleration program.



Box 2: Finding a Niche: Animation

In the digital age, some new, high-value industries offer opportunities for developing countries that can find a niche. One such niche for Cambodia may be digital animation.

ithinkasia, for instance, is an animation studio based in Phnom Penh, Cambodia, that provides outsourcing services for animated feature films and television series, co-produces internationally distributed animated feature films, and creates original animated content. The studio has been operating for seven years and runs a free “train into employment” program in animation.

ithinkasia uses its training program to identify and develop talented Cambodians who can meet the standards of international customers, including film and television production companies in Europe, Asia, and the United States. This allows the studio to compete on cost while matching the quality of competitors in locations such as Singapore, Hong Kong, and San Francisco.

ithinkasia plans to scale up its training program into the provinces of Cambodia and has a strategic focus on gender equality and youth. This has important impacts such as moving youth that may be at risk from cross-border migration into employment in a digital economy or providing a way for youth to find employment that is not vulnerable to the impacts of climate change, as is traditionally the case in rural, agricultural areas.

Success in such niche industries can have important effects on related industries. In Cambodia, for example, mobile gaming companies such as Sabay^a can benefit from the increased supply of skilled local animators.



Digital animation artists at ithinkasia, Phnom Penh. Photo Credit: Justin Stewart, Founder, ithinkasia.

^a See <http://geeksincambodia.com/sabay-osja-launches-ey-sey-storytime/>



Finding 9: Banks are not meeting the financing needs of growth-oriented enterprises

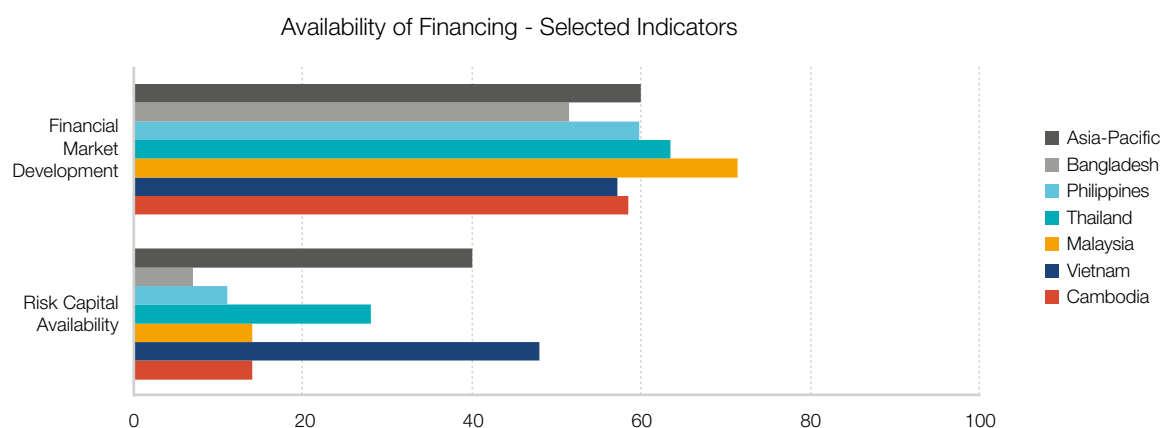
Beyond the startup phase, Cambodian enterprises do not have access to financing that would help them expand. Startup enterprises can often access seed funds through family, relatives, and friends or from microfinance institutions, although these amounts are usually very small (typically around a few thousand US dollars). They then need larger investment to expand their businesses, which is typically addressed by commercial banks for a large percentage of enterprises in any country. Government programs, such as the U.S. Small Business Loan program or government-backed credit lines or risk sharing facilities, can be used to extend credit to such enterprises. However, a well-functioning financial system with sophisticated credit analysis is necessary for these programs to work effectively. Cambodian banks have restrictions on types of collateral, for instance, that make such programs less effective in the Cambodian context. This conservative approach of banks was repeatedly cited in interviews as a challenge to Cambodia’s entrepreneurial enterprises.

Finding 10: Risk capital is inadequate, particularly for early-stage enterprises

Cambodia has few sources of risk capital for early-stage enterprises.¹⁶ Equity and debt funds, private (angel) investors, and government are key sources of financing for high-growth enterprises at an early stage that lack collateral. However, few funds or private angel groups are actively investing in Cambodia, particularly targeting the early stage of investment (typically USD 50,000-500,000 deal size).¹⁷ The Smart Axiota Fund was cited as one of the only investment funds making investments in this early stage space, while Mekong Angels is one of the only angel groups. As illustrated in Figure 9, the lack of risk capital for early-stage financing is particularly acute in Cambodia compared to other countries. Given the limited pipeline of high-growth entrepreneurs and the weak entrepreneurship ecosystem in Cambodia, potential investors interviewed still view domestic enterprises and startups as risky and are investing cautiously.

Some innovative financing initiatives have emerged, but they are not enough to fill the gap. One such initiative is the Cambodian Investors’ Club featured in Box 3. Fintech solutions such as crowdfunding also hold potential as new sources of financing for startups but the regulations are nascent and the financing to date has been limited. Overall, the demand for such early-

Figure 9. Credit and risk capital are difficult to access for Cambodian SMEs



Source: Global Entrepreneurship Index, Global Competitiveness Index.

16 Risk capital, in either debt or equity form, does not require collateral to secure the investment in the enterprise. This is valuable for small and growing enterprises that often do not have physical or other collateral (e.g. receivables) to offer at early stages.

