

Understanding Cambodian Small and Medium Enterprise Needs for Financial Services and Products

In Partnership with :     



CAMBODIA AGRIBUSINESS SERIES - No. 2



**International
Finance Corporation**
World Bank Group

Understanding Cambodian Small and Medium Enterprise Needs for Financial Services and Products

International Finance Corporation
European Union

Understanding Cambodian Small and Medium Enterprise Needs for Financial Services and Products

(c) International Finance Corporation

70 Norodom Blvd

Phnom Penh

P.O. Box 1115

Cambodia

Tel: 855 23 210 922

Fax: 855 23 215 157

November 2010

IFC, a member of the World Bank Group, creates opportunity for people to escape poverty and improve their lives. We foster sustainable economic growth in developing countries by supporting private sector development, mobilizing private capital, and providing advisory and risk mitigation services to businesses and governments.

The European Union is a unique economic and political partnership between 27 democratic European countries who have decided to gradually link together for peace, prosperity and freedom for its 500 million citizens — in a fairer, safer world.

This report was commissioned by IFC and the European Union in Cambodia. In partnership with the European Union, other donors, and the Ministry of Industry, Mines and Energy, IFC is implementing a five-year, supply chain improvement project to help Cambodia's agri-sector expand, create jobs and contribute to reducing high levels of rural poverty. This is part of a larger program that also supports the development of agro-industry small and medium enterprises through business environment reform and improving access to finance. The Cambodia Agribusiness Series of publications shares project-generated knowledge and experiences with a larger audience.

The conclusions and judgments contained in this report should not be attributed to, and do not necessarily represent the views of, IFC or its Board of Directors or the World Bank or its Executive Directors, or the European Union, or the countries they represent. IFC and the World Bank and the European Union do not guarantee the accuracy of the data in this publication and accept no responsibility for any consequences of their use.

Contents

Executive Summary.....	i
I. The SME Sector and Financial Services in Cambodia.....	1
1.1. Introduction.....	1
1.2. The SME Sector in Cambodia.....	2
1.3. SME's Challenges and Constraints.....	3
1.4. Overview of the Financial Sector in Cambodia.....	4
II. Survey Results.....	11
2.1. Overall Characteristics of Enterprises.....	13
2.2. Summary of Enterprise Characteristics.....	22
2.3. Legal Status of Enterprises	26
2.4. SME Geographic Isolation	27
2.5. Enterprise Financial Data Overview.....	28
2.6. Enterprises and their Banking Experience	42
2.7. Enterprises and Banking Products.....	44
2.8. Enterprises Interest in and Satisfaction with the Banking Sector	67
2.9. Enterprise Financing	71
2.10. Enterprises' Current Challenges and Future Growth Expectations.....	107
III. Concluding Remarks, Recommendations, Opportunities.....	113
3.1. The Opportunities	114

Figures

Figure 1: Number of MFI and bank borrowers.....	5
Figure 2: Distribution of annual turnover by \$	12
Figure 3: Distribution by enterprise type	13
Figure 4: Distribution by activity sector.....	13
Figure 5: Distribution by location	13
Figure 6: Distribution by number of employees.....	13
Figure 7: Percentage of registered enterprises by province	26
Figure 8: Percentage of registered enterprises by government agency.....	27
Figure 9: Distribution of enterprises by financial record status.....	28
Figure 10: Distribution by enterprises type and person responsible for financial management	29
Figure 11: Is this business the only source of your income?.....	29
Figure 12: Other types and sources of income	30
Figure 13: Types of business premises used (% of business premises)	30
Figure 14: Ownership or rental of business premises according to enterprise type and activity sector	31
Figure 15: Ownership or rental of business premises according to geographic location	31
Figure 16: Start-up capital by enterprise type (micro-small).....	34
Figure 17: Start-up capital by enterprise type.....	34
Figure 18: Start-up capital by activity sector	35
Figure 19: Start-up capital by province	36
Figure 20: Asset by enterprise type	37
Figure 21: % of enterprises with a bank account.....	42
Figure 22: % of enterprises with a bank account (by activity sector)	43
Figure 23: % of banked enterprises by province.....	43
Figure 24: Total account balances (enterprise type).....	47
Figure 25: Deposit and current account balance	48
Figure 26: Frequency of banking transactions for all enterprise.....	51
Figure 27: Preferred remote options (% of enterprises)	52
Figure 28: Business expenditure distribution by enterprise	53
Figure 29: Interest in internet-based payment tool.....	54
Figure 30: Payment methods	55
Figure 31: Main reason for not approaching banks for supplier payment.....	56
Figure 32: % of enterprises by # of monthly customers and enterprise type	58
Figure 33: Time spent collecting receivable.....	62
Figure 34: % using debit and credit cards	63
Figure 35: Main reason for use of debit/credit card.....	64
Figure 36: % of enterprises with insurance	65
Figure 37: Insurance policies used	65
Figure 38: % of enterprises regularly changing currency by enterprise type.....	66
Figure 39: Bank vs currency exchange services: Why not banks?	67
Figure 40: Interest in business services.....	67

Figure 41: Interest in business services by enterprise type.....	68
Figure 42: Interest in financial products and services	68
Figure 43: Interest in financial products and services by enterprise type	69
Figure 44: Satisfaction with cash withdrawals	69
Figure 45: General satisfaction with bank products, services, operations, and staff	70
Figure 46: Short-term financing sources	71
Figure 47: Short-term financing sources used in the last year, by banked enterprises and type	72
Figure 48: Short-term funding sources used in the last year by location and sector	73
Figure 49: Main reasons for selecting short-term funding source	74
Figure 50: Long-term funding sources.....	74
Figure 51: Enterprises by long-term funding source used in the last year (by type and bank account usage)	75
Figure 52: Long term loan funding sources (by location and activity sector).....	76
Figure 53: Main reasons for selecting sources for long-term funding.....	76
Figure 54: Total short-term loans and debt by enterprise type.....	77
Figure 55: Current borrowing: Short-term loans by enterprise type	78
Figure 56: Current borrowing: Short-term loans by activity sector.....	80
Figure 57: Total long-term loans and residual debt by enterprise type.....	82
Figure 58: Long-term current borrowing by enterprise type.....	83
Figure 59: Current borrowing: Long-term loans by location.....	84
Figure 60: Current borrowing: Long-term loans	85
Figure 61: % of total asset financing needed for different assets (by enterprise type)	87
Figure 62: % of total asset financing needed for different assets (by location and activity sector)	87
Figure 63: Assets needing financing (percentiles)	88
Figure 64: Type of financing needed (% of total financing needs)	94
Figure 65: Total # of enterprises per financing type (% total enterprises)	94
Figure 66: Financing needed: Bank usage (% of enterprises).....	95
Figure 67: Total Financing Needed (% of Enterprises)	95
Figure 68: Financing types.....	95
Figure 69: Future financing: Long-term loans by enterprise type	97
Figure 70: Future financing: Equity financing by enterprise type	98
Figure 71: Future financing: Long-term loans by activity sector.....	101
Figure 72: Future financing: Equity financing, by activity sector	102
Figure 73: Future financing: Agriculture sector, all type of financing	103
Figure 74: Factoring financing.....	105
Figure 75: Movable asset financing	105
Figure 76: Most important criteria enterprises use in selecting from where to borrow.....	106
Figure 77: Top 3 challenges to growth of business	107
Figure 78: Other challenges to growth of business	108
Figure 79: Expected sales growth in the next 3 years (by type)	110
Figure 80: Expected sales growth in the next 3 years (by location)	110
Figure 81: Expected sales growth in the next 3 years, by activity sector.....	111
Figure 82: Do you have a business plan?	111
Figure 83: Achieving expected growth? Future plans.....	112

Tables

Table 1: SME definition	1
Table 2: Snap shot of key products and services available	5
Table 3: Commercial bank outreach	7
Table 4: MFI outreach	8
Table 5: Classification by asset size	11
Table 6: Classification by location	12
Table 7: Distribution of enterprises by type and activity sector	14
Table 8: Distribution of enterprises by type and location	14
Table 9: Distribution of enterprises by type and number of employees	15
Table 10: Distribution of enterprises by type and annual turnover.....	15
Table 11: Distribution of enterprises by type and length of operation.....	16
Table 12: Distribution of enterprises by activity sector and type	16
Table 13: Distribution of enterprises by activity sector and location	17
Table 14: Distribution of enterprises by activity sector and number of employees.....	17
Table 15: Distribution of enterprises by sector and annual turnover	18
Table 16: Distribution of enterprises by length of operation and activity sector.....	18
Table 17: Distribution of enterprises by location and type.....	19
Table 18: Distribution of enterprises by location and activity sector	20
Table 19: Distribution of enterprises by location and number of employees	20
Table 20: Distribution of enterprises by location and annual turnover	21
Table 21: Distribution of enterprises by location and length of operation.....	21
Table 22: Number of enterprises exporting and importing	27
Table 23: % of enterprises by type and source of start-up capital	32
Table 24: Source of start-up capital by sector	33
Table 25: Start-up capital by enterprise type	34
Table 26: Start-up capital by activity sector	35
Table 27: Start-up capital amounts by geographic location	36
Table 28: Asset size by enterprise type	38
Table 29: Asset size by activity sector	38
Table 30: Asset size by location	38
Table 31: Loan amounts by enterprise type	39
Table 32: Loan amounts by activity sector.....	39
Table 33: Loan amounts by location.....	40
Table 34: Total monthly turnover (enterprise type and activity sector)	40
Table 35: Total monthly turnover by province	41
Table 36: Monthly turnover by enterprise type.....	41
Table 37: Monthly turnover by activity sector	41
Table 38: Monthly turnover by province	42
Table 39: # of enterprises, by banking product usage	45
Table 40: % of enterprises with a bank account, by banking product and by type of enterprise	45

Table 41: % of enterprises with a bank account, by banking product and by location.....	46
Table 42: Total balance of bank accounts, by enterprise type	46
Table 43: Total accounts (percentiles)	47
Table 44: Deposit account data (percentiles)	48
Table 45: Current account data (percentiles)	48
Table 46: Number of transactions by type	49
Table 47: % enterprises by # of banking products and enterprise type	50
Table 48: % enterprises by # of banking products and activity sector.....	50
Table 49: Methods used for bank transactions	50
Table 50: Enterprises using invoices for their business purchases according to company type	54
Table 51: % enterprises & approximate # of invoices received monthly.....	55
Table 52: % enterprises by method of payment, by bank account usage and enterprise type.....	56
Table 53: % enterprises by method of payment, by activity sector	56
Table 54: % enterprises by employee payment method (by enterprise type).....	57
Table 55: # employees by enterprise type and activity sector	57
Table 56: Approximate # of customers per month	58
Table 57: % enterprises by # of monthly customers and location.....	59
Table 58: % enterprises by # of monthly customers and activity sector.....	59
Table 59: Enterprises' customers according to company type.....	59
Table 60: Enterprise customers according to company activity sector	60
Table 61: Distribution of enterprises by cash/credit sales ratio and by enterprise type.....	60
Table 62: Distribution of enterprises by cash/credit sales ratio and by location	61
Table 63: Distribution of enterprises by cash/credit sales ratio and by activity sector	61
Table 64: Average credit period given to customers according to company type.....	61
Table 65: Average credit period given to the customers according to activity	61
Table 66: Methods used to collect customer payments according to company type.....	62
Table 67: Total annual turnover by enterprise type and activity sector (\$ million).....	63
Table 68: Short-term current borrowing by bank account usage.....	78
Table 69: Current borrowing: Short-term loans.....	79
Table 70: Short-term current borrowing situation, by type	79
Table 71: Short-term current borrowing by location	79
Table 72 Current borrowing: Short-term loans by activity sector	80
Table 73: Short-term current borrowing activity sector	81
Table 74: Long-term current borrowing by bank account usage.....	82
Table 75: Long-term current borrowing by enterprise type	83
Table 76: Current borrowing: Long-term loans by location	84
Table 77: Long-term current borrowing situation by location.....	85
Table 78: Current borrowing: Long-term loans	86
Table 79: Long-term current borrowing, by activity	86
Table 80: Assets needing financing, by bank account users	89
Table 81: Assets needing financing, by size of enterprise	90
Table 82: Assets needing financing, by location	91
Table 83: Assets needing financing, by activity sector	92

Table 84: Total asset financing summary.....	93
Table 85: Future financing needs: All financing types	96
Table 86: Types of financing by bank account usage	96
Table 87: Future financing: Long-term loans by enterprise type.....	98
Table 88: Future financing: Equity financing by enterprise type	98
Table 89: Types of financing, by company type	99
Table 90: Types of financing required, by province	100
Table 91: Long-term loans by activity sector.....	101
Table 92: Future financing: Equity financing by activity sector.....	102
Table 93: Future financing: Agriculture sector, all types of financing	103
Table 94: Types of financing required by activity sector	104
Table 95: Challenges hindering growth (% enterprises by enterprise type and location)	109
Table 96: Challenges hindering growth (% enterprises by activity sector)	109
Table 97: Summary of Total Asset Financing	116

Preface

In partnership with the European Union, the Ministry of Industry, Mines and Energy (MIME), and other donors, IFC is implementing a 5-year supply chain improvement project to help Cambodia's agri-sector to expand, create jobs and contribute to reducing high levels of rural poverty. This is part of a larger program that also supports the development of agro-industry small and medium enterprises by improving the business environment and increasing access to finance.

Under the access to finance component of the IFC/EU/MIME agro-industry program, IFC and PRASAC Microfinance Institution commissioned this study, *Understanding Cambodian Small and Medium Enterprise Needs for Financial Services and Products*, in 2009. Their goal is to help Cambodia's financial institutions better understand the needs and potential of serving small and medium enterprises, which are a crucial pillar of Cambodia's economy.

As this study of a random sample of Cambodian firms in 11 provinces shows, access to finance and financial services remains a problem for private businesses in Cambodia, and especially for small and medium enterprises (SMEs) in rural areas.

By demonstrating the gaps as well as the opportunities in the SME market we hope that financial institutions will look carefully at this dynamic sector and develop financial products and services that meet the needs of the private sector in Cambodia.



Rafael Dochao Moreno
Charge d'Affaires a.i.
Delegation of the European Union
Cambodia



Julia Brickell
Resident Representative
Cambodia
International Finance Corporation

Acknowledgements

This report, *Understanding Cambodian Small and Medium Enterprise Needs for Financial Services and Products*, is a collaborative effort between the European Union (EU), IFC, the Ministry of Industry, Mines, and Energy (MIME) and PRASAC Microfinance Institution, with funding provided by the EU, IFC, PRASAC and IFC's other donors: Finland, Ireland, New Zealand, the Netherlands and Switzerland.

The partners would like to thank the many people who contributed to this publication. The survey research was undertaken by BDLink, a business consulting firm based in Cambodia. Members of IFC's Small and Medium Enterprise Banking Team, Rudy Prasetya and Neil Ramsden, reviewed and contributed to the contents of this publication. Ann Bishop served as technical editor, and Kea Kunthea, IFC Technical Communication Assistant, undertook the design and layout.

Hourn Thy, IFC Project Manager for Access to Finance in Cambodia, supervised the project and the following provided valuable feedback and advice: Margarete Biallas, IFC Program Manager for Access to Finance in the Mekong Region; Matthew Gamser, IFC Manager for Access to Finance in the East Asia & Pacific Region; Charles Schneider, IFC Program Manager for Investment Climate in the Mekong Region; and Julia Brickell, IFC Resident Representative in Cambodia.

Finally, we would like to thank PRASAC, its' team, and especially Mr. Say Sony, for providing logistical support and working closely with BDLink to make the study a success.



Executive Summary

Small and medium enterprises (SMEs) are a crucial part of the Cambodian economy, contributing to both economic and social development. They play an important role in: (i) creating jobs (according to the government, an estimated 40%-50% of total employment can be attributed to SMEs); (ii) generating income for low-income people and vulnerable populations; and (iii) fostering economic growth, social stability, and contributing to growth of a dynamic private sector.

Limited access to finance is a key challenge for SMEs and reduces the sector's potential. Government data available in 2009 showed that fewer than 8% of Cambodians used banks or microfinance institutions. As previous surveys of SMEs have shown, entrepreneurs are unable or discouraged from taking out loans due to high collateral requirements, high interest rates, and delays in processing loans. Despite high liquidity in Cambodia's banking system, banks find it difficult to lend to SMEs due to their poor financial records and lack of information on whether would-be borrowers have repaid loans and have too much debt now. Also, a weak judicial system makes enforcing loan agreements and liquidating collateral rather uncertain.

Recognizing the important contribution of SMEs to economic development and employment, and the need for financial institutions to serve this sector more effectively, IFC and PRASAC Microfinance Institution, Ltd. commissioned this study in early 2009 to review the SME sector in 11 provinces and 6 industry sectors (agriculture, retail, wholesale, hospitality, manufacturing, and services). The results of this study help financial institutions (FIs) better understand the needs and potential of serving SMEs so that FIs can make decisions about expanding services and products for this important pillar of the Cambodian economy.

The 504 enterprises surveyed in this study were randomly chosen from a pool of 2,483 enterprises found within 3 kilometers of the center of a major town in the 11 provinces surveyed. Most enterprises in this study are micro (34%) and small (36%) enterprises, because these are by far the most numerous in Cambodia. The majority of enterprises (73%) employed up to 10 people, while 59% employed from 4-10 people. Only 3% of the sample had over 50 employees. Key findings from the survey are summarized below.

Financial records: Of the 59% of enterprise owners with financial records, 84% record only profits and losses, and state that keeping more detailed records is too complicated and unnecessary. This lack of financial records hinders borrowing from financial institutions.

Start-up capital: Ninety percent of surveyed enterprises started up with the owner's capital and/or money borrowed from family and friends, but as a business grows, owners would rather borrow from a financial institution so that family and friends are not aware of their need for financing. The agriculture sector has the largest start-up capital, with 50% of enterprises investing around \$30,000; however 25% of hospitality enterprises invest more than \$100,000 each.

Value of current loans: In total, surveyed enterprises have loans of \$13,381,313. Although 60% of enterprises have loans worth less than \$30,000, 40% have loans averaging \$60,549. Micro enterprises have loans worth up to \$2,400, small enterprises up to \$15,400, medium enterprises up to \$40,000, and large enterprises up to \$122,000. The agriculture and wholesale sectors have the largest loans, with 60% borrowing up to \$60,000, and \$36,000, respectively.