17 See, for example, Dutch Good Growth Fund, 2018.



Box 3: Filling a Finance Gap: The Cambodian Investors' Club

The Cambodian Investors Club (CIC) is an example of an organization that has taken an innovative approach to address a clear financing need in Cambodia's market.

1. Why CIC was established. CIC was established to provide an investment platform and financing opportunities for SMEs, entrepreneurs, and investors through flexible and easy access to finance. The entrepreneurs and investors who are members of the CIC contribute capital and identify investment deals through the CIC platform. Building on the success of the CIC, the Cambodian Investors Corporation PLC was established in 2015 to facilitate formal financing for SMEs in Cambodia. In addition, the CIC team is planning to apply for a license from the Securities and Exchange Commission of Cambodia to mobilize crowd funding and provide financing for SMEs.

2. How they operate and what services they offer to their members. CIC is operated as a Business Association registered at the Ministry of Interior (MoI). It started in 2013 with 13 members and expanded to over 250 members by the end of 2017. CIC operates both as an investment platform for SME financing and as a services provider. It provides community lending and equity investment and offers consulting services to its members such as business partnership matching services and business development support services. CIC is managed by a group Management Team and governed by a Board of Directors.

3. Some of their results to date. CIC has facilitated USD 2.5 million of financing for over 250 SMEs through the CIC investment platform. The CIC has provided consultancy services to numerous SMEs across the country and has three portfolio investments: Mega Fund, NILEDA Co., Ltd, and Joy Premium Drinking Water. The closeness of the CIC members to the enterprises receiving CIC loans and investment allow it to provide highly effective and targeted consulting services.

stage financing outstrips the supply, and the few existing organizations cannot address the diverse financing needs of early-stage enterprises.

Human Capital / Skills

What this pillar measures: *Entrepreneurship requires highly talented people to start and build new enterprises, as well as skilled managers and workers to fill important roles as enterprises grow. In particular, growth-oriented enterprises need employees with technical and managerial skills necessary to manage the business and the technical production process.*

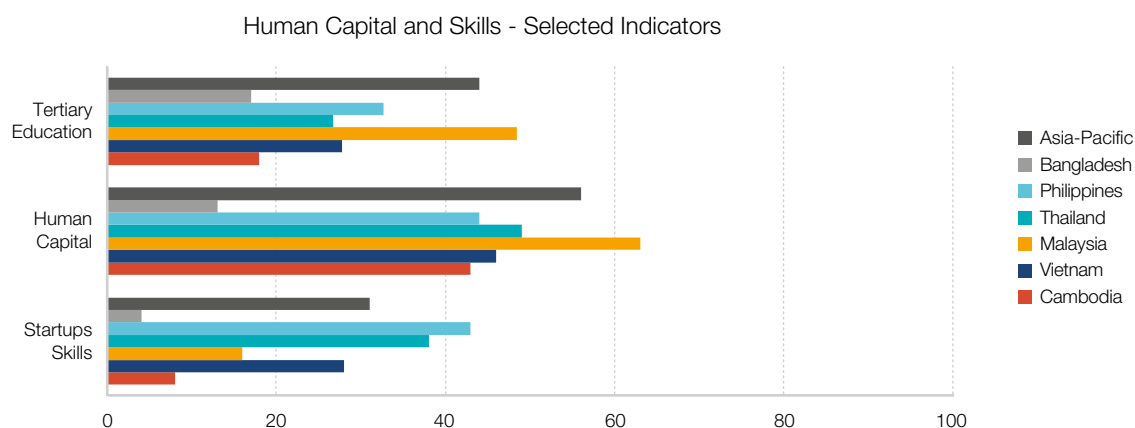
Finding 11: Finding talent is a key challenge for entrepreneurial enterprises

Formal and informal education and skills remain a challenge for enterprises in Cambodia. Recent analysis indicates that most of Cambodia's workforce of 10 million is low-skilled.¹⁸ Many young people who have obtained formal education lack practical knowledge and applied training and are not well-equipped with the appropriate knowledge and skills to fully and actively participate in the market. This has resulted in the limited availability of skilled workers to support growing enterprises. Evidence from a firm survey shows that businesses' top selection criteria include related work experience and literacy in

18 The Dutch Good Growth Fund, 2018.



Figure 10. The skills challenge is very significant in Cambodia



Source: Global Entrepreneurship Index, Global Competitiveness Index.

both Khmer and English, criteria that are challenging to fulfill.¹⁹ Enterprises therefore invest valuable time and energy to train people for their businesses particularly in foreign language, communication, and technical skills.

Advanced human capital is particularly important for driving innovation in growth-oriented enterprises. In sophisticated enterprises, skilled managers work with highly-qualified engineers and scientists to produce new and improved products and processes that drive profitability and productivity. These enterprises should be supported by a well-functioning public-private innovation system. Cambodia's innovation system is weak in some key areas that hold back innovation outcomes, as discussed in Box 4.

International Experience

Many countries offer examples of how progress can be made in the long-term and challenging endeavor of developing a high-performing entrepreneurship ecosystem. For example, China, famous for attracting FDI to build its manufacturing base, has more recently been putting “indigenous” entrepreneurship and innovation at the center of its development strategies.

Chinese industrial zones, less famous than its SEZs, have been key to development of its domestic SMEs.²⁰ India's “Startup India” program, launched in 2016, provides three years of a tax-free environment for newly formed startups, including an entire package of regulatory simplification and incubation activities specifically tailored for startups.