Use of a bank account: Fewer than half of surveyed enterprises have a bank account. Considering that all were within 3 km of the centre of a major town with banks and MFIs, SMEs' use of financial services is very limited. Micro (28%) and small enterprises (37%) are much less likely to have a bank account than medium (52%) and large enterprises (84%). The wholesale sector, which makes large transactions, is by far the most banked sector, with 64% of surveyed enterprises having a bank account. The retail and hospitality sectors are the second and third most banked sectors (51% of enterprises use a bank).

Perceptions of banks: All surveyed entrepreneurs with a bank account responded positively regarding the reputation, management, infrastructure and financial strength of the largest banks. Less favorable ratings concerned: banking staff lacking the knowledge to respond to business owners' needs; lack of product offerings for SMEs; and slow processing of transactions. Entrepreneurs also stated that they would switch banks if offered better services.

Availability of branches: Survey responses indicate that the physical presence of a bank or MFI is crucial for providing financial products and services, building trust, and advising entrepreneurs, but this could be achieved with 'light' organizational units initially, offering products and services tailored for SMEs.

Banking transactions: Banked interviewees rarely use more than deposit and savings accounts, and nearly 40% use their accounts for both business and personal purposes. This mixing of personal and business finance is due to owners' lack of knowledge, and lack of trained accountants and auditors advising them. Regarding deposit accounts, 100% of large enterprises, 95% of medium enterprise, 92% of small enterprises, and 65% of micro enterprises have a deposit account. The most frequent transactions are money transfers (used by 67% of bank account holders) but only 14% have longer-term loan products. Only 14% of banked enterprises change currency at their bank; the rest change currency at the local market as they say this is faster, more convenient, and often offers better exchange rates. The least used financial products are: trade finance; letters of credit; letters of guarantee; overdrafts; short-term working capital; factoring; vehicle leasing; and installment loans/leasing for vehicles and machinery.

Branchless banking: In total, 94% of survey respondents say they would prefer branchless banking if fees were lower than using a bank branch, and 64% would prefer telephone banking if that means saving on fees. Regarding the Inter-

net and SMS services, only 9% and 5% of interviewees, respectively, chose these options due to high cost, unavailability or lack of computer skills.

Granting of credit: Surveyed enterprises collect more than \$150 million in receivables per year, of which \$145 million is cash. Collecting receivables requires people, time, good tracking mechanisms, and puts collectors and enterprises at risk for robbery. Providing credit is a challenge for 26% of respondents.

Sources of short-term funding: A total of 27% of surveyed enterprises used short-term funding within the last year, of which 26% had bank financing. The 3 main reasons for selecting a short-term funding source are: (i) getting the required amount; (ii) being allowed a grace period; and (iii) quick processing. For enterprises with short-term loans, amounts vary from \$100 to \$0.5 million; repayment periods vary from 1 to 12 months, with 8.3 months on average; and interest rates varied from 0%-5%, with the average, 1.2%.

Sources of long-term funding: For the 87% of surveyed enterprises with long-term funding, only 15% have bank loans (compared to 26% for short-term financing). In total, 64% of entrepreneurs use their own savings for long-term finance and 7% get financing from family and friends. Entrepreneurs also indicate that they access long-term loans when they need larger sums, including for premises and machinery. This shows that unless entrepreneurs can self-finance, few have opportunities to grow. Enterprises with bank accounts (20%) have significantly more bank loans than unbanked enterprises (9%). Agriculture enterprises have the highest percentage of long-term loans from a bank (18%), followed by wholesalers (18%) and manufacturing enterprises (17%).

Criteria for selecting a long-term funding source: The top 5 criteria are: getting the required loan amount; getting a better interest rate; quick processing; a grace period; and flexible repayment.

Types of financing needed: Of total financing needs for surveyed enterprises, \$16.3 million is required for long-term loans, \$5.4 million for equity financing, and \$2.5 million for working capital. Agro-enterprises have the highest need for all types of financing, with the exception of equity financing, for which the hospitality sector leads.

Interest in new financial services:

Electronic banking: Ninety-four percent of interviewees with a bank account declare they would use remote options if cheaper than branch services, and the telephone was the most favored ‘branchless’ option. For bank transfers, Internet/ATM payments, and automatic recurring payments (utilities, rents, insurance payments, etc.), the infrastructure must be available to enable these. Entrepreneurs using payment machines note increased customers and lower risk of robbery because less cash is on hand. Enterprises without facilities to take debit and credit cards frequently note lack of access to a machine for these transactions.

Insurance: Although a variety of insurance products and services are available to businesses and individuals in Cambodia, fewer than 10% have an insurance policy and these are mostly large enterprises. More than half of the entrepreneurs surveyed say they would like banks to propose insurance products to them.

Currency exchange: A total of 76% of surveyed enterprises indicate they need to change currency on a regular basis but only 7% use their bank to change currency. Because almost 60% of enterprises believe it is easier and faster to change money at a currency exchange, banks will need to offer competitive services and rates if they want to attract exchange business.

Advisory services: Surveyed enterprises say they are more interested in training, consulting and information services than banking products. Large enterprises are the most interested in business services, but small and medium enterprises show interest in business services as well. Offering SMEs information and education is very important to successfully build their confidence in accessing finance to improve their businesses.

Interest in new financial products:

Factoring: In total, 36% of interviewees state they are interested in factoring, which would enable them to acquire money quickly in order to boost their cash flow. Since factoring is unknown to many SMEs, it will require effective marketing and sales to ensure that entrepreneurs understand the benefits regarding cash flow, saving time on collections, and reducing the risk of robbery.

Leasing: Enabling entrepreneurs to lease assets such as vehicles and equipment would enable them to gain use of these without borrowing large amounts to buy them. Since leased items can be stolen or deteriorate, leasing customers are usually asked to insure their products for the term of the lease.

Moveable asset finance: Using moveable assets such as equipment, vehicles, inventory, and un-harvested crops, as collateral, would enable much greater borrowing from businesses that lack land to pledge as collateral. In total, 81% of entrepreneurs say that if banks accept moveable assets to secure financing, they would be interested in seeking loans to upgrade and/or expand their businesses.

SUMMARY OF TOTAL ASSET FINANCING

Aggregated by Province	Battambang	Kampong Cham, Speu & Chhnang	Kandal & Phnom Penh	Siem Reap	Siha-noukville & Kampot	Svay Rieng & Banteay Meanchey	Grand Total
Assets to be financed							
Buildings	\$7,557,000	\$7,862,300	\$3,785,000	\$9,040,900	\$1,929,000	\$2,355,500	\$32,529,700
Machinery and equipment	\$8,988,500	\$6,609,250	\$1,576,500	\$3,944,700	\$565,300	\$2,832,800	\$24,517,050
Furniture and fittings	\$442,300	\$239,900	\$70,000	\$1,166,950	\$645,500	\$128,700	\$2,693,350
Office and business equipment	\$58,000	\$23,500	\$49,200	\$626,500	\$183,200	\$60,000	\$1,000,400
Totals	\$17,045,800	\$14,734,950	\$5,480,700	\$14,779,050	\$3,323,000	\$5,377,000	\$60,740,500
By Activity Sector	Agriculture	Retail	Wholesale	Hospitality	Manufacturing	Services	Grand Total
Assets to be financed							
Buildings	\$13,124,000	\$1,952,000	\$1,295,000	\$7,980,000	\$4,415,200	\$3,763,500	\$32,529,700
Machinery and equipment	\$16,946,800	\$727,000	\$1,374,000	\$411,000	\$2,746,950	\$2,311,300	\$24,517,050
Furniture and fittings	\$200,700	\$60,200	\$20,500	\$1,701,000	\$45,400	\$665,550	\$2,693,350
Office and business equipment		\$100,900	\$10,500	\$464,700	\$43,000	\$381,300	\$1,000,400
Totals	\$30,271,500	\$2,840,100	\$2,700,000	\$10,556,700	\$7,250,550	\$7,121,650	\$60,740,500
Equity Financing	\$5,377,000	\$572,700	\$785,000	\$9,792,500	\$4,272,100	\$1,939,325	\$22,738,625
Long-term Loans	\$16,261,250	\$1,127,000	\$1,555,000	\$6,099,000	\$3,375,500	\$3,631,925	\$32,049,675
By enterprise type	Large	Medium	Small	Micro	--	--	Grand Total
Assets to be financed							
Buildings	\$15,017,000	\$6,684,000	\$7,330,500	\$3,498,200			\$32,529,700
Machinery and equipment	\$11,803,500	\$6,380,000	\$4,841,000	\$1,492,550			\$24,517,050
Furniture and fittings	\$1,032,700	\$423,500	\$586,400	\$650,750			\$2,693,350
Office and business equipment	\$473,500	\$110,900	\$177,700	\$238,300			\$1,000,400
Totals	\$28,326,700	\$13,598,400	\$12,935,600	\$5,879,800			\$60,740,500
Equity Financing	\$12,453,500	\$3,262,000	\$5,950,000	\$1,073,125			
LT Loan by Type	\$13,918,000	\$7,567,000	\$7,547,000	\$3,017,675			\$32,049,675
GRAND TOTAL FINANCING	\$54,698,200	\$24,427,400	\$26,432,600	\$9,970,600			\$92,790,175
By bank account	Have bank account	No bank account	--	--	--	--	Grand Total
Assets to be financed							
Buildings	\$21,706,500	\$10,823,200					\$32,529,700
Machinery and equipment	\$16,275,700	\$8,241,350					\$24,517,050
Furniture and fittings	\$2,420,200	\$273,150					\$2,693,350
Office and business equipment	\$638,700	\$361,700					\$1,000,400
Totals	\$41,041,100	\$19,699,400					\$60,740,500



I. The SME Sector and Financial Services in Cambodia

1.1 Introduction

Access to finance is one of the key challenges faced by small and medium enterprises (SMEs) and continues to hinder growth and development in this dynamic sector. Previous SME surveys indicate that entrepreneurs' concerns regarding access to finance include high interest rates, high collateral requirements, and delays in processing loans.

Recognizing the important contribution that SMEs make to economic development and employment, and the need for financial institutions to serve this sector more effectively, IFC and PRASAC Microfinance Institution, Ltd. commissioned this study in early 2009 to review the SME sector across 11 provinces and in 6 aggregated industry sectors.

The “SME Development Framework”¹, developed by the SME Sub-Committee of the Private Sector Steering Committee classifies SMEs according to the number of their employees and the size of their assets. The Framework states that “for statistical purposes and policy development and implementation, the definition is based on equivalent full-time employees. SME Sub-committee classifications are provided in Table 1.

TABLE 1: SME DEFINITION

Classification	Government Definition	
	Employees	Assets
Micro	Less than 10 employees	Less than \$50,000
Small	Between 11-50 employees	Between \$50-250,000
Medium	Between 51-100 employees	Between \$250-500,000
Large	Over 100 employees	Over \$500,000

1. SME Development Framework, the SME Sub-Committee of the Private Sector Steering Committee – July 29th, 2005

1.2. The SME Sector in Cambodia

Cambodia experienced remarkable economic growth over the decade 1998 to 2007, with average GDP of 9.8% per annum. From 2004 to 2007, growth was consistently above 10%, driven mostly by four key economic sectors: garments, tourism, construction and agriculture. These four economic pillars provide significant opportunity for SMEs servicing the supply chain within each sector, whether providing services, food, travel, transportation or services needed by bigger industries and their workforce. In the wake of the financial crisis in 2008, performance deteriorated sharply. Although limited development of its financial sector shielded Cambodia from the worst impact of the global financial turmoil, it was unclear at the time this report was prepared in 2009 whether Cambodia would face a recession or possibly achieve as much as 5% growth.

In order to continue sustained economic growth, the Royal Government of Cambodia (RGC) recognises that the creation of an enabling environment for private sector development is a precondition for promoting economic growth, creating employment, reducing poverty, and sustaining economic development. This spirit is clearly reflected in the Rectangular Strategy for Growth, Employment, Equity, and Efficiency in which development is a very important pillar with regard to both private sector development and job creation.

The SME sector dominates Cambodia's economy in terms of the number of firms (99%) and of employment (45%).² SMEs operate almost entirely in what is referred to as "the informal sector". Often SMEs are only licensed to operate by relevant ministries at the provincial and/or municipal level, and only regulated by local authorities. As demonstrated in the findings of this survey, it is unclear to most business owners what constitutes legal registration of their business. Because business owners usually do not have access to information on the procedures required for formal registration, they assume that paying monthly taxes and/or the government fees, whether formal or informal, means that their business is legally registered.

According to a Ministry of Industry, Mines and Energy (MIME) report on SME statistics in Cambodia in 2007, Cambodia had a total of 31,149 small industrial establishments with fewer than 50 employees. Based on similar data from 1999, this number represents growth in total establishments of approximately 26%. Food, beverage, and tobacco manufacturers comprise the largest number of small industrial establishments. The same report also reveals that according to data from Ministry of Economy and Finance (MoEF) and the Tax Department, there are 55,466 SMEs. However, in 2007, only 14,324 SMEs were formally registered as limited liability companies. It is noteworthy that most enterprises remain unregistered with the Ministry of Commerce (MoC), and instead obtain operating permits from other ministries and departments at the local level i.e. the provincial or municipal level.

With so many unregistered SMEs, it is difficult to estimate the number of enterprises in Cambodia, especially the number of very small businesses i.e. the micro enterprise sector. Furthermore, predicting trends in SME development is difficult due to the limited data available on them. However, it is very clear that the number of registered SMEs has increased in the last few years and this trend is bound to continue as Cambodia becomes more integrated into the ASEAN and global economy.

2. Royal Government of Cambodia, SME Development Framework, 2005

The Provincial Business Environment Scorecard (PBES) jointly conducted by IFC and The Asia Foundation shows that 62% of Cambodian companies are run by women. These female entrepreneurs are mainly concentrated in the commerce (66%) and services (61%) sectors and they only serve domestic markets.

Despite the importance of the SME sector in terms of economic growth and employment, Cambodia's small-scale entrepreneurs continue to face many challenges. Because access to finance and innovative finance remains one of the greatest challenges for SMEs in Cambodia, this study hopes to:

- Encourage a “fresh look” at the SME sector and its importance to Cambodia as well as addressing the challenges and constraints facing SMEs.
- Encourage financial institutions to take a long-term strategic view of the sector and increase outreach, and expand services and products for the sector which is such an important pillar of the Cambodian economy.
- Encourage financial institutions to increase investments in SMEs and to strengthen their product offerings and services to SMEs at a price they can afford.
- Encourage the development of professional services that will address SME needs.
- Encourage stakeholders to think of the SME sector as a formal rather than an informal sector.

1.3. SME's Challenges and Constraints

Several studies diagnose and identify the challenges facing SMEs in Cambodia. Three key issues identified in the Ministry of Industry, Mines and Energy, SME Annual report in 2006, are:

- 1. High Regulatory Compliance Costs:** SMEs in Cambodia face a weak legal and regulatory environment that creates uncertainties and risks which result in high barriers to entry. The current lack of a commercial legal framework prevents firms from operating on the basis of market transactions and results in a largely relationship-based business environment
 - 2. Lack of a Clear and Market-Oriented Framework for SME Development:** While recognizing that the SME sector remains one of the core engines for growth, the Government has been unable to develop a framework for its development. As a consequence, various agencies and line Ministries are developing their own SME programs, which are at times redundant and even contradictory
 - 3. Limited Access to Finance:** Local commercial banks provide only 1% of working capital and 1.7% of investment capital overall. Despite the high liquidity of the banking system, it is difficult for banks to lend due to weak financial infrastructure, which makes enforcing loan agreements and liquidating collateral very uncertain. The lack of financial information resulting from weak accounting standards and the absence of a credit information sharing system makes it difficult for banks to evaluate the creditworthiness of borrowers
- Besides these well documented challenges, the SME sector in Cambodia is at a critical stage of development and in the wake of the financial crises of 2008-2009, deserves attention and intervention. Other challenges more broadly include:

4. **An uneven playing field:** Registered and unregistered SMEs alike are often competing for the same customers. While some SMEs are registered and comply with the law, others providing the same products and services are not complying with the law, and enjoy unfair advantages and cost structures. To ensure compliance with the law, and encourage entrepreneurs to formalize their businesses, registration procedures for SMEs need to be streamlined.
5. **Low productivity:** Competing for a fair share in the global market, Cambodia is disadvantaged by lower productivity rates than its neighbours (Thailand and Vietnam) and other countries with much larger populations such as Bangladesh, China, India and Pakistan. A 2004 World Bank study shows that the total productivity factor of Cambodia is 18% lower than that of India and 24% lower than China. A key constraint then for SME development overall is lower productivity levels. Access to relevant training and professional services provided by the public or private sector is important to ensure a competitive SME sector.
6. **Lack of access to information and customer markets:** It is well documented that SMEs lack access to information on markets. As this survey will demonstrate, most SMEs operate only in the provinces where they are based. Very few have international markets for their products. To ensure that SMEs can compete for their share of the global market, and contribute more to job creation and economic growth, they need access to information, technology and services that will enable them to expand their customer base, both within Cambodia and globally.

1.4. Overview of the Financial Sector in Cambodia

The financial sector has played an important role in developing the private sector and contributing to economic growth. Cambodia's main financial services providers are banks and microfinance institutions. Cambodia also has a number of insurance agencies but these are not covered by this study.