Two countries in the region, Singapore and Vietnam, have programs that may offer useful lessons for Cambodia. Some of the key initiatives are highlighted below.

Singapore

While Singapore is at a more advanced phase of development than Cambodia, it still offers two key lessons for consideration. One lesson is the need to provide differentiated support that is appropriate for various types of enterprises and at various stages of growth, rather than simply focusing on the size of the enterprise. Another lesson is the importance of giving government agencies that support entrepreneurship the necessary independence to design, implement, monitor, and adjust programs.

19 EMC and USAID, 2016.

20 Palmade, et al., 2010.



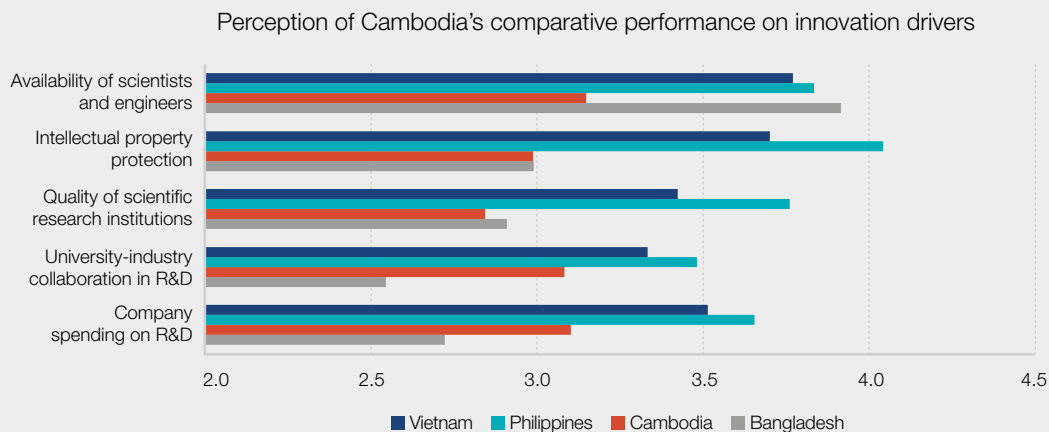
Box 4: Cambodia's National Innovation System

Innovation is an important aspect of the success of many entrepreneurial enterprises and has a collective effect on the economy, including raising productivity and providing new and improved products for consumers and businesses to purchase. Growth-oriented enterprises often rely on innovation to improve their competitiveness.^a

Cambodia therefore has an interest in ensuring that an effective national innovation system (NIS) is in place. A strong NIS includes coordinated interactions between key actors, including: (i) universities and research institutions that produce knowledge, (ii) government programs that fund pre-commercial research and development (R&D) and innovation, (iii) private investors that fund commercially-oriented innovation, and (iv) private enterprises that undertake commercially-driven innovation.

The relative weakness of Cambodia's NIS is reflected in Cambodia's rankings in the Global Innovation Index (GII). It is ranked 101 out of 127 countries and is last among the included ASEAN countries. Particularly low scores include expenditure on education, tertiary enrollment, and knowledge-intensive employment. Notably, Cambodia scores well relative to ASEAN competitors on FDI net inflows, suggesting that FDI is one current avenue that can lead to technology absorption and innovation in Cambodia. Figure 11 illustrates how Cambodia compares to other countries on some innovation drivers measured in the World Economic Forum's Global Competitiveness Report. Improvements in intellectual property protection, quality of scientific research institutions, and university-industry collaboration in R&D could lead to improvements in innovation, including patenting, as well as productivity.

Figure 11. Cambodia lags behind in R&D spending and availability of scientists



Source: WEF, Executive Opinion Survey 2016 (scale 1 - 7 best).

^a Innovation is often, but not always, an important aspect of entrepreneurial success. Many high-growth enterprises utilize well-known technologies and business processes and grow by having superior efficiency or marketing. Likewise, not all innovations lead to successful commercialization. Nevertheless, as economies grow, more enterprises are built around innovation (WEF, 2017).



Box 4 (cont.)

While overall national innovation capabilities are important to long-term economic development, shorter-term goals should revolve around building innovation capacity in areas of the economy critical to development. This suggests a national strategy to build innovation capacity with specific steps:

- **First, the government should consider which economic sectors should be the focus of Cambodia's innovation efforts.** Since innovation capacity building requires extensive effort, in-depth consideration is needed. Based on this, the government should begin to develop advanced human capital, fund R&D, and finance enterprise-led innovation efforts in high-priority sectors that offer Cambodia a comparative advantage, such as garments, ICT, tourism, and agribusiness.^b
- **Second, innovation is often most successful when geographical clusters bring together key innovation actors.** Cambodia should, for instance, consider placing manufacturing-related innovation activities within the SEZs that house most of the FDI-led manufacturing enterprises.
- **Third, Cambodia should develop innovation capacity that is relevant for its stage of development.** In most sectors, Cambodian enterprises need to primarily absorb and adapt existing technologies, building on key clusters of activity, rather than produce any innovation at the technological frontier.

^b International examples offer lessons on such innovation support. New Zealand developed world-class innovation capacity in agriculture, and the United States has long supported its manufacturing industry through technology extension, university programs, and funding research on new technologies.

SPRING Singapore, which stands for the Standards, Productivity and Innovation Board, illustrates both lessons. SPRING is Singapore's main agency for enterprise development, and it aims to enhance the competitiveness of enterprises to develop a strong base of dynamic and innovative Singaporean enterprises.²¹ SPRING's programs are illustrated in Figure 12.