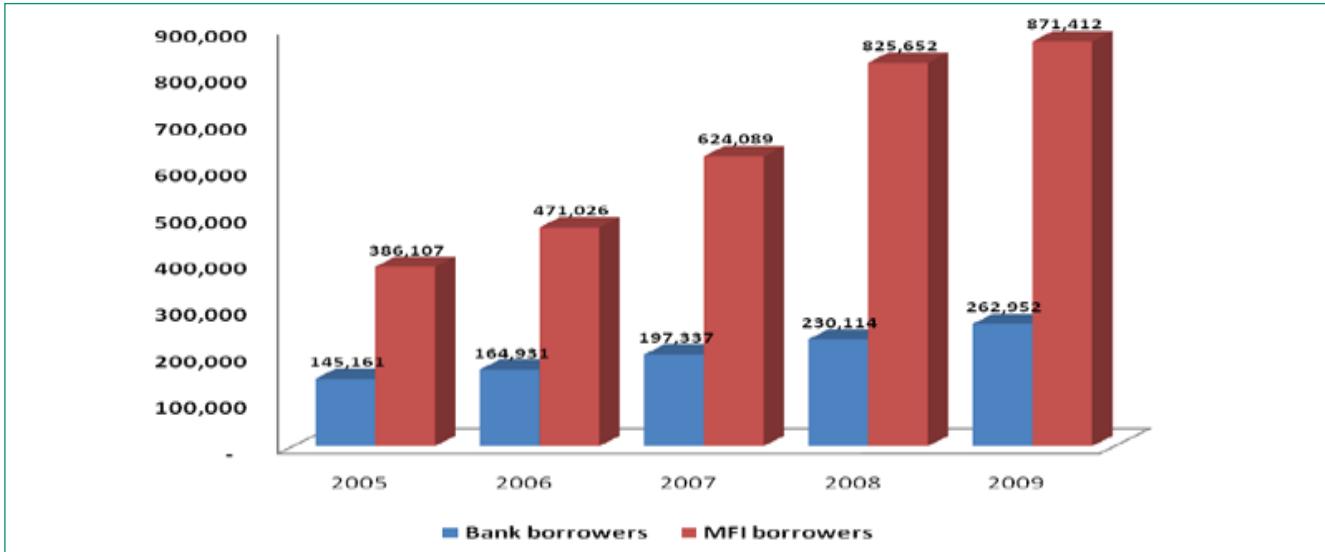
The financial sector grew dramatically from 2005 to 2009, when three new international banks were set up. Between 2004 and 2009, the number of registered banks rose from 17 to 33. During same period, licensed microfinance institutions increased from 13 to 20³. This growth signals increased public confidence in the banking sector.

Total assets of the financial sector increased from \$1.4 billion in 2005 to \$5.4 billion in 2009, while over the same period, the total loan portfolio grew from \$594 million to nearly \$2.8 billion⁴. Total assets for commercial banks were \$5.0 billion in 2009. Of these assets, 63% belonged to ACLEDA Bank, Canada Bank, ANZ Royal Bank, and Cambodian Public Bank.

The number of bank borrowers increased from 145,161 in 2005 to 262,952 in 2009, while MFI borrowers went up remarkably during the same period as shown in the figure below.

3. NBC Annual report, 2009

4. IFC, Cambodia: Financial Sector Diagnostic, 2009

FIGURE 1: NUMBER OF MFI AND BANK BORROWERS

The Banking Landscape: By the end of 2009, 33 banks were operating under the supervision of the National Bank of Cambodia (NBC). Of these, 6 are specialized banks and 27 are commercial banks. Of the 27 commercial banks, 5 are foreign bank branches and the remainder are locally incorporated. Specialized banks are generally smaller than commercial banks and provide a limited number of loan products. Commercial banks are more dynamic than specialized banks and have increased banking services and products to meet market demand. Since early 2007, all major banks have introduced ATM services and by the end of 2009, there were 406 ATMs across Cambodia⁵. The total number of depositors in the banking sector increased from less than 290,000 in 2005 to more than 928,000 in 2009, a strong vote of confidence in the banking sector.

Types of Banking Products and Services: Presently, commercial banks offer a range of banking products and services and a list of the most common ones is presented in the table below.

TABLE 2: SNAP SHOT OF KEY PRODUCTS AND SERVICES AVAILABLE

Products and Services	Description
Demand and Fixed Deposit Account	Savings Account, Current Account, Fixed DepositsFixed deposit interest rates range mostly from 2% to 7% per year, depending on the deposit amount, currency and tenure of the deposit.
Business Loan	Micro Business Loan, Small Business Loan, Medium Business Loan, SME Loan, and Commercial Loan. Specifically for the top six banks in Cambodia, annual interest rates range from around 10% to 18% per year on loans.
Loans and Advances	Overdrafts, Bank Guarantees, and Trade Financing (Imports & Exports)
Trade Finance	Letter of Credit, Shipping Guarantee, Documentary and Clean Collection, and Traveller's Cheques
Remittances and Payments	Telegraphic Transfer, Demand Draft, Cashier's Order, and Foreign Exchange.
Loan Services	Home Loan, Car Loan and personal loan
Other Services Available	Withdraw cash from savings account, transfer funds between accounts, transfer funds to third party accounts, repay fixed loan instalment, balance enquiry on account, request a mini-statement on the last 10 transactions, request a bank statement, request a cheque book, place new deposit, pay bills or purchase.

5. National Bank of Cambodia, Annual Report, 2009

The Microfinance Landscape: The Microfinance sector has also been growing and evolving rapidly in the last five years. Microfinance institutions (MFIs) generally provide loan services, and there has been a notable decrease in interest rates, and an increase in outreach and expansion of MFI services. The total MFI loan portfolio was approximately \$297 million in 2009, with 871,412 borrowers. Assuming that each family has 5.5 members, the beneficiaries of MFI services can be estimated at 4.8 million people or about 34% of Cambodia's total population (based on 14 million inhabitants). Cambodian MFIs are cited as among the strongest in Asia.

Despite good progress in the MFI sector, two specific challenges have emerged for operators. First, the rapid expansion of MFIs has resulted in increased competition among MFIs. Second, because MFIs have to borrow the money they need from international financial institutions in order to have funds for on-lending to borrowers, interest rates are very high. MFIs also need to pay additional withholding taxes which are then imposed on the borrower.

New financial sector developments: In late 2008, NBC issued new legislation that allows strong MFIs to collect public deposits. This change in law enables MFIs to collect much greater amounts in savings, which MFIs can, in turn, on-lend to borrowers at lower rates than is currently the case with the funds they borrow from international funders. However, In order to encourage more people to save their money in MFIs, they will need to place more importance on their image and brand to assure public confidence.⁶ Four of the largest MFIs, AMK, Amret, HKL and Sathapana, have already obtained their licences to take public deposits.

1.4.1. Outreach & Penetration of the Financial Sector

Despite impressive growth, the financial sector still has a low penetration rate. According to entrepreneurs, financial institutions are currently not addressing the diverse needs of the SME sector. Less than 8% of the total population⁷ makes use of formal financial services (primarily services from the banks and microfinance institutions).

Based on the difference between the number of MFI and bank branches, it is clear that MFIs have better outreach than banks in all provinces, except Phnom Penh where all commercial banks have their headquarters. Thus the MFI sector has an advantage in addressing the needs of SMEs, especially those operating in rural Cambodia. However, as articulated in this survey, SMEs are often unfamiliar with MFIs and their services, and would rather work with a well known bank. Thus it is important for banks, and MFIs in particular, to understand the perceptions and needs of business owners as well as understand the opportunities in the SME sector so they can reap the benefits of lending to SMEs.

Banking Sector Outreach: The majority of commercial banks in Cambodia operate in Phnom Penh, Sihanoukville, Battambang and Siem Reap. These are the provinces with the greatest economic activity, and with the largest and most affluent populations.

6. Cambodia Microfinance Association, Annual Report 2007.

7. Total population 14.6 million

TABLE 3: COMMERCIAL BANK OUTREACH

	Acleda	Canada Bank	ANZ Royal	Cambodian Public Bank	Advance Bank of Asia Limited	Cambodia Mekong Bank Public	SBC	Cambodia Asia Bank	Maybank	Other banks	TOTAL
Banteay Meanchey	1	2	1	1	--	--	--	--	--	0	5
Battambang	1	1	1	1	1	--		1	--	0	6
Kampong Cham	1	1	1	1	--	--		--	--	0	4
Kampong Chhnang	1	1	--	--	--	--	--	--	--	0	2
Kampong Speu	1	--	--	--	--	--	--	--	--	0	1
Kampot	1	1		--	--	--	--	--	--	0	2
Kandal	1	1	1	1	--	--	--	--	--	0	4
Phnom Penh	13	12	11	8	6		10	1	6	35	106
Siem Reap	1	1	3	1	1	1	1	1	1	4	12
Sihanouk	1	1	1	1	--	1	1	1		1	8
Svay Rieng	1	--	--	1	--	--	--	--	--	0	2
Other provinces	12	3		1	--	--	--	--	--	5	21
TOTAL	35	24	19	16	8	2	12	4	7	45	172

Source: National Bank of Cambodia Supervision 2009, and Bulletin No 31, First Quarter, 2010

At the end of 2009, ACLEDA, Canadia Bank, ANZ Royal Bank, and Cambodian Public Bank, had the largest number of branches (> 10), and some of them serve 8 or more provinces. Advanced Bank of Asia, Cambodia Mekong Bank, and Maybank have more than 6 branches, but each serve only 2 or 3 provinces. All other banks have few or no provincial branches, and this is especially true for new banks.

MFI Sector Outreach: Cambodia's microfinance providers, including ACLEDA Bank, have made impressive gains in enlarging their operations to serve all 24 provinces, and at the end of 2009, ACLEDA alone had 218 bank offices. ACLEDA, which began as an MFI, but transformed into a commercial bank, had the widest coverage. However, the leading MFIs – PRASAC, AMK, Sathapana and Amret, have made significant improvements in outreach and penetration. By the end of 2009, AMK, PRASAC and Sathapana were operating in 24, 21 and 18 provinces, respectively. The table below shows the outreach of MFIs. The MFI sector continues to expand its geographic coverage and several MFIs are upgrading their management information systems (MIS) to meet the demands of a rapidly growing customer base.

TABLE 4: MFI OUTREACH

Nº	Province	AMRET	AMK	CREDIT	HKL	IPR	PRASAC	SAMIC	SATHA PANA	TPC	VFC	Other	TOTAL
1	Banteay Meanchey		4		6	1	6		1	2	3	2	25
2	Battambang		2	3	5	2	7		1	2	7	2	31
3	Kampong Cham	7	6	7	5		16		6	2	3		52
4	Kampong Chhnang	3	2		1		6		1		8		21
5	Kampong Speu	3	3				6	1	1		5		19
6	Kampong Thom	2	4		7		5		3		7		28
7	Kampot	5	2				5	3	1	2			18
8	Kandal	6	3	2	4		17	2	5	2	6	2	49
9	Kep							1					1
10	Koh Kong		1				1						2
11	Kratie		3				2				1		6
12	Mondul Kiri		3										3
13	Otdar Mean Chey		2								1		3
14	Pailin		1									1	2
15	Phnom Penh	1	1	4	4	1	4	2	7	1	4	11	40
16	Preah Sihanouk	1	1				2	2	1				7
17	Preah Vihear		4								6		10
18	Prey Veng	8	7	4	1		12		1			2	35
19	Pursat		1		8	1	8		1		2		21
20	Ratanak Kiri						1						1
21	Siem Reap	3	4	4	8		5	1	4		3	3	35
22	Steung Treng						1						1
23	Svay Rieng	1	2				8				2		13
24	Takeo	5	7	2	1	1	9		1	3	5	1	35
TOTAL Nº of Office of each MFI		45	63	26	50	6	121	12	34	18	59	24	458

Source: CMA, Operation area information exchange, December, 2009

1.4.2. Information and Communication Technology (ICT Developments)

The Information and Communication Technology (ICT) sector in Cambodia has been growing at a rate of 32% per annum over the past five years, and in 2009 generated over \$429 million. Two challenges identified for the sector pose obstacles to its future development: (i) the high price of the Internet, and (ii) the small pool of qualified ICT workers in Cambodia.

Access to ICT is important for private sector development. For companies, it improves efficiency and competitiveness by reducing transaction costs and providing quicker and more efficient services. For the customer and consumer, it facilitates access to market information and services, as well as bridges the global trading divide. For governments, ICT improves the operational speed and efficiency levels within government departments.

In terms of Internet provision, in 2009 there were 11 major Internet service providers (ISPs) as well as a number of smaller ones. Internet provision is hindered by the lack of fixed telephone lines, which in turn means increased investment costs for Cambodian ISPs, which are then passed on to consumers. This has limited the number of Internet subscribers within the country – only 17,000, the second-lowest of the ASEAN countries after Lao PDR.⁸ In terms of mobile phone services, in 2009 there were 8 major mobile phone providers. Most of them were foreign owned. Mobile phone providers are very dynamic, offering an increasing variety of services including Internet, GPRS etc. to meet the demands of the growing middle class and the youth market.

The first-ever mobile payment service, under the brand name WING, was launched in January 2009 to provide mobile phone payment services in Cambodia. The services are aimed mainly at the un-banked population but are available to all. WING allows the user to make various bank-type transactions through WING access points across the country, including bill payments, withdrawing cash and transferring cash. The service enables the rural population, especially rural SMEs, to use the innovative product at a low-cost, reduces the risks associated with handling cash, and enables workers in cities to transfer money to rural family quickly, effectively and safely. Whilst there are hurdles to overcome in terms of literacy, perceptions and confidence in using the service, similar projects have proven very successful in other developing countries that include the Philippines, South Africa, Kenya and countries in Latin America.

Internet Banking: Internet banking is in its infancy in Cambodia and was introduced by ANZ Royal Bank. At present, Internet banking allows the user to transfer money (within the same bank's network) and access bank statements and balances easily for business and personal purposes. However, the extent of Internet availability remains a challenge across Cambodia, especially in provinces that are less developed or economically active. Low literacy, including both computer and Internet literacy, is another challenge for provincial users. Business owners who can access the Internet often do not know how to use it effectively, and public trust in using Internet services for money transactions remains low. Consumers' and business owners' perceptions will need to be changed if Internet banking is to be successful, especially in rural areas.

ATMs: Although ATMs have become a common sight across Cambodia, they are still relatively recent and only available in major towns and cities. The Foreign Trade Bank of Cambodia (FTB) is spearheading introduction of advanced technology for ATMs that will allow them to scan finger prints instead of using pin numbers and to follow voice instructions. ATMs provide services in multiple languages, including Khmer, English and Chinese.

8. Cambodia Competitiveness Study Paper, January, 2009



II. Survey Results

The survey collected a variety of information from 504 enterprises in 10 provinces, including Phnom Penh. To better understand the characteristics of SMEs, the main variables for analysis were selected for each question. If a specific variable was not relevant to a question, it was omitted. Micro, small, medium and large enterprises have been classified according to their asset size, not the number of their employees.

The three main variables for analysis are defined briefly below:

1. **Enterprise type** – refers to the classification of an enterprise as a micro, small, medium, or large enterprise, according to its asset size. The largest number of enterprises sampled are micro (34%) & small (36%) enterprises. Together they account for 70% of the sample.
2. **Activity sector** – refers to the industry sector in which the enterprise is operating. Six activity sectors were used in the survey. Agricultural enterprises represent the highest number of enterprises (31%), followed by the services sector (20%).
3. **Location** – refers to the province in which the enterprise operates. A total of 11 provinces (including Phnom Penh) are included in the survey. Of the total sample, Battambang and Siem Reap dominate the sample, representing 26% and 20%, respectively. In some instances, the results for smaller provinces have been aggregated, as indicated in the following table.

TABLE 5: CLASSIFICATION BY ASSET SIZE

SME Type	Asset Size Range
Micro	Less than \$50,000
Small	From \$50,000 to \$249,999
Medium	From \$250,000 to \$500,000
Large	More than \$500,000

TABLE 6: CLASSIFICATION BY LOCATION

Amalgamation of Provinces for Data Presentation	List of 11 Provinces	# SMEs	% SMEs
Siem Reap	Siem Reap	99	19.6%
Battambang	Battambang	128	25.4%
Sihanoukville	Sihanoukville	37	7.3%
Other provinces	Banteay Meanchey	44	8.7%
	Kampong Cham	35	6.9%
	Kampong Chhnang	20	4.0%
	Kampong Speu	17	3.4%
	Kampot	21	4.2%
	Kandal	53	10.5%
	Phnom Penh	7	1.4%
	Svay Rieng	43	8.5%
TOTAL		504	100%

Other variables used to understand the characteristics of SMEs include:

- Employee numbers** – refers to the number of full time employees. There are five groups of employees. The majority of enterprises surveyed (73%) employ up to 10 employees. Of this percentage, 59% employ from 4-10 employees. Only 3% of the total sample employed over 50 employees.
- Annual turnover** – refers to an enterprise's total estimated sales for 2008. The majority of enterprises (62%) have sales of less than \$120,000 per year. Only 13% of the sampled enterprises earn more than \$600,000 per year.

Figures for each of the main variables used in the study are listed in the table below.

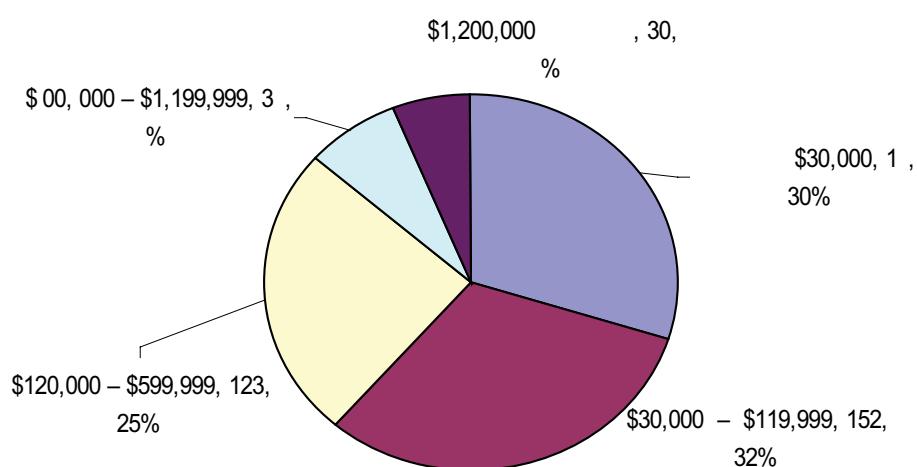
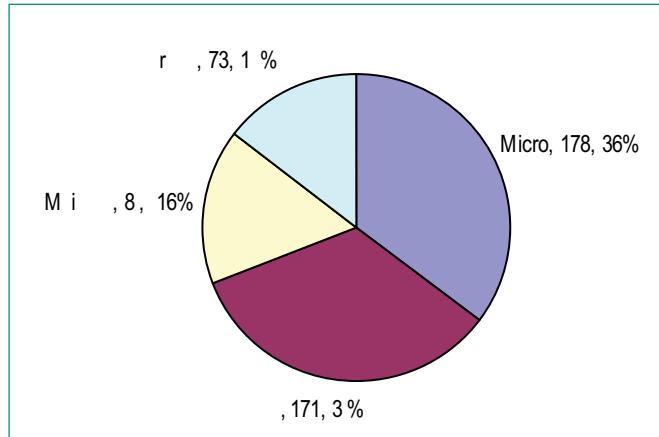
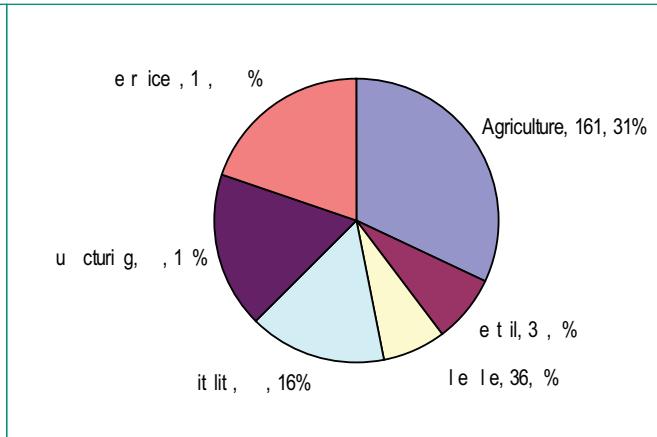
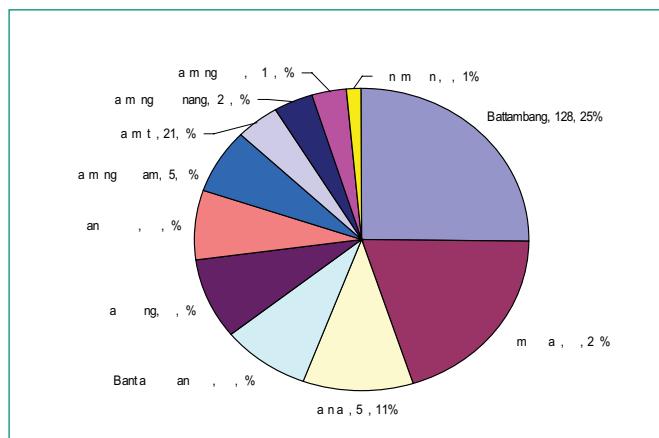
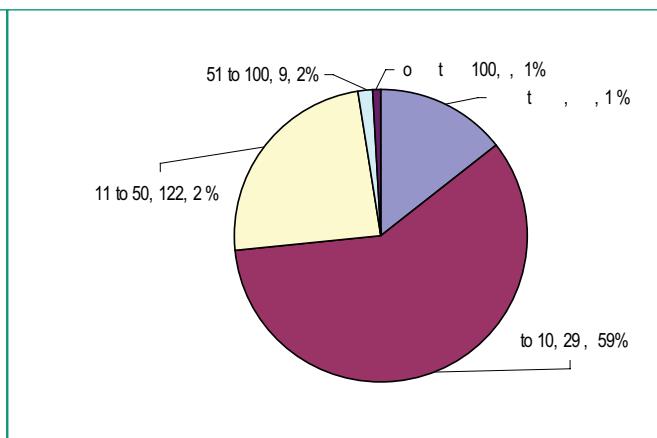
FIGURE 2: DISTRIBUTION OF ANNUAL TURNOVER BY \$

FIGURE 3: DISTRIBUTION BY ENTERPRISE TYPE**FIGURE 4: DISTRIBUTION BY ACTIVITY SECTOR****FIGURE 5: DISTRIBUTION BY LOCATION****FIGURE 6: DISTRIBUTION BY NUMBER OF EMPLOYEES**

2.1. Overall Characteristics of Enterprises

This section compares the six variables of analysis against each other for further understanding of the data.

2.1.1. Distribution of Enterprises by Type

Enterprises by type and activity sector

Small (35.1%), medium (52.4%) and large (52.1%) enterprises are primarily engaged in agricultural activities.⁹

Micro enterprises predominate in the services sector (38.8%).

9. Mostly rice mills

TABLE 7: DISTRIBUTION OF ENTERPRISES BY TYPE AND ACTIVITY SECTOR

Activity Sector	Type										#	%		
	Micro		Small		Medium		Large		Total					
	#	%	#	%	#	%	#	%	#	%				
Agriculture	20	11.2%	60	35.1%	43	52.4%	38	52.1%	161	31.9%				
Retail	12	6.7%	18	10.5%	6	7.3%	3	4.1%	39	7.7%				
Wholesale	5	2.8%	17	9.9%	9	11.0%	5	6.8%	36	7.1%				
Hospitality	27	15.2%	23	13.5%	10	12.2%	19	26.0%	79	15.7%				
Manufacturing	45	25.3%	30	17.5%	9	11.0%	5	6.8%	89	17.7%				
Services	69	38.8%	23	13.5%	5	6.1%	3	4.1%	100	19.8%				
TOTAL	178	100%	171	100%	82	100%	73	100%	504	100%				

Enterprises by type and location

Most of the medium (56.1%) and large enterprises (64.4%) are located in Siem Reap and Battambang, while the majority of the micro (55.1%) and small enterprises (53.2%) are located in the smaller provinces.

TABLE 8: DISTRIBUTION OF ENTERPRISES BY TYPE AND LOCATION

Province	Types										#	%		
	Micro		Small		Medium		Large		Total					
	#	%	#	%	#	%	#	%	#	%				
Banteay Meanchey	13	7.3%	16	9.4%	6	7.3%	9	12.3%	44	8.7%				
Battambang	25	14.0%	48	28.1%	27	32.9%	28	38.4%	128	25.4%				
Kampong Cham	12	6.7%	14	8.2%	4	4.9%	5	6.8%	35	6.9%				
Kampong Chhnang	8	4.5%	8	4.7%	3	3.7%	1	1.4%	20	4.0%				
Kampong Speu	9	5.1%	6	3.5%	1	1.2%	1	1.4%	17	3.4%				
Kampot	11	6.2%	7	4.1%	2	2.4%	1	1.4%	21	4.2%				
Kandal	25	14.0%	17	9.9%	9	11.0%	2	2.7%	53	10.5%				
Phnom Penh	1	0.6%	5	2.9%	1	1.2%	--	0.0%	7	1.4%				
Siem Reap	37	20.8%	24	14.0%	19	23.2%	19	26.0%	99	19.6%				
Sihanoukville	18	10.1%	8	4.7%	5	6.1%	6	8.2%	37	7.3%				
Svay Rieng	19	10.7%	18	10.5%	5	6.1%	1	1.4%	43	8.5%				
TOTAL	178	100%	171	100%	82	100%	73	100%	504	100%				

Enterprises by type and number of employees

Regardless of enterprise type, the majority of enterprises employ fewer than 10 people.

TABLE 9: DISTRIBUTION OF ENTERPRISES BY TYPE AND NUMBER OF EMPLOYEES

Number of Employees	Types									
	Micro		Small		Medium		Large		Total	
#	%	#	%	#	%	#	%	#	%	
Fewer than 4	30	16.9%	30	17.5%	11	13.4%	2	2.7%	73	14.5%
4 to 10	120	67.4%	95	55.6%	43	52.4%	38	52.1%	296	58.7%
11 to 50	28	15.7%	42	24.6%	26	31.7%	26	35.6%	122	24.2%
51 to 100	0	0.0%	3	1.8%	2	2.4%	4	5.5%	9	1.8%
More than 100	0	0.0%	1	0.6%	0	0.0%	3	4.1%	4	0.8%
TOTAL	178	100%	171	100%	82	100%	73	100%	504	100%

Enterprises by type and annual turnover

The majority of micro (90.1%) and small enterprises (62.2%) have an annual turnover of less than \$120,000 per year, while most medium (60%) and large enterprises (51.4%) have an annual turnover of \$120,000 to \$1,199,999.

Most enterprises earning over \$1.2 million per year are large enterprises.

TABLE 10: DISTRIBUTION OF ENTERPRISES BY TYPE AND ANNUAL TURNOVER

Number of Employees	Types									
	Micro		Small		Medium		Large		Total	
#	%	#	%	#	%	#	%	#	%	
Less than \$30,000	99	57.2%	41	25.0%	3	3.8%	3	4.3%	146	30.0%
\$30,000 to \$119,999	57	32.9%	61	37.2%	22	27.5%	12	17.1%	152	31.2%
\$120,000 to \$599,999	17	9.8%	47	28.7%	38	47.5%	21	30.0%	123	25.3%
\$600,000 to \$1,199,999	0	0.0%	11	6.7%	10	12.5%	15	21.4%	36	7.4%
\$1,200,000 and more	0	0.0%	4	2.4%	7	8.8%	19	27.1%	30	6.2%
TOTAL	173	100%	164	100%	80	100%	70	100%	487	100%

NB: of 504 surveyed businesses, 487 provided information on their annual sales

Enterprises by type and length of operation

With the exception of medium-sized enterprises (the majority of which – 59.7% – have been in operation for more than 10 years), enterprises have been in operation for less than 10 years, with the majority in operation from 3 to 10 years.

TABLE 11: DISTRIBUTION OF ENTERPRISES BY TYPE AND LENGTH OF OPERATION

Number of Employees	Types									
	Micro		Small		Medium		Large		Total	
	#	%	#	%	#	%	#	%	#	%
Fewer than 3 years	35	19.8%	21	12.4%	7	8.5%	4	5.5%	67	13.3%
3 to 5 years	66	37.3%	48	28.2%	14	17.1%	22	30.1%	150	29.9%
6 to 10 years	39	22.0%	30	17.6%	12	14.6%	14	19.2%	95	18.9%
11 to 15 years	18	10.2%	30	17.6%	23	28.0%	19	26.0%	90	17.9%
More than 15 years	19	10.7%	41	24.1%	26	31.7%	14	19.2%	100	19.9%
Total	177	100.0%	170	100.0%	82	100.0%	73	100.0%	502	100.0%

NB: of 504 surveyed businesses, 502 provided information on their length of operation

2.1.2. Distribution of Enterprises by Activity Sector

Enterprises by activity sector and enterprise type

The agriculture (37.3%), retail (46.2%), and wholesale (47.2%) enterprises are primarily small enterprises, while the hospitality (34.2%), manufacturing (50.6%) and services (69.0%) enterprises are mostly micro enterprises.

TABLE 12: DISTRIBUTION OF ENTERPRISES BY ACTIVITY SECTOR AND TYPE

Type	Activity Sector											
	Agriculture		Retail		Wholesale		Hospitality		Manufacturing		Services	
	#	%	#	%	#	%	#	%	#	%	#	%
Micro	20	12.4%	12	30.8%	5	13.9%	27	34.2%	45	50.6%	69	69.0%
Small	60	37.3%	18	46.2%	17	47.2%	23	29.1%	30	33.7%	23	23.0%
Medium	43	26.7%	6	15.4%	9	25.0%	10	12.7%	9	10.1%	5	5.0%
Large	38	23.6%	3	7.7%	5	13.9%	19	24.1%	5	5.6%	3	3.0%
TOTAL	161	100%	39	100%	36	100%	79	100%	89	100%	100	100%

Enterprises by activity sector and location

In Battambang, the largest number of enterprises are in the agriculture (41.6%) and retail (33.3%) sectors.

Wholesale enterprises (19.4%) are primarily in Svay Rieng Province.

In Siem Reap, the hospitality (35.4%), manufacturing (18%) and services (21%) sectors predominate.

TABLE 13: DISTRIBUTION OF ENTERPRISES BY ACTIVITY SECTOR AND LOCATION

Location	Activity Sector												#	%
	#	%	#	%	#	%	#	%	#	%	#	%		
Banteay Meanchey	14	8.7%	3	7.7%	3	8.3%	5	6.3%	13	14.6%	6	6.0%	44	8.7%
Battambang	67	41.6%	13	33.3%	5	13.9%	9	11.4%	15	16.9%	19	19.0%	128	25.4%
Kampong Cham	22	13.7%		0.0%		0.0%	2	2.5%	7	7.9%	4	4.0%	35	6.9%
Kampong Chhnang	2	1.2%	1	2.6%	2	5.6%	4	5.1%	6	6.7%	5	5.0%	20	4.0%
Kampong Speu	2	1.2%	1	2.6%	3	8.3%	1	1.3%	7	7.9%	3	3.0%	17	3.4%
Kampot	2	1.2%	1	2.6%	4	11.1%	2	2.5%	4	4.5%	8	8.0%	21	4.2%
Kandal	15	9.3%	5	12.8%	3	8.3%	8	10.1%	11	12.4%	11	11.0%	53	10.5%
Phnom Penh	7	4.3%		0.0%		0.0%		0.0%		0.0%		0.0%	7	1.4%
Siem Reap	18	11.2%	11	28.2%	5	13.9%	28	35.4%	16	18.0%	21	21.0%	99	19.6%
Sihanoukville		0.0%	1	2.6%	4	11.1%	12	15.2%	6	6.7%	14	14.0%	37	7.3%
Svay Rieng	12	7.5%	3	7.7%	7	19.4%	8	10.1%	4	4.5%	9	9.0%	43	8.5%
TOTAL	161	100%	39	100%	36	100%	79	100%	89	100%	100	100%	504	100%

Enterprises by activity sector and number of employees

Regardless of their activity sector, the majority of enterprises employ fewer than 10 people. Of these, the overwhelming majority of enterprises employ from 4 to 10 employees.

TABLE 14: DISTRIBUTION OF ENTERPRISES BY ACTIVITY SECTOR AND NUMBER OF EMPLOYEES

Type	Activity Sector												#	%
	#	%	#	%	#	%	#	%	#	%	#	%		
Fewer than 4	31	19.3%	13	33.3%	4	11.1%	7	8.9%	9	10.1%	9	9.0%	73	14.5%
4 to 10	96	59.6%	20	51.3%	22	61.1%	36	45.6%	51	57.3%	71	71.0%	296	58.7%
11 to 50	33	20.5%	5	12.8%	10	27.8%	27	34.2%	28	31.5%	19	19.0%	122	24.2%
51 to 100	1	0.6%	1	2.6%	0	0.0%	6	7.6%	1	1.1%	0	0.0%	9	1.8%
More than 100	0	0.0%	0	0.0%	0	0.0%	3	3.8%	0	0.0%	1	1.0%	4	0.8%
TOTAL	161	100%	39	100%	36	100%	79	100%	89	100%	100	100%	504	100%

Enterprises by activity sector and annual turnover

The wholesale (33.3%) and agriculture (29.6%) sectors are the only two sectors that have enterprises with annual turnover of between \$600,000 and more than \$1.2 million.

Enterprises in the services sector (56.6%) have the lowest annual turnover (less than \$30,000).

The manufacturing and retail sectors are represented in all earning brackets, up to \$599,999.

TABLE 15: DISTRIBUTION OF ENTERPRISES BY SECTOR AND ANNUAL TURNOVER

Annual Turnover	Activity Sector													
	Agriculture		Retail		Wholesale		Hospitality		Manufacturing		Services			
	#	%	#	%	#	%	#	%	#	%	#	%		
Less than \$30,000	22	14.5%	13	33.3%	6	16.7%	19	25.0%	30	35.3%	56	56.6%	146	30.0%
\$30,000 to \$119,999	30	19.7%	11	28.2%	9	25.0%	33	43.4%	36	42.4%	33	33.3%	152	31.2%
\$120,000 to \$599,999	55	36.2%	15	38.5%	9	25.0%	17	22.4%	18	21.2%	9	9.1%	123	25.3%
\$600,000 to \$1,199,999	27	17.8%	0	0.0%	4	11.1%	4	5.3%	0	0.0%	1	1.0%	36	7.4%
\$1,200,000 and more	18	11.8%	0	0.0%	8	22.2%	3	3.9%	1	1.2%	0	0.0%	30	6.2%
TOTAL	152	100%	39	100%	36	100%	76	100%	85	100%	99	100%	487	100%

Enterprises by activity sector and length of operation

In the hospitality (57.0%), manufacturing (58.5%) and services sectors (53.5%), over 50% of enterprises have been in operation less 5 years, showing that these are relatively 'young' sectors.

Within the agriculture sector, the majority of enterprises (60.2%) have been in operation for more than 10 years.

TABLE 16: DISTRIBUTION OF ENTERPRISES BY LENGTH OF OPERATION AND ACTIVITY SECTOR

Length of Operation	Activity Sector													
	Agriculture		Retail		Wholesale		Hospitality		Manufacturing		Services			
	#	%	#	%	#	%	#	%	#	%	#	%		
< 3 years	10	6.2%	6	15.8%	3	8.3%	18	22.8%	11	12.4%	19	19.2%	67	13.3%
3 to 5 years	26	16.1%	13	34.2%	9	25.0%	27	34.2%	41	46.1%	34	34.3%	150	29.9%
6 to 10 years	28	17.4%	10	26.3%	8	22.2%	15	19.0%	17	19.1%	17	17.2%	95	18.9%
11 to 15 years	39	24.2%	7	18.4%	7	19.4%	13	16.5%	8	9.0%	16	16.2%	90	17.9%
=> 15 years	58	36.0%	2	5.3%	9	25.0%	6	7.6%	12	13.5%	13	13.1%	100	19.9%
TOTAL	161	100%	38	100%	36	100%	79	100%	89	100%	99	100%	502	100%

2.1.3. Distribution of Enterprises by Location

Enterprises by location and type

Svay Rieng, Battambang, Kampong Chhnang, Phnom Penh, and Kampong Cham are the provinces with the highest percentage (> 50%) of small and medium enterprises.

Banteay Meanchey and Battambang are the provinces with the highest percentage (>20%) of large enterprises.

Sihanoukville and Siem Reap have the second highest percentage of large enterprises (>15%).

Kampong Speu and Kampot Provinces have the highest percentage of micro enterprises (>50%). Kampong Chhnang, Kandal, Sihanoukville and Svay Rieng have the second highest percentage of micro enterprises (>40%).

If data are aggregated, and data for Battambang, Sihanoukville and Siem Reap are removed, smaller provinces account for 40.8% of micro, 37.9% of small, 12.9% of medium, and 8.3% of large enterprises.