Recognizing that technical and financing needs vary at different stages of enterprise growth, SPRING provides differentiated support to entrepreneurs depending on whether they are at the ideation stage, early stage, or growth stage. This support is largely channeled through the diverse set of actors in Singapore's entrepreneurial

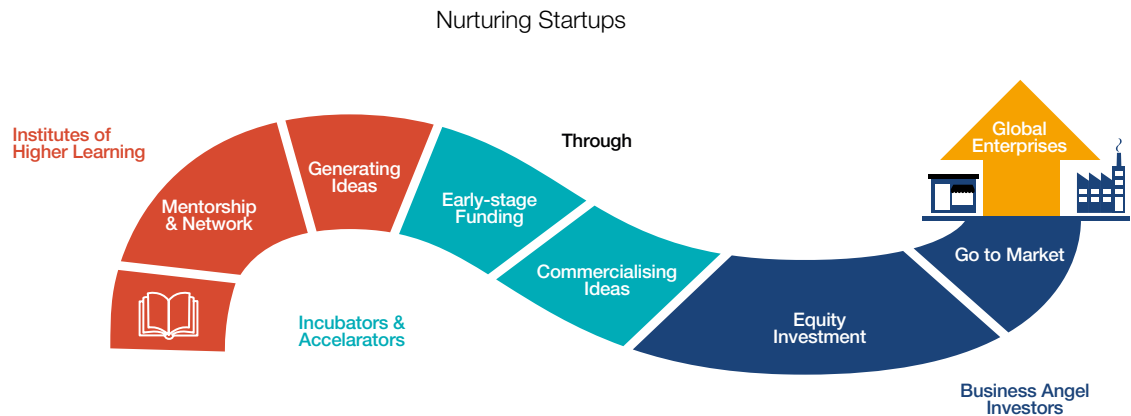
ecosystem. Institutes of higher learning support training and mentorship, incubators and accelerators support ideation and new business development, and business angels and equity investors support the financing needs of expanding enterprises.

Notably, although SPRING is government-owned, it is an autonomous agency with independence to implement its programs. This allows SPRING to test out and adjust its programs over time. It is also able to be responsive to demand in designing its programs. This demonstrates the value of having an agency empowered to lead the entrepreneurship agenda and develop and monitor programs.

²¹ SPRING merged with International Enterprise Singapore on April 1, 2018 to form Enterprise Singapore.



Figure 12. SPRING Singapore Offers Diverse Support for Enterprises



Source: SPRING Singapore Website.

Vietnam

In an effort to entice foreign and domestic entrepreneurs, Vietnam²² has taken several policy actions:

- *The Law to Support SMEs:* This law was passed in 2017 to improve the ease of doing business for SMEs and to strengthen the capacity and efficiency of the agencies and organizations that support SMEs. The Agency for Enterprise Development was given a clear mandate for implementing the law.
- *Support for entrepreneurship support organizations, including incubators, accelerators, and mentorship networks:* This support includes establishing incubators at Vietnamese universities.
- *Funding for startup and early-stage enterprises:* Vietnam has introduced specific investment incentives for investment funds targeting startup and early-stage enterprises. The government has also provided a clear legal framework and tax incentives for early-stage investors, including angel investors and venture capital enterprises.
- *Education and skills for key sectors:* The government has embarked on several training initiatives to produce a skilled IT workforce.

Finally, authorities have communicated that Vietnam wants to support startups with clear and consistent messages, and it offers visas for startup founders.

Policy Options

Given the weaknesses described above, an intentional and systematic approach to supporting entrepreneurship is needed if Cambodia wishes to see an increase in entrepreneurial activity and measurable improvements in the performance of its domestic enterprises. Specifically, this note recommends policy actions to support four objectives (see Table 2 below): (i) Promote a culture of entrepreneurship and build government capacity to implement entrepreneurship policy; (ii) address the “missing middle” by linking SMEs to national and regional markets; (iii) address enterprise challenges with access to finance and services through public-private entrepreneurship support programs; and (iv) attract technical and managerial talent needed by growth-oriented enterprises.

22 Nguyen and Mort, 2016.



Promote a culture of entrepreneurship and build government capacity to implement entrepreneurship policy

Given its reputation as a landing spot for foreign investors, Cambodia needs to make a strong statement that it is ready to support its domestic entrepreneurs, for example through a national branding campaign. Much like *Startup India*, *Startup America*, *Thailand 4.0*, and Israel *The Startup Nation*, a national branding campaign sends an important signal to both domestic and foreign entrepreneurs that the government is strongly supportive of entrepreneurship. “Startup Cambodia” or a similar branded campaign could include a package of incentives such as tax relief or simplified registration targeting growth-oriented enterprises. Importantly, such a campaign in Cambodia should reach out to women and other underrepresented groups to motivate a broad base of potential entrepreneurs. This branding campaign could be launched alongside the establishment of the Entrepreneurship Promotion Center (EPC) that is already envisioned by the government of Cambodia.

A branding campaign needs to be backed by additional signaling actions. Such actions could include renewed engagement with the private sector that builds on the existing Government-Private Sector Forum. A regular survey of Cambodia’s entrepreneurs should also be initiated to ensure that the views of the entrepreneurial community are heard and incorporated into government policies. Finally, over time, government programs should be harmonized to ensure clarity for the private sector and avoid duplication with other government programs.