TABLE 17: DISTRIBUTION OF ENTERPRISES BY LOCATION AND TYPE

Location	Types									
	Micro		Small		Medium		Large		Total	
#	%	#	%	#	%	#	%	#	%	#
Banteay Meanchey	13	29.5%	16	36.4%	6	13.6%	9	20.5%	44	100%
Battambang	25	19.5%	48	37.5%	27	21.1%	28	21.9%	128	100%
Kampong Cham	12	34.3%	14	40.0%	4	11.4%	5	14.3%	35	100%
Kampong Chhnang	8	40.0%	8	40.0%	3	15.0%	1	5.0%	20	100%
Kampong Speu	9	52.9%	6	35.3%	1	5.9%	1	5.9%	17	100%
Kampot	11	52.4%	7	33.3%	2	9.5%	1	4.8%	21	100%
Kandal	25	47.2%	17	32.1%	9	17.0%	2	3.8%	53	100%
Phnom Penh	1	14.3%	5	71.4%	1	14.3%		0.0%	7	100%
Siem Reap	37	37.4%	24	24.2%	19	19.2%	19	19.2%	99	100%
Sihanoukville	18	48.6%	8	21.6%	5	13.5%	6	16.2%	37	100%
Svay Rieng	19	44.2%	18	41.9%	5	11.6%	1	2.3%	43	100%
TOTAL	178	35.3%	171	33.9%	82	16.3%	73	14.5%	504	100%

Enterprises by location and activity sector

Kampong Cham (52.3%) and Battambang (62.9%) have the majority of agricultural enterprises. They also represent almost a third of enterprises in Banteay Meanchey (31.8%), Kandal (28.3%) and Svay Rieng (27.9%).

Siem Reap (28.3%) and Sihanoukville (32.4%), the main tourist destinations in Cambodia, are characterised by a high concentration of hospitality and services enterprises (21.2% and 37.8% respectively).

Manufacturing is the main activity in the provinces of Kampong Speu (41.2%) and Kampong Chhnang (30%).

TABLE 18: DISTRIBUTION OF ENTERPRISES BY LOCATION AND ACTIVITY SECTOR

Location	Activity Sector														#	%		
	Agriculture		Retail		Wholesale		Hospitality		Manufacturing		Services		TOTAL					
	#	%	#	%	#	%	#	%	#	%	#	%	#	%				
Banteay Meanchey	14	31.8%	3	6.8%	3	6.8%	5	11.4%	13	29.5%	6	13.6%	44	100%				
Battambang	67	52.3%	13	10.2%	5	3.9%	9	7.0%	15	11.7%	19	14.8%	128	100%				
Kampong Cham	22	62.9%	0	0.0%	0	0.0%	2	5.7%	7	20.0%	4	11.4%	35	100%				
Kampong Chhnang	2	10.0%	1	5.0%	2	10.0%	4	20.0%	6	30.0%	5	25.0%	20	100%				
Kampong Speu	2	11.8%	1	5.9%	3	17.6%	1	5.9%	7	41.2%	3	17.6%	17	100%				
Kampot	2	9.5%	1	4.8%	4	19.0%	2	9.5%	4	19.0%	8	38.1%	21	100%				
Kandal	15	28.3%	5	9.4%	3	5.7%	8	15.1%	11	20.8%	11	20.8%	53	100%				
Phnom Penh	7	1000%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	7	100%				
Siem Reap	18	18.2%	11	11.1%	5	5.1%	28	28.3%	16	16.2%	21	21.2%	99	100%				
Sihanoukville	0	0.0%	1	2.7%	4	10.8%	12	32.4%	6	16.2%	14	37.8%	37	100%				
Svay Rieng	12	27.9%	3	7.0%	7	16.3%	8	18.6%	4	9.3%	9	20.9%	43	100%				
TOTAL	161	31.9%	39	7.7%	36	7.1%	79	15.7%	89	17.7%	100	19.8%	504	100%				

Enterprises by location and number of employees

In all provinces except Battambang and Siem Reap, there are no enterprises employing more than 50 employees.

For all provinces except Phnom Penh, the majority of enterprises employ from 4 to 10 employees.

TABLE 19: DISTRIBUTION OF ENTERPRISES BY LOCATION AND NUMBER OF EMPLOYEES

Location	Activity Sector														#	%
	Less than 4		4 to 10		11 to 50		51 to 100		More than 100		TOTAL					
#	%	#	%	#	%	#	%	#	%	#	%	#	%	#	%	
Banteay Meanchey	5	11.4%	31	70.5%	8	18.2%	0	0.0%	0	0.0%	44	100%				
Battambang	21	16.4%	75	58.6%	28	21.9%	4	3.1%	0	0.0%	128	100%				
Kampong Cham	6	17.1%	21	60.0%	8	22.9%	0	0.0%	0	0.0%	35	100%				
Kampong Chhnang	0	0.0%	9	45.0%	11	55.0%	0	0.0%	0	0.0%	20	100%				
Kampong Speu	4	23.5%	9	52.9%	4	23.5%	0	0.0%	0	0.0%	17	100%				
Kampot	6	28.6%	13	61.9%	2	9.5%	0	0.0%	0	0.0%	21	100%				
Kandal	8	15.1%	29	54.7%	16	30.2%	0	0.0%	0	0.0%	53	100%				
Phnom Penh	3	42.9%	0	0.0%	4	57.1%	0	0.0%	0	0.0%	7	100%				
Siem Reap	9	9.1%	56	56.6%	25	25.3%	5	5.1%	4	4.0%	99	100%				
Sihanoukville	2	5.4%	23	62.2%	12	32.4%	0	0.0%	0	0.0%	37	100%				
Svay Rieng	9	20.9%	30	69.8%	4	9.3%	0	0.0%	0	0.0%	43	100%				
TOTAL	73	14.5%	296	58.7%	122	24.2%	9	1.8%	4	0.8%	504	100%				

Enterprises by location and annual turnover

Battambang has the largest proportion of enterprises earning more than \$600,000 per year (21.1%).

TABLE 20: DISTRIBUTION OF ENTERPRISES BY LOCATION AND ANNUAL TURNOVER

Location	Activity Sector											
	Less than \$30,000		\$30,000 to \$119,999		\$120,000 to \$599,999		\$600,000 to \$1,199,999		\$1,200,000 and more		TOTAL	
#	%	#	%	#	%	#	%	#	%	#	%	#
Banteay Meanchey	14	35.0%	12	30.0%	8	20.0%	4	10.0%	2	5.0%	40	100%
Battambang	29	22.7%	34	26.6%	38	29.7%	17	13.3%	10	7.8%	128	100%
Kampong Cham	15	44.1%	4	11.8%	11	32.4%	2	5.9%	2	5.9%	34	100%
Kampong Chhnang	4	20.0%	10	50.0%	6	30.0%	0	0.0%	0	0.0%	20	100%
Kampong Speu	5	29.4%	7	41.2%	3	17.6%	1	5.9%	1	5.9%	17	100%
Kampot	8	38.1%	6	28.6%	4	19.0%	2	9.5%	1	4.8%	21	100%
Kandal	16	36.4%	15	34.1%	10	22.7%	1	2.3%	2	4.5%	44	100%
Phnom Penh	2	28.6%	2	28.6%	3	42.9%	0	0.0%	0	0.0%	7	100%
Siem Reap	23	23.5%	36	36.7%	23	23.5%	8	8.2%	8	8.2%	98	100%
Sihanoukville	11	31.4%	13	37.1%	8	22.9%	1	2.9%	2	5.7%	35	100%
Svay Rieng	19	44.2%	13	30.2%	9	20.9%	0	0.0%	2	4.7%	43	100%
TOTAL	146	30.0%	152	31.2%	123	25.3%	36	7.4%	30	6.2%	487	100%

Enterprises by location and length of operation

Siem Reap and Sihanoukville have the ‘youngest’ enterprises. More than 50% have been in operation for less than 5 years.

TABLE 21: DISTRIBUTION OF ENTERPRISES BY LOCATION AND LENGTH OF OPERATION

Location	Length of Operation											
	Less than 3 years		3 to 5 years		6 to 10 years		11 to 15 years		More than 15 years		Total	
#	%	#	%	#	%	#	%	#	%	#	%	#
Banteay Meanchey	5	11.4%	12	27.3%	10	22.7%	4	9.1%	13	29.5%	44	100%
Battambang	9	7.1%	28	22.2%	27	21.4%	34	27.0%	28	22.2%	126	100%
Kampong Cham	7	20.0%	4	11.4%	9	25.7%	8	22.9%	7	20.0%	35	100%
Kampong Chhnang	4	20.0%	7	35.0%	1	5.0%	3	15.0%	5	25.0%	20	100%
Kampong Speu	2	11.8%	7	41.2%	2	11.8%	4	23.5%	2	11.8%	17	100%
Kampot	1	4.8%	3	14.3%	5	23.8%	5	23.8%	7	33.3%	21	100%
Kandal	11	20.8%	14	26.4%	11	20.8%	8	15.1%	9	17.0%	53	100%
Phnom Penh	2	28.6%	2	28.6%	2	28.6%	0	0.0%	1	14.3%	7	100%
Siem Reap	15	15.2%	49	49.5%	12	12.1%	8	8.1%	15	15.2%	99	100%
Sihanoukville	7	18.9%	16	43.2%	7	18.9%	4	10.8%	3	8.1%	37	100%
Svay Rieng	4	9.3%	8	18.6%	9	20.9%	12	27.9%	10	23.3%	43	100%
Total	67	13.3%	150	29.9%	95	18.9%	90	17.9%	100	19.9%	502	100%

2.2. Summary of Enterprise Characteristics

This section lists each of the key variables by enterprise size.

2.2.1. Summary by Type

Enterprise type	Description
Micro	<ul style="list-style-type: none"> • Micro enterprises represent 35.3% of total enterprises surveyed (178 out of 504 enterprises) • The services sector has the most micro enterprises (38.3%), followed by the manufacturing sector (25.3%) • 20.8% of micro enterprises are found in Siem Reap, 14.0% in Battambang and 14.0% in Kandal • 84.3% of microenterprises employ fewer than 10 employees, with the majority employing from 4 to 10 people • 57.2% of microenterprises have an annual revenue of less than \$30,000 and none earn more than \$600,000 per year • 57.1% of micro enterprises have been operating for fewer than 5 years
Small	<ul style="list-style-type: none"> • Small enterprises represent 33.9% of total enterprises surveyed (171 out of 504 enterprises) • 35.1% of small enterprises are found in the agriculture sector, with equal numbers spread across other sectors • 28.1% of small enterprises are found in Battambang and 14.0% in Siem Reap • 73.1% of small enterprises employ fewer than 10 employees, with the majority of these employing from 4 to 10 employees • 62.2% of small enterprises have an annual revenue of less than \$120,000, and 28.7% earn between \$120,000 and \$599,999 a year • 58.2% of small enterprises have been operating for fewer than 10 years
Medium	<ul style="list-style-type: none"> • Medium enterprises represent 16.3% of total enterprises surveyed (82 out of 504 enterprises) • 52.4% of medium enterprises are found in the agriculture sector, with equal numbers spread across other sectors • 32.9% of medium enterprises are found in Battambang and 23.2% in Siem Reap • 65.8% of medium enterprises employ fewer than 10 employees, with the majority employing from 4 to 10 employees • 47.4% of medium enterprises have an annual revenue of \$120,000 to \$599,999, 27.5% earn from \$30,000 to \$199,999, and 21.3% earn more than \$600,000 a year • 59.7% of medium enterprises have been operating for more than 10 years
Large	<ul style="list-style-type: none"> • Large enterprises represent 14.5% of total enterprises surveyed (73 out of 504 enterprises) • 52.4% of large enterprises are found in the agriculture sector, and the second largest number in the hospitality sector (26.0%) • 38.4% of large enterprises are found in Battambang and 26.0% in Siem Reap • 52.1% of large enterprises employ fewer than 10 employees, with the majority employing from 4 to 10 employees. However, 9.6% of large enterprises employ more than 50 employees • 48.5% of large enterprises have an annual revenue of more than \$600,000 per year, while 47.1% of large enterprises have an annual revenue of between \$30,000 and \$599,000 • 64.4% of large enterprises have been operating for more than 5 years

2.2.2. Summary by Activity Sector

Activity Sector	Description
Agriculture	<ul style="list-style-type: none"> The agriculture sector represents 31.9% of total enterprises surveyed (161 out of 504 enterprises) 37.3% of agricultural enterprises are small, 26.7% are medium, 23.6% are large, and 12.4% are micro enterprises 41.6% of agricultural enterprises operate in Battambang, followed by Kampong Cham (13.7%) and Siem Reap (11.2%) 78.9% of agricultural enterprises employ fewer than 10 employees 36.2% of agriculture enterprises earn from \$120,000 to \$599,999 per year, and 34.2% less than \$120,000 60.2% of agricultural enterprises have been operating for more than 10 years
Retail	<ul style="list-style-type: none"> The retail sector represents 7.7% of total enterprises surveyed (39 out of 504 enterprises) 46.2% of retail enterprises are small, 30.8% are micro, 15.4% are medium, and 7.7% are large enterprises 33.08% of retail enterprises operate in Battambang, 28.2% in Siem Reap and 20.8% in Kandal Provinces 84.6% of retail enterprises employ fewer than 10 employees No retail enterprises earn more than \$600,000 per year; 38.5% earn from \$120,000 to \$599,999; 33.3% earn less than \$30,000; while 28.2% earn from \$30,000 to \$119,999 76.3% of retail enterprises have been operating for fewer than 10 years
Wholesale	<ul style="list-style-type: none"> The wholesale sector represents 7.1% of total enterprises surveyed (36 out of 504 enterprises) 47.2% of wholesale enterprises are small, 25.0% are medium, while large and micro enterprises account for 13.9% 19% of wholesale enterprises operate in Svay Rieng, 13.9% in Battambang and 13.9% in Siem Reap 72.2% of wholesale enterprises employ fewer than 10 people Wholesale enterprises have the highest annual revenue -- 22.2% of them earn more than \$1,200,000 per year 55.5% of wholesale enterprises have been operating for fewer than 10 years
Hospitality	<ul style="list-style-type: none"> The hospitality sector represents 15.7% of total enterprises surveyed (79 out of 504 enterprises) 34.2% of hospitality enterprises are classified as micro, 29.1% as small, 24.1% as large, and 12.79% as medium enterprises The largest percentage of hospitality enterprises operate in Siem Reap (35.4%) and Sihanoukville (15.2%) Hospitality enterprises have the largest number of employees; 11.5% employ more than 50 people but 54.2% employ fewer than 10 people 43.4% of enterprises have annual revenue of \$30,000-\$119,999; 25.0% of them earn less than \$30,000; 22.4% earn from \$120,000 to \$599,999; and 9.1% earn more than \$600,000 annually 57% of hospitality enterprises have been operating for fewer than 5 years
Manufacturing	<ul style="list-style-type: none"> The manufacturing sector represents 17.7% of total enterprises surveyed (89 out of 504 enterprises) 50.6% of manufacturing enterprises are micro, 33.7% are small, 10.1% are medium, and 5.6% are large enterprises Most operate in Siem Reap (18.0%), Battambang (16.9%) and Banteay Meanchey (14.6%) 67.4% of manufacturing enterprises employ fewer than 5 people 42.4% of manufacturing enterprises earn between \$30,000 and \$119,999; 35.3% earn less than \$30,000; 21.2% earn between \$120,000 and \$599,999 per year and 1.2% earn more than \$600,000 58.5% of manufacturing enterprises have been operating for fewer than 5 years
Services	<ul style="list-style-type: none"> The services sector represents 19.8% of the total sample size (100 out of 504 enterprises) 69.0% of services enterprises are micro, 23.0% are small, 5.0% are medium, and 3.0% are large enterprises The largest percentage of services enterprises operate in Siem Reap (21.0%), Battambang (19.0%) and Sihanoukville (14.0%) 80% of services enterprises employ fewer than 5 employees 56.6% of services enterprises have an annual turnover of less than \$30,000; 33.3% from \$30,000 to \$119,999; 9.1% from \$120,000 to \$599,999; and only 1.0% earn more than \$600,000 53.5% of services enterprises have been operating for fewer than 5 years

2.2.3. Summary by Location

Activity Sector	Description
Banteay Meanchey	<ul style="list-style-type: none"> Banteay Meanchey represents 8.7% of the total sample size (44 out of 504 enterprises) 36.4% of enterprises are small, 29.5% are micro, 20.5% are large, and 13.6% are medium enterprises 31.8% of enterprises are in the agricultural sector and 29.5% are in manufacturing 81.9% of enterprises employ fewer than 10 employees 35.0% of enterprises earn less than \$30,000 per year; 30.0% from \$30,000 to \$119,999; 20.0% from \$120,000 to \$599,999; and 15.0% earn more than \$600,000 61.4% of enterprises have been operating for fewer than 5 years
Battambang	<ul style="list-style-type: none"> Battambang represents 25.4% of the total sample size (128 out of 504 enterprises) 37.5% of enterprises are classified as small, 21.9% as large, 21.1% as medium, and 19.5% as micro 52.3% of enterprises are in agricultural sector 75.0% of enterprises employ fewer than 10 employees 22.7% of enterprises earn less than \$30,000 per year; 26.6% earn from \$30,000 to \$119,999; 29.6% earn from \$120,000 to \$599,999; and 21.1% earn more than \$600,000 annually 50% of enterprises have been operating for fewer than 10 years
Kampong Cham	<ul style="list-style-type: none"> Kampong Cham represents 6.9% of the total sample size (35 out of 504 enterprises) 40.0% of enterprises are classified as small, 34.3% as micro, 14.3% as large, and 11.4% as medium 62.9% of enterprises operate in agriculture and 20.0% in manufacturing 77.1% of enterprises employ fewer than 10 employees 44.1% earn less than \$30,000 per year; 11.8% earn from \$30,000 to \$119,999; 32.4% earn from \$120,000 to \$599,999; and 11.8% earn more than \$600,000 57.1% of enterprises have been operating for fewer than 10 years
Kampong Chhnang	<ul style="list-style-type: none"> Kampong Chhnang represents 4.0% of the total sample size (20 out of 504 enterprises) 40.0% of enterprises are classified as small, 40.0% as micro, 15.0% as medium, and 5.0% as large The largest percentage of enterprises are in manufacturing (30.0%), services (25.0%) and hospitality (20.0%) 55.0% of enterprises employ from 11 to 50 people and the rest (45.0%) from 4 to 10 people 20.0% of enterprises earn less than \$30,000 per year; 50.0% earn from \$30,000 to \$119,999; and 30.0% earn from \$120,000 to \$599,999 per year 55% of enterprises have been operating for fewer than 5 years
Kampong Speu	<ul style="list-style-type: none"> Kampong Speu represents 3.4% of the total sample size (17 out of 504 enterprises) 52.9% of enterprises are classified as micro, 35.3% as small, 5.9% as medium, and 5.9% as large The largest percentage of enterprises is in manufacturing (41.2%) The majority of enterprises employ fewer than 10 people (76.4%) 29.4% of enterprises earn less than \$30,000 per year; 41.2% earn from \$30,000 to \$119,999; 17.6% from \$120,000 to \$599,999; and 11.8% more than \$600,000 53% of enterprises have been operating for fewer than 5 years

Activity Sector	Description
Kampot	<ul style="list-style-type: none"> Kampot represents 4.2% of the total sample size (21 out of 504 enterprises) 52.4% of enterprises are classified as micro, 33.3% as small, 9.5% as medium, and 4.8% as large Most enterprises are in service industry (38.1%), in manufacturing (19.0%) and in wholesale (19.0%) 90.5% of enterprises employ fewer than 10 employees (90.5%) 38.1% of enterprises earn less than \$30,000 per year; 28.6% from \$30,000 to \$119,999; 19.0% from \$120,000 to \$599,999; and 14.3% earn more than \$600,000 57.1% of enterprises have been operating for more than 5 years
Kandal	<ul style="list-style-type: none"> Kandal represents 10.5% of the total sample size (23 out of 504 enterprises) 47.2% of enterprises are classified as micro, 32.1% as small, 17.0% as medium and 3.8% as large The largest percentage of enterprises operate in agriculture (28.3%), in manufacturing (20.8%) and services (20.8%) 69.8% of enterprises employ fewer than 10 people 36.4% of enterprises earn less than \$30,000 per year; 34.1% from \$30,000 to \$119,999; 22.7% from \$120,000 to \$599,999; and 6.8% earn more than \$600,000 68.0% of enterprises have been operating for fewer than 10 years
Siem Reap	<ul style="list-style-type: none"> Siem Reap represents 19.6% of the total sample size (99 out of 504 enterprises) 37.4% of enterprises are classified as micro, 24.2% as small, 19.2% as medium, and 19.2% as large The largest percentage of enterprises operate in the hospitality (28.3%) and services industry (21.2%) 65.7% of enterprises employ fewer than 10 people 23.5% of enterprises earn less than \$30,000 per year; 36.7% from \$30,000 to \$119,999; 23.5% from \$120,000 to \$599,999; and 16.4% earn more than \$600,000 64.7% of enterprises have been operating for fewer than 5 years
Sihanoukville	<ul style="list-style-type: none"> Sihanoukville represents 7.3% of the total sample size (37 out of 504 enterprises) 38.6% of enterprises are classified as micro, 21.6% as small, 16.2% as large, and 13.5% as medium 37.8% of enterprises are in services and 32.4% in hospitality 67.6% of enterprises employ fewer than 10 employees 31.4% of enterprises earn less than \$30,000 per year; 37.1% earn from \$30,000 to \$119,999; 22.9% earn from \$120,000 to \$599,999; and 8.6% earn more than \$600,000 62.1% of enterprises have been operating for fewer than 5 years
Svay Rieng	<ul style="list-style-type: none"> Svay Rieng represents 8.5% of the total sample size (43 out of 504 enterprises) 44.2% of enterprises are classified as micro, 41.9% as small, 11.6% as medium, and 2.3% as large The largest percentage of enterprises operate in agriculture (27.9%) and in services (20.9%) 90.7% of enterprises employ fewer than 10 people 44.2% of enterprises earn less than \$30,000 per year; 30.2% earn from \$30,000 to \$119,999; 20.9% earn from \$120,000 to \$599,999; and 4.7% earn more than \$600,000 51.2% of enterprises have been operating for fewer than 10 years (51.2%)

2.3. Legal Status of Enterprises

Research shows that there is a strong and statistically significant relationship between entrepreneurship and a supportive business environment. Research suggests that making it easier to start and operate businesses results in greater entrepreneurial activity and more businesses joining the formal sector.¹⁰

81% of business owners interviewed for this study believe their businesses are legally/formally registered, however they are not sure what constitutes legal registration.

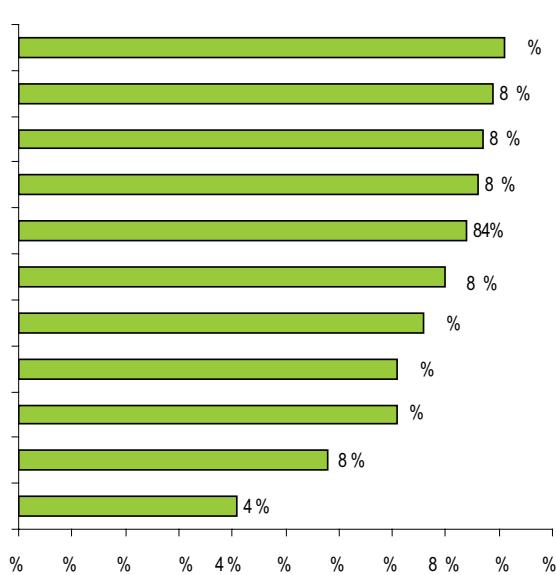
Kandal (58%) and Kampong Speu (41%) are the provinces with the lowest rates of formal business registration.

Kampong Cham (91%) and Battambang (89%) have the highest SME registration rates.

53.9% of enterprises are registered with the Ministry of Commerce at the national or provincial level, and 46.6% of enterprises are registered with the Tax Department.

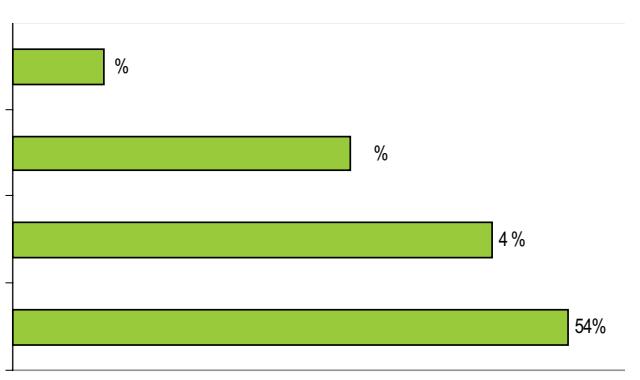
Enterprise owners interviewed for this survey do not have a clear understanding of what formal registration means in legal terms. Enterprises mentioned making monthly tax payments, paying the annual patent tax, and paying fees to a variety of government departments such as the Provincial Department of the Ministry of Industry, Mines and Energy (MIME), the Provincial Department of Tourism (MOT), the Provincial Department of Social Affairs (MOSALVY), the Provincial Department of the Ministry of Environment, (MOE) etc. As a result of making these regular monthly and annual payments, business owners believe their businesses are officially registered.

FIGURE 7: PERCENTAGE OF REGISTERED ENTERPRISES BY PROVINCE



National and provincial level registrations with a variety of different ministries were noted during the survey. Several enterprises noted that they are registered with more than one department. Figure 8 presents findings on the ministries with which surveyed enterprises are registered. Providing SMEs with information on what constitutes a legally registered enterprise would help them understand whether they are legally compliant or not. As demonstrated in the 2008 World Bank Entrepreneurship Survey, reducing costs and making it easier to formally register can greatly encourage businesses to register. If legally registered, SMEs would be better able to access financing as registration is often a legal requirement for financing.

10. 2008 World Bank Entrepreneurship Survey

FIGURE 8: PERCENTAGE OF REGISTERED ENTERPRISES BY GOVERNMENT AGENCY

2.4. SME Geographic Isolation

SMEs are isolated in their operations and business transactions, both within Cambodia and internationally.

The overwhelming majority (88.7%) of SMEs operate only in one province.

Less than 5% of enterprises are importing or exporting.

Survey results confirm that access to markets, particularly new markets, remains a challenge for SMEs due to limited access to information, lack of demand from SMEs, and the fact that SMEs do not have the capacity to pursue larger markets.

It is quite common in Cambodia that when one enterprise succeeds, similar enterprises start up close by because they think that they too will be successful. Today, with too many similar businesses operating in the same area, and not enough consumers/customers to go around, accessing new markets, whether within Cambodia or internationally, is increasingly important for SMEs. Business owners express worries about their future profitability and even their survival if they cannot access new markets.

With 88.7% of enterprises operating in only one province/district, and only a small percentage (11.3%) having more than one branch, it is understandable that business owners and managers state that competition from similar businesses is becoming a challenge for them. The financial crisis has put further pressure on SMEs because their customers are spending less.

TABLE 22: NUMBER OF ENTERPRISES EXPORTING AND IMPORTING

		Export		
		Yes	No	Total
Import	Yes	4	17	21
	No	12	471	483
	Total	16	488	504

471 out of 504 enterprises interviewed (93.4%) neither import nor export. Only 16 enterprises (3.2%) export, 21 enterprises (4.2%) import and 4 enterprises (0.8%) both import and export. These numbers demonstrate the basic nature of SME operations as well as opportunity for development and expansion.

2.5. Enterprise Financial Data Overview

2.5.1. Financial Records and Responsibilities

59% of enterprises prepare financial records, but these are simple profit and loss statements only.

For 94% of enterprises, the owner is responsible for sourcing funding.

Of the enterprises that prepare financial records (59%), the overwhelming majority (84%), have informal financial records. Informal records refer to profit and loss only. Since most SMEs are not subject to formal auditing procedures or aware of formal accounting practises, it is not surprising for them to say they keep track of only income and expenses and do not consider or want to pay the cost for professional accounting services, particularly given the size and nature of their operations. It is interesting to note that in general, SMEs say they don't understand financial records and reporting. They say keeping formal financial records is complicated and challenging, and they don't believe it's necessary.

However, SMEs' lack of good financial records prevents them from accessing the financing that would help them expand their business. Creative ways for assessing SMEs are required to be able to grant loans alternately. With no good financial records to use in assessing borrowers, lenders should instead use other ways to assess SMEs that are seeking loans. Clearly, SMEs require training so they have a better understanding of the importance of financial records and of proper accounting procedures.

Regardless of whether or not an enterprise is micro or large, the majority of enterprise funding is arranged by the owner of the company. Only in large enterprises, do general managers or external consultants play a more visible role, and even that is still marginal. The most frequently noted reasons for controlling this important business function are:

1. SME owners do not want others to know about the financial status of their company.
2. Given the size and nature of SMEs, owners do not consider that spending money on qualified internal or external accounting assistance is a good use of their funds.

FIGURE 9: DISTRIBUTION OF ENTERPRISES BY FINANCIAL RECORD STATUS

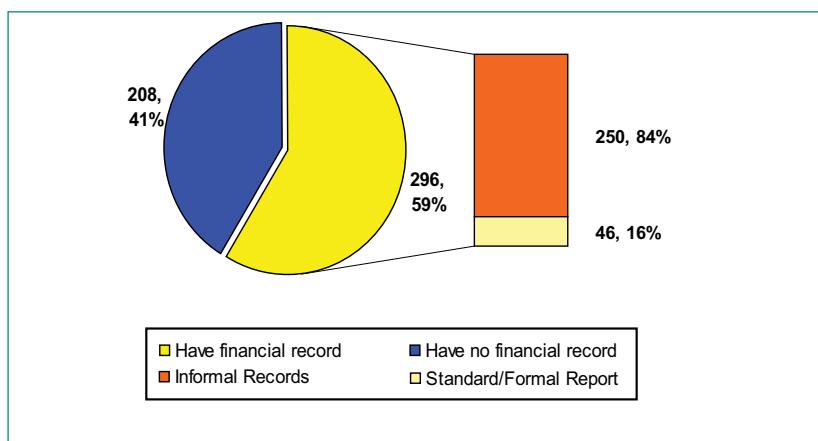
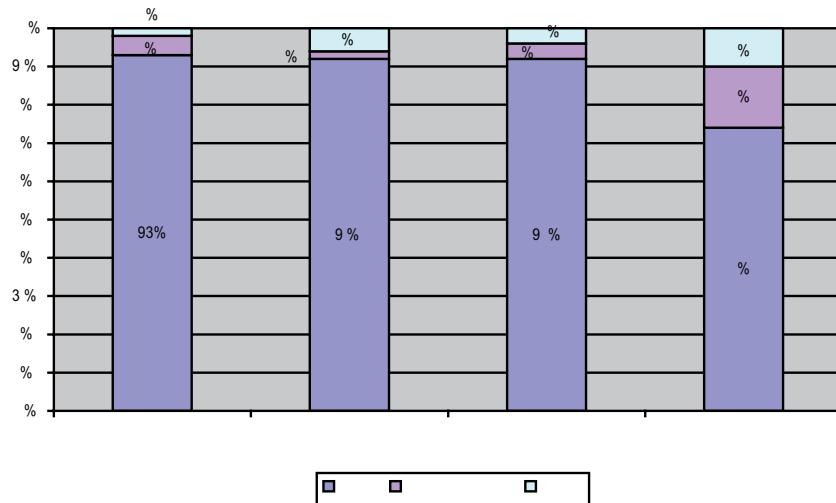


FIGURE 10: DISTRIBUTION OF ENTERPRISES BY TYPE AND PERSON RESPONSIBLE FOR FINANCIAL MANAGEMENT

2.5.2. Income Sources

60% of respondents confirmed that their business is their only source of income

Of those enterprises (40%) having more than one source of income, 72% of them generate income from additional businesses they own or in which they participate. Income from other family members accounted for less than 10% of additional income.

Most enterprises surveyed can be described as family businesses. Of the entrepreneurs surveyed, 60% state their business is their only source of income. Enterprise owners note that their full energy is dedicated to their business as it is their source of family income. If their business is meeting family income needs, then entrepreneurs say they see no need to seek other sources of revenue.

Of those enterprises that have other sources of income, 72% earn additional income from other businesses. These businesses include cultivating crops, selling products (e.g. cars) or services, or home-based food production e.g. making wine.

Salary from other activities (21%) includes other jobs, as well as facilitation services. Revenue from family members accounted for only 8% of additional income. Revenue from investments (3%) includes formal shares in other businesses.

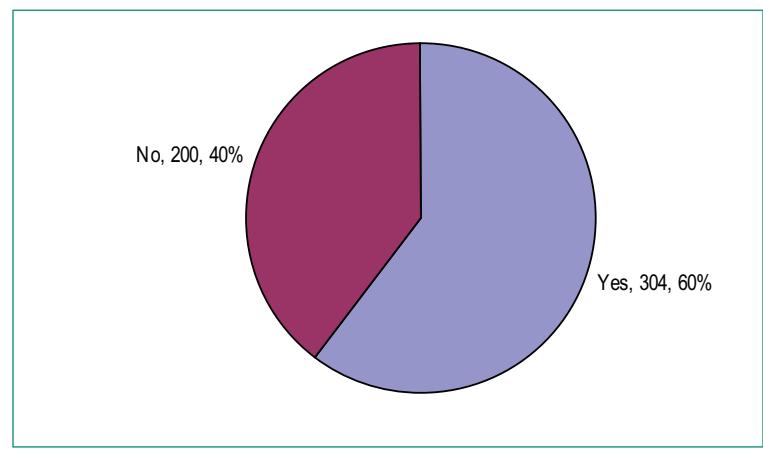
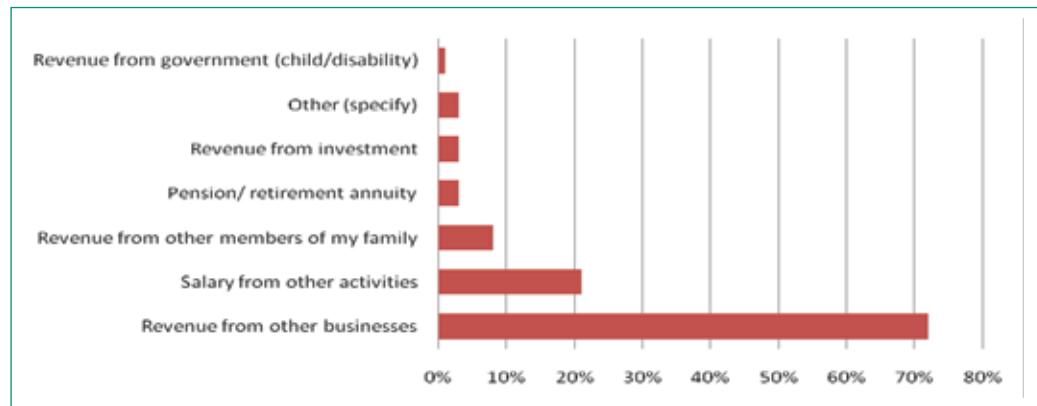
FIGURE 11: IS THIS BUSINESS YOUR ONLY SOURCE OF INCOME?

FIGURE 12: OTHER TYPES AND SOURCES OF INCOME



2.5.3. Business Premises

45% of micro enterprises rent their place for doing business while the majority of small, medium and large enterprises (>50%) operate businesses from their own house.

Ownership of business premises is more common for medium and large enterprises. These enterprises are mostly in the agriculture, wholesale and hospitality sectors. Battambang, Svay Rieng and Banteay Meanchey are the provinces with the highest percentage of businesses owning their premises.

Except for the services sector, where enterprises mostly rent their place of business, more than 50% of enterprises in other sectors operate from their own houses.