Greater support is needed for the actors in Cambodia’s entrepreneurship ecosystem to enable them to be effective as catalyzers. In the short term, the government could provide matching grants to develop the capabilities of Cambodia’s tech

hubs, incubators, accelerators, and entrepreneurship networks for the implementation of entrepreneurship support programs. Universities should be leveraged as key actors in the ecosystem, as they have programs in traditional sectors such as agriculture which gives them the ability to work in areas that private sector incubators and accelerators may be reluctant to focus on due to unfamiliarity or costs.

In the longer term, the EPC could be upgraded to an entrepreneurship and innovation agency empowered by the government to design, manage, monitor, and adjust the government’s ongoing support for entrepreneurs. Such an agency should have the technical expertise to undertake increasingly sophisticated policy development and programming. This agency could draw inspiration from many similar international agencies. For example, Israel successfully managed a range of entrepreneurship and innovation programs out of its Office of the Chief Scientist, an independent body under the Ministry of Economy.²³ Enterprise Singapore provides a comprehensive set of support to Singapore’s growth enterprises throughout their lifecycle.

Strengthen SME linkages to national and regional markets

Cambodia should build its entrepreneurship ecosystem around the market opportunities available to it. This means first and foremost supporting enterprises that can integrate into regional and global value chains with an existing presence in Cambodia, including garment and footwear manufacturers as well as newer entries such as bicycles and automobile parts. These existing industries offer a ready market and global knowledge and expertise that can be absorbed by local enterprises.

As an immediate step, Cambodia could establish a supplier development program that builds links between domestic suppliers and global enterprises in the most obvious market: large exporters in

23 See <http://www.matimop.org.il/About.html>



Box 5: Designing the Proposed Entrepreneurship Promotion Center

Authorities could consider designing and establishing an Entrepreneurship Promotion Center (EPC) to provide financial and non-financial support to Cambodian enterprises. For now, the financial support is expected to be provided through the SME Bank, while the EPC would provide non-financial support through its own programs. The EPC is aligned with this policy note's recommendation to establish an entrepreneurship fund that could eventually develop into a full enterprise development agency.

Good practice from international experience suggests that the EPC should:

- Have autonomy to protect it from political influence over technical decisions;
- Have a public-private Board that provides strategic oversight and manages the appointment of key staff;
- Be established as a learning organization that can design, pilot, and adjust programs over time based on structured monitoring and evaluation; and
- Run a range of programs targeting the diverse needs of enterprises across the enterprise lifecycle.

Some examples of entrepreneurship and innovation funds in other countries that can provide lessons for Cambodia are provided in Table 1.

Table 1. Examples of entrepreneurship and innovation funds

Country	Fund Name	Objective	Mechanism	Management
EU	European Angels Fund	High-Growth Startups	Equity to Business Angels and other non-institutional investors for the financing of innovative companies in the form of co-investments	Public-Private
Finland	SME Initiative Finland	SME Growth	Credit Guarantees / Risk Sharing With Commercial Banks	Private
Ireland	Innovation Vouchers	University-Industry Links	Vouchers (EUR 5000 for firms to collaborate with universities or public research centers)	Public
Malaysia	Graduate Entrepreneur Fund	Startups by Young Graduates	Low interest loans with 4 year grace period up to RM500,000	Public-Private (SME Bank)
Malaysia	Business Expansion Fund	Expansion of Domestic Firms	Equity in companies that have RM5million revenue and have been in operation for 3 or more years	Public
South Africa	National Research Foundation	Basic and Applied Research	Research grants to university or public research institute teams	Public



Box 5 (cont.)

Table 1 (cont.)

Country	Fund Name	Objective	Mechanism	Management
The Netherlands	Innovation Fund for SMEs	Private Sector Innovation	Seed Capital, Fund of Funds, Innovation Loans (EUR 150 million to target 10 to 15 growth stage investments over 5 years)	Private
The Netherlands	Microcredit Guarantee Fund	SME Growth	€100 million in loans accessed through microfinance organization Qredits. This provides scope for 1,200 SMEs to borrow up to €250,000 and for 5,300 SMEs to access microcredit of up to €50,000.	Private
United States	Small Business Innovation Research (SBIR)	Private Sector Innovation	Grants (\$100K grant Phase 1, Up to \$1m grant Phase 2) – Government Managed	Public

Cambodia's SEZs. This program should provide management training to the domestic enterprises as well as services to improve the potential for linkages, including surveys of the foreign enterprises to assess their needs and programs so the necessary technology, skills, and expertise can be brought in to ensure that the local enterprises can meet quality and other requirements. The focus of supplier development should be on those sectors that have an existing presence in Cambodia. Industrial zones with a mission to support SMEs, like those managed successfully in China, should also be considered.

The long-term objective should be to create clusters of innovative activity among a dynamic set of domestic and foreign enterprises in priority sectors. The government should encourage this by establishing sector-specific innovation centers that bring together universities, multinational corporations

(MNCs), domestic enterprises, and other innovation system actors into physical and virtual proximity to jointly undertake R&D and applied innovation activities. The government could act as a catalyst for such innovation centers by providing some equipment and facilities, funding some shared services for the sector, and encouraging large foreign and domestic corporations to participate in innovation center activities.²⁴

Address enterprise challenges in access to finance and business services through public-private entrepreneurship support programs

Cambodia has recently stated that it will establish a state-owned SME Bank with a USD 100 million initial capitalization,²⁵ which could help expand access to finance for SMEs. Box 6 presents considerations to be taken into account in the design of this SME Bank,

²⁴ An example is China's Zhongguancun Park: <http://www.zpark.com.cn/en/>

²⁵ Kimsay, 2017.



which could be used to provide a range of working and investment capital to domestic enterprises.