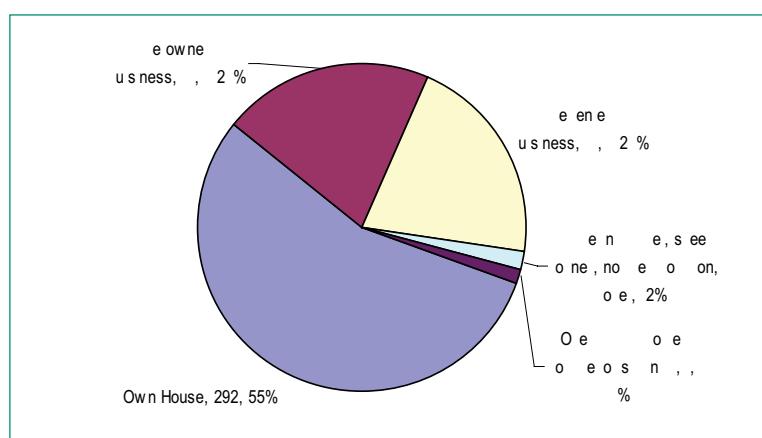
55% of SMEs operate their businesses from their own house.

Of micro enterprises, 39% use their own house and 45% rent a place for business, which is markedly more renting than is the case with other enterprise types. Medium and large enterprises are the most likely to own their place of business.

FIGURE 13: TYPE OF BUSINESS PREMISES USED (% BUSINESS PREMISES)

In all activity sectors, more than 50% of enterprises conduct business from their own house, with exception of services businesses. The services sector is the most likely to rent business premises, followed by manufacturing, hospitality and retail sales (approximately 25%). Agriculture, wholesale and hospitality enterprises are the most likely to own their place of business.

Except for Siem Reap, Sihanoukville and Phnom Penh, more than 50% of enterprises operate from their own house. Sihanoukville and Siem Reap have the largest proportion of enterprises renting a place



of business. Banteay Meanchey and Svay Rieng have the biggest proportion of enterprises owning their business premises.

Detailed results are presented in the figures below, sorted in ascending order according to whether operating from home.

FIGURE 14: OWNERSHIP OR RENTAL OF BUSINESS PREMISES ACCORDING TO ENTERPRISE TYPE AND ACTIVITY SECTOR

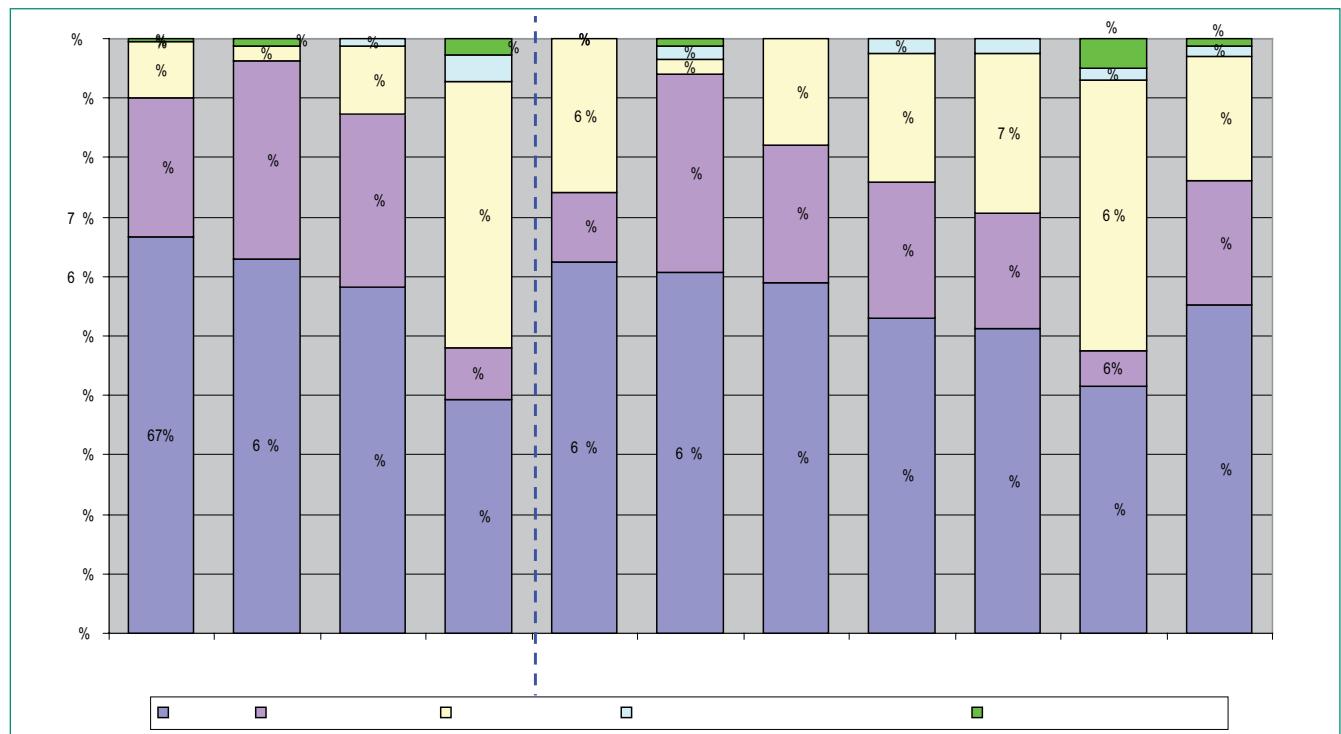
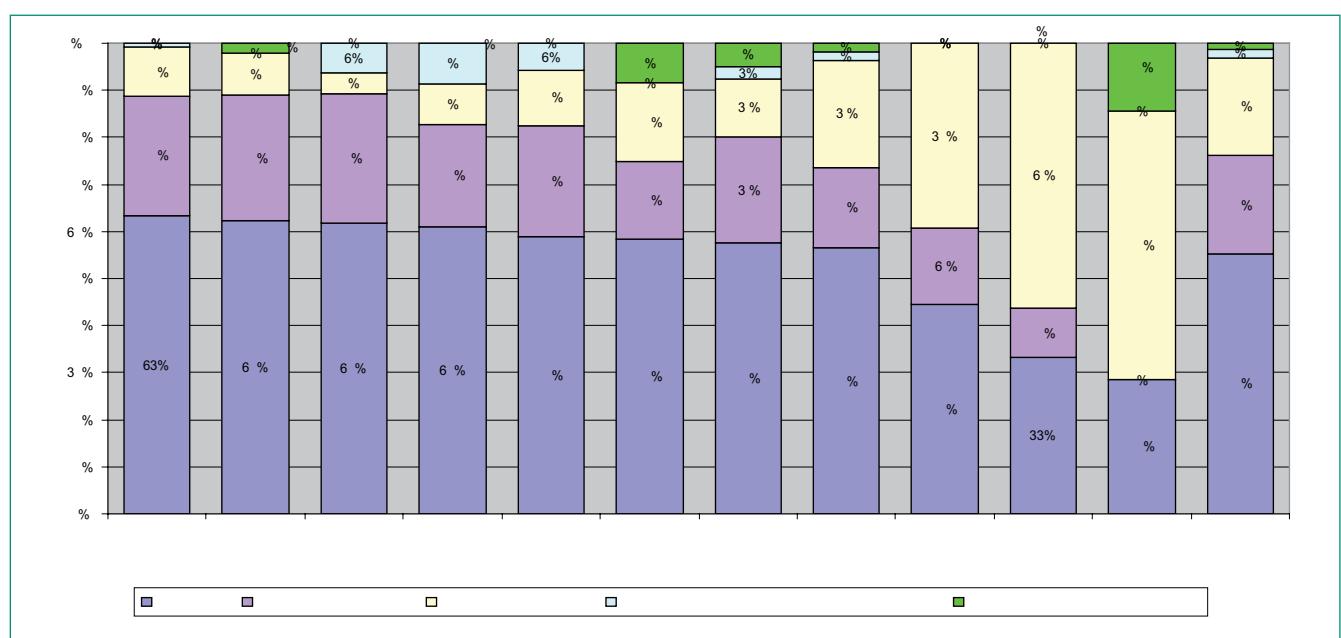


FIGURE 15: OWNERSHIP OR RENTAL OF BUSINESS PREMISES ACCORDING TO GEOGRAPHIC LOCATION



2.5.4. Financial Sources & Data

2.5.4.1. Source of Start-up Capital

For most enterprise types and sectors, the primary source of start-up finance is the owner's equity.

By enterprise type, large enterprises (20.5%) are the most likely to use bank loans for start up. By sector, retail sales enterprises are the most likely to borrow for start up financing (23%).

More than 90% of enterprises are started up with the owner's money. Almost 20% of entrepreneurs borrowed money from family or friends to start their enterprise. This is the second choice of funding for micro (22.5%) and small (20.5%) enterprises. In total, 156 enterprises (31%) used 2 or more sources of start-up capital. The most common combination for start-up capital is personal money and money borrowed from family and friends (52%).

Bank loans represent only 12.9% of start-up capital sources. Of these 17% are medium-sized enterprises, and 20.5% are large enterprises. Of the 65 enterprises that received bank loans, only 4 used only bank financing for start up. The majority of entrepreneurs with bank loans for start-up financing also provided financing themselves.

Bearing in mind that the sample of enterprises interviewed for this study are all located within a 3 km radius of the centre of a major provincial city, the primary sources of start up capital reflect entrepreneurs' limited access to financial services and the fact that financial services providers are not making an effort to find entrepreneurs who need start up financing. That fact that entrepreneurs prefer to use their own money and/or money from family or friends to start businesses is also influenced by custom in Cambodia. One interviewer noted that in starting a micro, small or even a medium-sized enterprise, entrepreneurs would rather not go in to debt to a financial institution. However, as a business grows, owners would rather borrow from a financial institution so family and friends are not aware of their needs for financing.

Government grants and donor interventions represent less than 1% of the funding sampled enterprises used for start up capital. MFIs provided less than 1.5% of start up capital which indicates this could be an opportunity for the MFI sector. If it was widely known that start-up capital was available from banks and MFIs and advice was available to help would-be entrepreneurs launch new enterprises, more would start and in turn create jobs and contribute to economic growth.

TABLE 23: % OF ENTERPRISES BY TYPE AND SOURCE OF START-UP CAPITAL

Start-up capital by source	Micro		Small		Medium		Large		Total	
	#	%	#	%	#	%	#	%	#	%
Personal money from me & my partners	165	92.70%	164	95.90%	78	95.10%	68	93.20%	475	94.20%
Borrowed from family & friends	40	22.50%	35	20.50%	13	15.90%	10	13.70%	98	19.40%
Borrowed from banks	14	7.90%	22	12.90%	14	17.10%	15	20.50%	65	12.90%
Sold an asset to get cash	2	1.10%	5	2.90%	0	0.00%	2	2.70%	9	1.80%
Borrowed from financial institution	5	2.80%	0	0.00%	0	0.00%	1	1.40%	6	1.20%
Borrowed from money lender	1	0.60%	2	1.20%	1	1.20%	1	1.40%	5	1.00%
Others	1	0.60%	1	0.60%	3	3.70%	0	0.00%	5	1.00%
Donors	1	0.60%	2	1.20%	0	0.00%	0	0.00%	3	0.60%
Government grant	1	0.60%	0	0.00%	0	0.00%	1	1.40%	2	0.40%
# of respondents (without double counting)	178		171		82		73		504	

When looking at the data by sector, we see that the retail sector acquired more bank loans than any other sector. All other sectors added up to approximately 12% of the enterprises receiving bank loans. Agriculture was the only sector in which enterprises used a government grant or donor funding.

To spearhead development in a particular sector, especially in sectors considered to have promise and where government priorities accordingly lie (for example, agriculture and food processing), a combination of both creative marketing and outreach by financial institutions is needed to stimulate SME development, as well as alternative types of financing (equity, debt, flexible approaches to repayment of start up capital, performance-based debt/equity financing). This financing could be offered to entrepreneurs in the sectors the government wants to develop if they are able to present good business plans for their enterprises. Such initiatives to stimulate enterprise creation and generate employment, especially during times of economic crisis, should be possible not only for the MFI and banking sectors, but through collaboration with government and/or development agencies.

TABLE 24: SOURCE OF START-UP CAPITAL BY SECTOR

Start-up capital sources	Agriculture		Retail		Wholesale		Hospitality		Manufacturing		Services	
	#	%	#	%	#	%	#	%	#	%	#	%
Personal money from me & my partners	155	96.3%	33	84.6%	34	94.4%	75	94.9%	85	95.5%	93	93.0%
Borrowed from family & friends	34	21.1%	10	25.6%	5	13.9%	13	16.5%	14	15.7%	22	22.0%
Borrowed from banks	18	11.2%	9	23.1%	5	13.9%	10	12.7%	10	11.2%	13	13.0%
Borrowed from financial institutions	2	1.2%	0	0.0%	0	0.0%	3	3.8%	0	0.0%	1	1.0%
Government grant	1	0.6%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	1	1.0%
Sold an asset to get cash	2	1.2%	1	2.6%	1	2.8%	1	1.3%	2	2.2%	2	2.0%
Donors	2	1.2%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	1	1.0%
Borrowed from money lender	2	1.2%	0	0.0%	0	0.0%	2	2.5%	0	0.0%	1	1.0%
Others	3	1.9%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	2	2.0%
# of respondents (without double counting)	161		39		36		79		89		100	

2.5.4.2. Amounts of Start-up Capital

Given that more than 90% of enterprises use personal money to start their businesses, it appears that the establishment of SMEs could be increased if entrepreneurs had access to start-up capital. The data for this study show that entrepreneurs are innovative and sophisticated in the range of enterprises they establish.

There is a correlation between enterprise type and start-up capital amounts.

Start-up capital varies significantly according to enterprise type and activity sector.

Half of the enterprises have start-up capital of around \$15,000.

The agriculture sector has the highest start-up capital, with 50% of agricultural enterprises having capital of \$30,000.

There is a correlation between enterprise type and start-up capital amount. The smaller the enterprise, the smaller the start-up capital required. Given that fewer than 15% of enterprises overall are borrowing from banks to raise start-up capital, and that 1% of enterprises are accessing grants from government or NGOs, the opportunity for developing products to stimulate enterprise development appears to be large provided that start-up risks can be minimised.

Start-up capital amounts vary significantly according to enterprise type (from as little as \$80 to \$8 million. Enterprises with start-up capital of \$1 million or more are medium or large enterprises (only 10 companies out of the total sample). Half of the total sample have start-up capital of less than or equal to \$15,000. Detailed results are presented in Figure 17 and Table 25.

FIGURE 16: START-UP CAPITAL BY ENTERPRISE TYPE

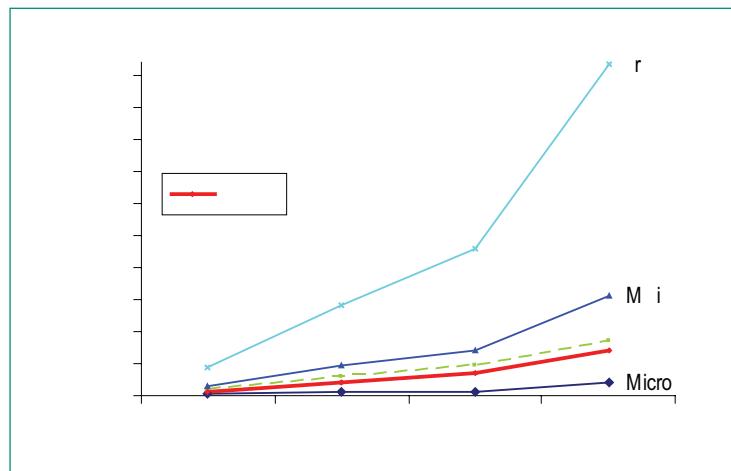


FIGURE 17: START-UP CAPITAL BY ENTERPRISE TYPE

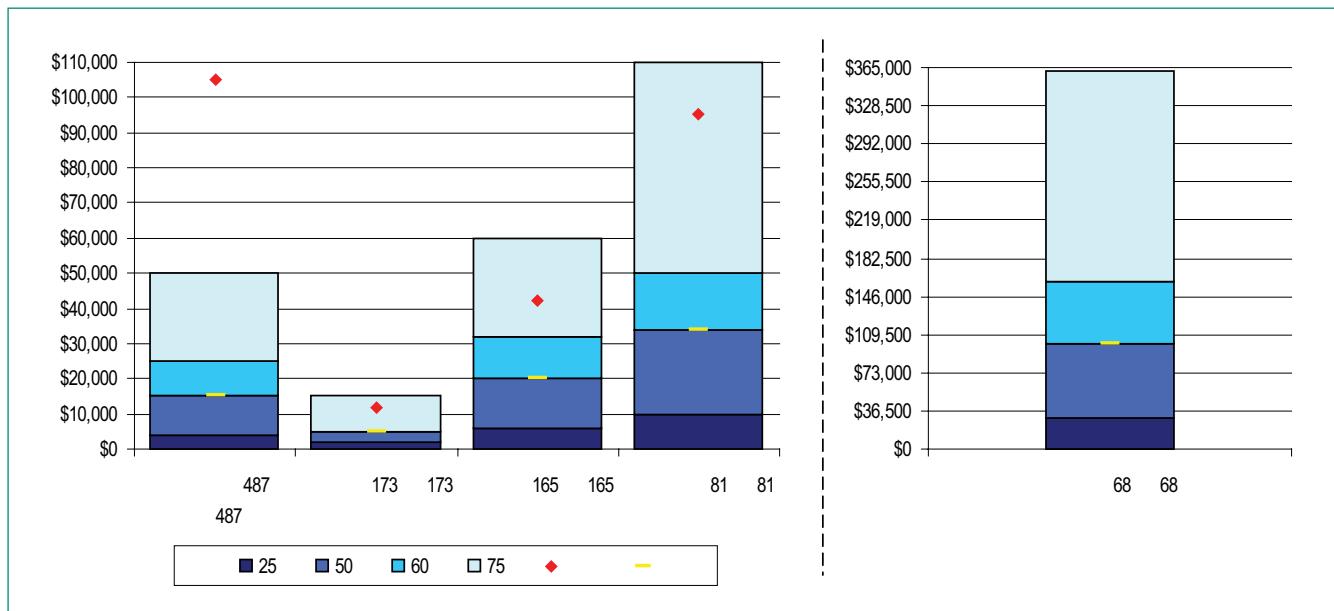


TABLE 25: START-UP CAPITAL BY ENTERPRISE TYPE

#	Type	Min	25th P	50th P	60th P	75th P	90th P	Max	Average	SUM
173	Micro	\$100	\$2,000	\$5,000	\$5,000	\$15,000	\$30,000	\$180,000	\$11,707	\$2,025,345
165	Small	\$80	\$6,000	\$20,000	\$32,000	\$60,000	\$100,000	\$350,000	\$42,185	\$6,960,585
81	Medium	\$120	\$10,000	\$33,800	\$50,000	\$110,000	\$250,000	\$1,000,000	\$95,424	\$7,729,370
68	Large	\$500	\$30,000	\$100,000	\$160,000	\$362,500	\$1,000,000	\$8,000,000	\$507,792	\$34,529,860
487	TOTAL	\$80	\$4,000	\$15,000	\$25,000	\$50,000	\$150,000	\$8,000,000	\$105,226	\$51,245,160

When considering start-up capital by activity sector, amounts vary quite substantially. Hospitality sector enterprises have the highest start-up capital, with 25% of enterprises investing more than \$100,000 to start their businesses.