Complementary non-financial services, including entrepreneurship training, enterprise capacity building, and mentorship to growth-oriented enterprises, could be provided through the EPC.

The government might also consider whether the EPC, discussed in Box 5, should provide financing programs to meet the needs of enterprises beyond credit, such as startup grants or equity financing. While EPC programs can be designed and funded through the government, it is critical that these programs involve private actors in their implementation to ensure commercial-minded approaches. Such a publicly funded / privately managed approach to entrepreneurship support is representative of good practice internationally and addresses challenges around political capture, mismatch of public and private mindsets, and limitations of capacity in the public sector.

In the longer term, incentives should be created to attract early- and growth-stage private investment funds. Tax breaks or modest amounts of government funding can be used to “crowd-in” significant private capital through multiple privately managed risk capital funds.

Attract and nurture technical and managerial talent needed by growth-oriented enterprises

Both short-term and longer-term measures will be needed to develop the human capital and skills that growth-oriented enterprises need to be successful. Cambodia’s deficits in technical and managerial skills will require a long-term commitment to education and training. In the meantime, shorter-term measures must be undertaken to address the immediate needs.

Higher education institutions should play a key role in fostering entrepreneurship and providing the necessary skills. Higher education institutions should

be encouraged to develop entrepreneurship programs, and universities with existing entrepreneurship programs should broaden their support beyond students to offer short form entrepreneurship training programs to entrepreneurs and private firms.

Cambodia should also tap into the significant technical and entrepreneurial capabilities that exist in its foreign diaspora. For example, over 50,000 Cambodians are said to work in technical industries in the Republic of Korea.²⁶ The government should create programs to attract this skilled diaspora as well as foreigners from overseas to come to Cambodia and establish enterprises. The value of such programs can be seen in China’s “Sea Turtles” entrepreneurs returning from abroad as well as in Chinese Taipei, which built its semiconductor industry by attracting Taiwanese engineers highly experienced in Silicon Valley to bring their expertise and technological know-how back home.

Budget Implications of the proposed policy options

The overall costs to the budget from these policy options can be modest when programs are designed with public-private implementation models. For instance, tax incentives to encourage startups can be effectively budget neutral as startups are generally not profitable during the first years of their existence and only contribute to national tax revenues in the medium-term. In a similar way, incentives to attract risk capital investment funds might have limited costs to Cambodia once the tax revenues of investee enterprises are considered. Small grants to entrepreneurship support organizations, while not cost-free, can be used by these organizations to attract private sector and donor contributions that provide leverage to the government funds. Similarly, innovation centers and clusters should be designed to attract private participants such as multi-national technology enterprises that would share costs for operations following the government’s provision of land and basic infrastructure.

26 Focus group discussions.



Box 6: Considerations and Governance Principles for Cambodia's SME Bank

The planned SME Bank would address a critical gap for SME finance in Cambodia, but some considerations should be taken into account in its design:

SMEs need investment capital as well as working capital. Although many SMEs are interested in working capital, there is also a critical need for longer-term investment capital. The SME Bank should offer a range of credit instruments that target working capital and longer-term capital needs.

Growth-oriented enterprises need a mix of equity and debt. Growing businesses may require equity, convertible debt, or other products specific to their size, stage of maturity, and business needs. Investment funds that complement the SME Bank may be necessary to fill in these gaps and could be incentivized through policy.

Sustainability and minimizing market distortions are important. SME banking, both public and private models, is growing in developing countries and showing good returns in some cases.^a There are also many examples that demonstrate difficulties with sustainability (profitability) or create market distortions that can crowd out private lending to SMEs. Positive examples of public SME banks include the Development Bank of Canada and the Banco Estado of Chile.^b

Corporate governance principles from international experience should be followed including:^c

- A mixed public and private **ownership structure**
- **Board and management** composed of independent and highly qualified individuals selected through a merit-based, transparent process
- A **mandate** to support the financial services needs of Cambodian **MSMEs and for its products to** be designed in a manner that (i) effectively addresses market gaps, and complements and leverages private sector funding; (ii) pricing fully reflects costs and credit risk; and (iii) ensures full financial sustainability
- Wholesale-only, second-tier **business model** coupled with an effective **risk management** system to ensure maximum financial sustainability and minimize risks
- Regulations and governance arrangements to provide for adequate **transparency and disclosure** requirements, including standards for accounting and auditing—overall, DFI standards should be comparable to those of publicly listed firms
- Prudential **regulation and supervision** by the National Bank of Cambodia including (i) enforcement of requirements essentially similar to those applied to commercial banks (but taking into account the significantly lower risks taken by the DFI); (ii) strong technical oversight by MEF; and (iii) eligibility requirements for participating financial institutions.

a IFC, 2009.

b IFC, 2010.

c Adapted from World Bank, 2016b.



The EPC would require staffing and funding for programs, but a limited range of pilot programs could be offered in the short term as the EPC’s capacity is developed. The SME Bank would require a significant initial investment of capital, but should aim to be self-sustaining financially after establishment. Good governance principles listed in Box 6 should be followed for the SME Bank to avoid the costly situation some countries encounter with their underperforming development banks. Entrepreneurship training programs can be integrated into universities with little

additional expense. Targeting of entrepreneurship programs to women and underrepresented groups is an outreach and design challenge rather than a significant investment. Finally, a program to attract the diaspora as entrepreneurs could be initiated with minimal funding support, though over time it may be attractive to provide funding support to returnee entrepreneurs considering the positive impact these entrepreneurs can have on the economy with the right financial and non-financial support.

Table 2. Policy Options to Support Entrepreneurship in Cambodia

Objectives	Short-term options (1-2 years)	Medium- and long-term options (3+ years)
i. Promote a culture of entrepreneurship and build government capacity to implement entrepreneurship policy	<ul style="list-style-type: none"> Establish a “Startup Cambodia” branding campaign that includes a package of entrepreneur-friendly tax incentives, regulatory streamlining Consider providing small grants to incubators, tech hubs, universities, and networks to run entrepreneurship support programs Utilize the Government-Private Sector Forum to further incorporate the views of entrepreneurs into policy 	<ul style="list-style-type: none"> Harmonize government programs on entrepreneurship to reduce duplication and confusion in the market Consider upgrading the Entrepreneurship Promotion Center to an autonomous agency to develop, implement, and monitor entrepreneurship and innovation programs
ii. Strengthen SME linkages to national and regional markets	<ul style="list-style-type: none"> Create a supplier development program to build the capabilities of domestic SMEs interested in linking with large exporters in SEZs 	<ul style="list-style-type: none"> Establish sector-focused innovation centers that encourage clustering and collaboration among MNCs, the local private sector, universities, and public research institutions
iii. Address enterprise challenges in access to finance and business services through public-private entrepreneurship support programs	<ul style="list-style-type: none"> Utilize the SME Bank and Entrepreneurship Promotion Center to provide appropriate financing and advisory services to domestic enterprises across growth stages 	<ul style="list-style-type: none"> Provide incentives for private investment funds to target Cambodia with equity and debt investments, particularly for early-stage enterprises
iv. Attract and nurture technical and managerial talent needed by growth-oriented enterprises	<ul style="list-style-type: none"> Initiate and set targets for entrepreneurship training programs at universities 	<ul style="list-style-type: none"> Create a “Returnee” program for overseas Cambodians and a “Startup Visa” program for foreigners, with incentives to attract skilled entrepreneurs to come to Cambodia and establish enterprises Reach women and other groups currently underrepresented in entrepreneurship with targeted programs and outreach efforts



References

- Cambodia National Institute of Statistics, Ministry of Planning, and JICA. *Economic Census of Cambodia*. Phnom Penh: 2011.
- Cambodia National Institute of Statistics and Statistics Sweden. *Cambodia Socio-Economic Survey. Cambodia Inter-Censal Economic Survey 2014*. Phnom Penh: 2014
- Cornell University, INSEAD, and WIPO. *The Global Innovation Index 2017: Innovation Feeding the World*, Ithaca, Fontainebleau, and Geneva. 2017
- The Dutch Good Growth Fund. *Understanding Key Challenges for Missing Middle in Entrepreneurship ecosystems in the Mekong Region (forthcoming)*. 2018.
- The Economist. "What exactly is an entrepreneur? A new paper sheds some light, with some surprising answers." February 16, 2014. <https://www.economist.com/blogs/schumpeter/2014/02/our-schumpeter-columnist>
- EMC and USAID. *Targeting for Employment: A Study on the Drivers Behind International Migration from Cambodia and the Domestic Labor Market*. Emerging Market Consulting, final Report for USAID. Phnom Penh: 2016.
- The Global Entrepreneurship and Development Institute. *Global Entrepreneurship Index 2018*. 2018.
- The Global Entrepreneurship Research Association, *Global Entrepreneurship Consortium Global Report 2017/18*. 2018.
- Haltiwanger, John, Ron S. Jarmin, and Javier Miranda. *Who Creates Jobs? Small versus Large versus Young*. The Review of Economics and Statistics, 2013 95:2, 347-361.
- Henrekson, Magnus, and Tino Sanandaji. *Small Business Activity Does Not Measure Entrepreneurship*. Proceedings of the National Academy of Sciences of the United States of America (PNAS), January 2014.
- International Finance Corporation. *The SME Banking Guide*. Washington, DC: IFC, 2009.
- International Finance Corporation. *Scaling-Up SME Access to Financial Services in the Developing World*. Washington, DC: IFC, 2010.
- Isenberg, Daniel. "What an Entrepreneurship Ecosystem Actually Is." *Harvard Business Review*, May 12, 2014. <https://hbr.org/2014/05/what-an-entrepreneurial-ecosystem-actually-is>
- Kimsay, Hor. "Hun Sen vows to launch new bank for SMEs." *The Phnom Penh Post*, December 21, 2017. <https://www.phnompenhpost.com/business/hun-sen-vows-launch-new-bank-smes>
- Mekong Business Initiative (2017). *The Startup Ecosystem in Cambodia*.
- Nguyen, Quan Anh, and Gillian Sullivan Mort. *Economic Reform and Entrepreneurship in Vietnam: A Policy Perspective*. In *Economic Development and Entrepreneurship in Transition Economies*, 109-127. Springer International Publishing, 2016.
- OECD/Eurostat. *Oslo Manual: Guidelines for Collecting and Interpreting Innovation Data, 3rd Edition, The Measurement of Scientific and Technological Activities*. Paris: OECD Publishing, 2005.
- Palmade, Vincent, Vandana Chandra, and Hinh T. Dinh. *China's secret weapon in light manufacturing: Small and Medium Enterprise-oriented "Plug and Play" industrial zones*. Washington, DC: World Bank, 2010.
- Reynolds, P.D.; Hay, M.; Camp, S.M. *Global Entrepreneurship Monitor, Executive Report*. Kauffman Center for Entrepreneurial Leadership: Kansas City, MO, USA, 1999.



World Bank. *Cambodia Investment Climate Assessment*. Washington, DC: World Bank, 2014.

World Bank. *Cambodia Enterprise Survey*. Washington, DC: World Bank, 2016a.

World Bank. *Nigeria Development Finance Study: Lessons from International Experience in Designing the Development Bank of Nigeria*. Washington, DC: World Bank, 2016b.

World Bank. *Cambodia – Sustaining strong growth for the benefit of all: A systematic country diagnostic*. Washington, DC: World Bank, 2017.

World Bank. *Doing Business*. Washington, DC: World Bank, 2018a.

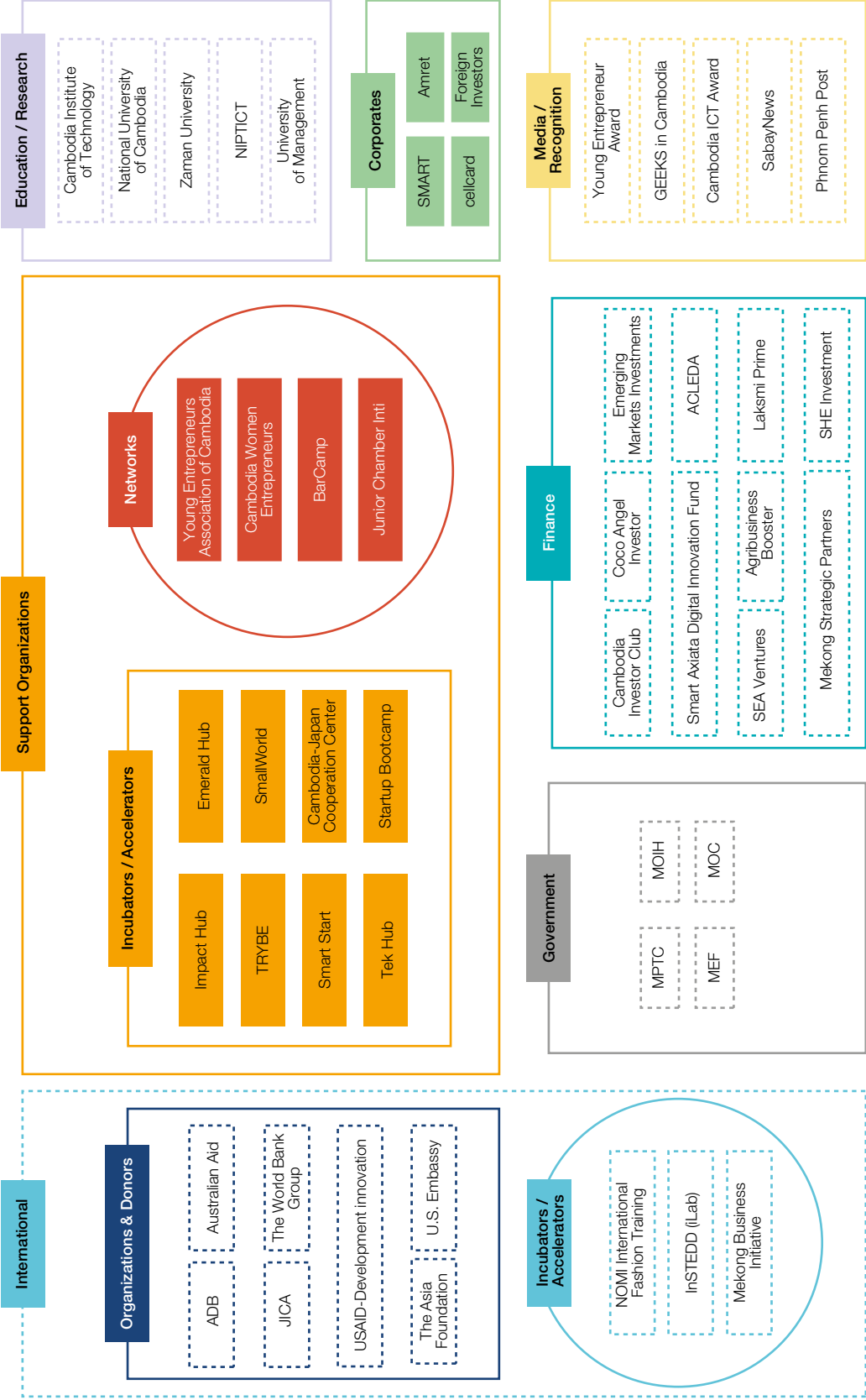
World Bank. *Cambodia Country Entrepreneurship Snapshot*. Washington, DC: World Bank, 2018b.

World Economic Forum. *Global Competitiveness Report 2017-2018*. Geneva: World Economic Forum, 2017.



Annex 1: Entrepreneurship Ecosystem Mapping – Support Structure and Organizations

Figure 13. Categories of players (non-exhaustive)





Cambodia Country Office
Exchange Square Building
Floor 10th IBRD and 11th IFC
Streets 51-61 and streets 102-106
Sangkat Wat Phnom, Khan Daun Penh
Phnom Penh, Cambodia
www.worldbank.org/cambodia