Manufacturing and service industries have the lowest start-up investment, with 60% of enterprises investing only up to \$10,000 to start their businesses.

FIGURE 18: START-UP CAPITAL BY ACTIVITY SECTOR

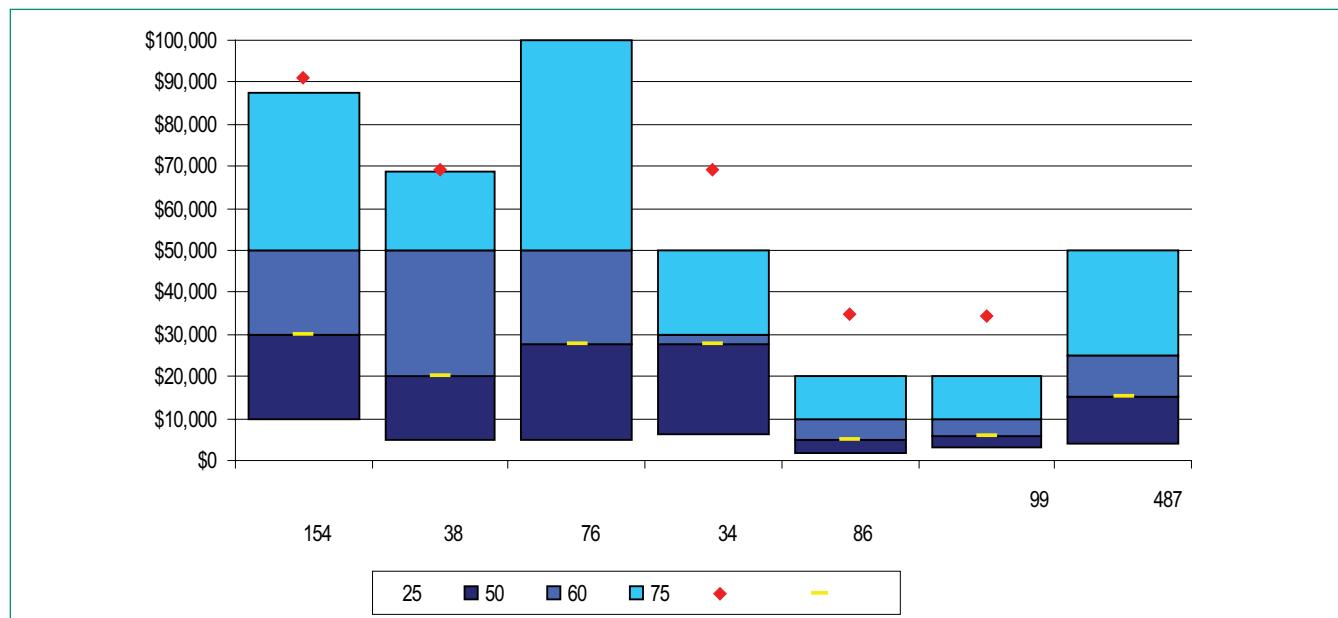


TABLE 26: START-UP CAPITAL BY ACTIVITY SECTOR

#	Type	Min	25th P	50th P	60th P	75th P	90th P	Max	Average	Sum
154	Agriculture	\$150	\$10,000	\$30,000	\$50,000	\$87,500	\$200,000	\$1,500,000	\$91,012	\$14,015,850
38	Retail	\$250	\$5,000	\$20,000	\$50,000	\$68,750	\$125,500	\$1,000,000	\$69,116	\$2,626,400
76	Hospitality	\$100	\$5,000	\$27,500	\$50,000	\$100,000	\$325,000	\$8,000,000	\$340,174	\$25,853,250
34	Wholesale	\$120	\$6,250	\$27,500	\$30,000	\$50,000	\$179,450	\$500,000	\$68,979	\$2,345,270
86	Manufacturing	\$80	\$1,638	\$5,000	\$10,000	\$20,000	\$60,000	\$530,000	\$34,653	\$2,980,190
99	Services	\$200	\$3,000	\$6,000	\$10,000	\$20,000	\$52,000	\$1,000,000	\$34,588	\$3,424,200
487	TOTAL	\$80	\$4,000	\$15,000	\$25,000	\$50,000	\$150,000	\$8,000,000	\$105,226	\$51,245,160

Provinces with the highest start up capital: Enterprises in Siem Reap and Battambang Provinces have the highest start-up capital. The majority of respondents in Siem Reap and Battambang (75%) have invested up to \$80,000 to start their business. The difference between minimum and maximum amounts invested is greatest for Siem Reap and Sihanoukville, both of which are prime tourist destinations. The competitive environment in the hospitality sector requires businesses to make significant investment in facilities. There is also a wide gap between minimum and maximum investment in Battambang, demonstrating diversity in the agriculture sector.

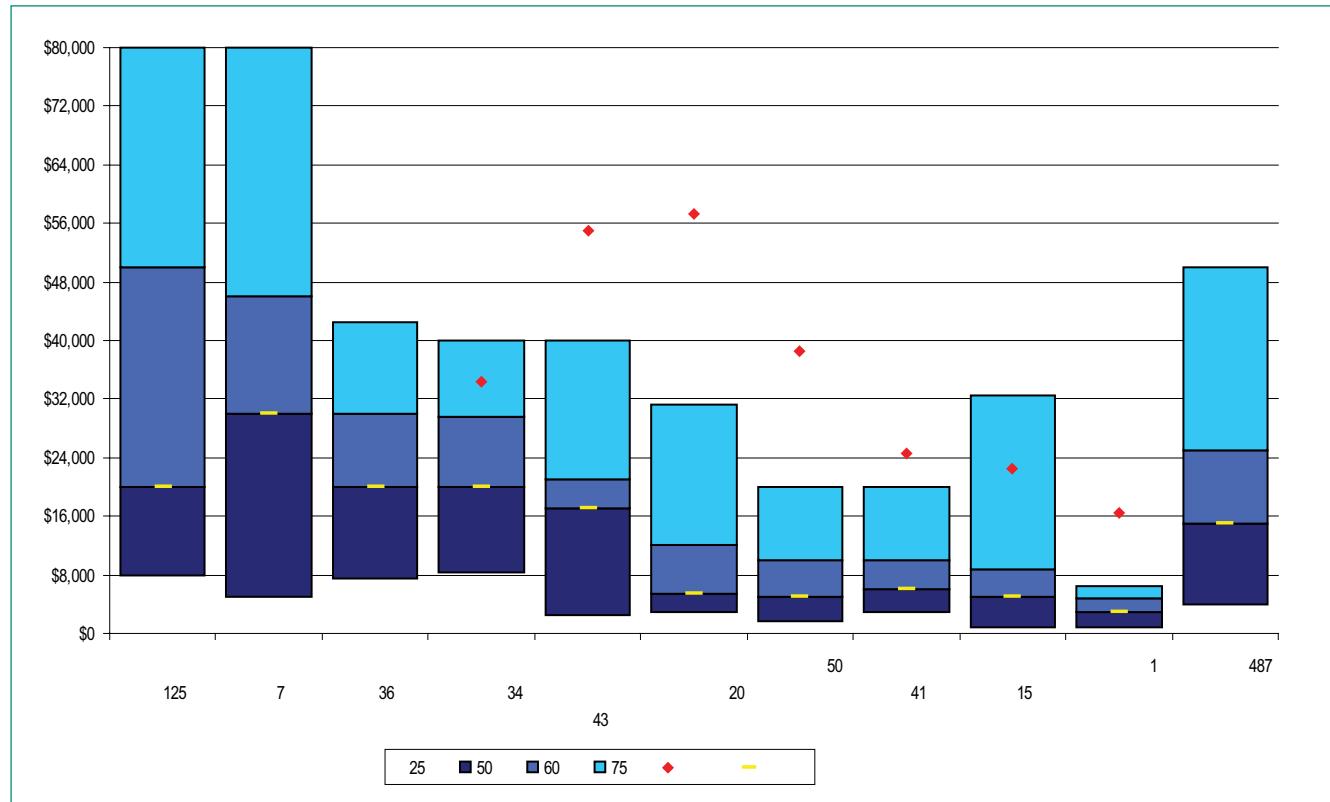
Provinces with the lowest start up-capital: Enterprises in Kampot, Kandal, Svay Rieng, and Kampong Speu had the lowest start-up capital. In these provinces, 50% of enterprises invested between \$3,000 and \$6,000 to start their businesses.

Figure 19 presents only the 25th to 75th percentiles, sorted by the 60th percentile in descending order from left to right. Table 27 provides the exact data to support the chart from minimum to maximum.

TABLE 27: START-UP CAPITAL AMOUNTS BY GEOGRAPHIC LOCATION

#	Type	Min	25th P	50th P	60th P	75th P	90th P	Max	Average	Sum
7	Phnom Penh	\$500	\$3,750	\$50,000	\$62,000	\$72,500	\$165,000	\$300,000	\$71,857	\$503,000
125	Battambang	\$100	\$8,000	\$20,000	\$50,000	\$80,000	\$192,000	\$1,500,000	\$92,190	\$11,523,800
97	Siem Reap	\$150	\$5,000	\$30,000	\$46,000	\$80,000	\$350,000	\$8,000,000	\$285,736	\$27,716,400
36	Sihanoukville	\$500	\$7,500	\$20,000	\$30,000	\$42,500	\$300,000	\$1,000,000	\$89,539	\$3,223,400
34	Kampong Cham	\$500	\$8,250	\$20,000	\$29,600	\$40,000	\$90,940	\$150,000	\$34,469	\$1,171,940
43	Banteay Meanchey	\$100	\$2,500	\$17,000	\$21,000	\$40,000	\$180,000	\$530,000	\$55,008	\$2,365,350
20	Kampong Chhnang	\$1,250	\$3,008	\$5,500	\$12,000	\$31,250	\$200,000	\$550,000	\$57,388	\$1,147,760
50	Kandal	\$350	\$1,625	\$5,000	\$10,000	\$20,000	\$78,000	\$500,000	\$38,624	\$1,931,210
41	Svay Rieng	\$1,000	\$3,000	\$6,000	\$10,000	\$20,000	\$80,000	\$250,000	\$24,678	\$1,011,800
15	Kampong Speu	\$100	\$900	\$5,000	\$8,800	\$32,500	\$74,000	\$100,000	\$22,573	\$338,600
19	Kampot	\$80	\$850	\$3,000	\$4,700	\$6,500	\$52,000	\$150,000	\$16,416	\$311,900
487	TOTAL	\$80	4000	15000	25000	50000	150000	\$8,000,000	\$105,226	\$51,245,160

FIGURE 19: START-UP CAPITAL BY PROVINCE



2.5.4.3. Asset Size¹¹

50% of enterprises have assets worth up to \$100,000. The total value of the assets of all enterprises in the study is \$164,059,561.

Industries with the largest asset size include agricultural enterprises (average \$448,916), wholesale enterprises (average \$593,292), and hospitality enterprises (average \$499,675). These 3 industries also have the widest spread of asset size.

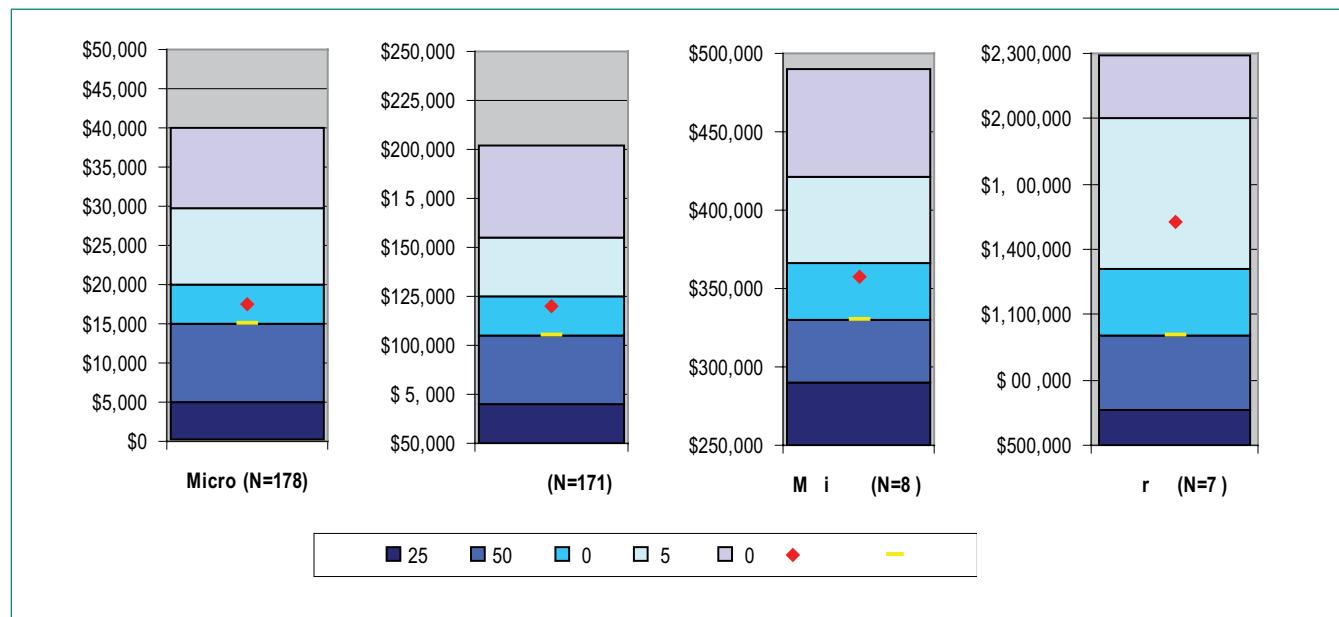
Battambang, Siem Reap and Sihanoukville have enterprises with the largest asset size and the largest spread of asset size.

As explained at the beginning of this report, asset size, which does not include the value of land, is used to categorize enterprises as micro, small, medium, and large.

For micro enterprises, 60% have assets worth of up to \$20,000. Only 25% of micro enterprises have assets worth more than \$29,775. Small enterprises have assets worth from \$50,000 up to \$250,000. Of these enterprises, 60% have assets worth less than \$125,000.

Medium enterprises have assets worth between \$250,000 and \$500,000. Of these enterprises, 60% are characterized by assets worth up to \$366,000. For large enterprises, assets range from a minimum of \$501,000 up to \$10 million. Only 25% of these enterprises have assets larger or equal to \$2 million. Of the large enterprises, 60% have assets worth less or equal to \$1.3 million.

FIGURE 20: ASSET SIZE BY ENTERPRISE TYPE



11. Asset size excludes value of land.

TABLE 28: ASSET SIZE BY ENTERPRISE TYPE

#	Type	Min	25th P	50th P	60thP	75th P	90th P	Max	Median	Sum
178	Micro	\$300	\$5,000	\$15,000	\$20,000	\$29,775	\$40,000	\$49,000	\$15,000	\$3,119,659
171	Small	\$50,000	\$70,000	\$105,000	\$125,000	\$155,000	\$202,000	\$240,000	\$105,000	\$20,453,590
82	Medium	\$250,000	\$290,000	\$330,000	\$366,000	\$421,125	\$490,000	\$500,000	\$330,000	\$29,335,264
73	Large	\$501,000	\$665,000	\$1,000,000	\$1,310,000	\$2,000,000	\$2,292,500	\$10,000,000	\$1,000,000	\$111,151,048
504	TOTAL	\$300	\$24,750	\$100,000	\$150,000	\$301,900	\$707,000	\$10,000,000	\$100,000	\$164,059,561

Notably, the average for all sectors lies within the 75th percentile or higher. The widest spread of asset sizes is found in the wholesale and hospitality sectors. Both sectors are among the top 3 sectors in terms of total asset size. The manufacturing and services sectors have the smallest asset sizes, with 60% of enterprises having assets worth less than \$65,000. All other sectors at the 60th percentile have assets worth more than \$100,000.

TABLE 29: ASSET SIZE BY ACTIVITY SECTOR

#	Sector	Min	25th P	50th P	60thP	75th P	90thp	Max	Average	Sum
161	Agriculture	\$1,350	\$100,000	\$250,000	\$307,000	\$500,000	\$1,100,000	\$4,500,000	\$438,638	\$70,620,668
36	Wholesale	\$4,000	\$79,250	\$164,000	\$240,000	\$358,750	\$982,500	\$10,000,000	\$593,292	\$21,358,500
79	Hospitality	\$900	\$30,000	\$120,000	\$150,000	\$500,000	\$1,028,000	\$8,000,000	\$499,675	\$39,474,355
39	Retail	\$1,930	\$39,000	\$90,000	\$110,000	\$230,000	\$482,000	\$1,500,000	\$194,722	\$7,594,144
89	Manufacturing	\$1,500	\$11,500	\$45,000	\$62,200	\$100,000	\$290,000	\$3,230,000	\$156,663	\$13,942,964
100	Services	\$300	\$10,000	\$20,025	\$35,400	\$80,000	\$220,250	\$2,000,000	\$110,689	\$11,068,930
504	Total	\$300	\$24,750	\$100,000	\$150,000	\$301,900	\$707,000	\$10,000,000	\$325,515	\$164,059,561

When reviewing the data set by location, notably businesses in Battambang (>60 million) and Siem Reap (>40 million) have the largest volume of assets. SMEs in Sihanoukville (\$15 million) and Banteay Meanchey (\$10 million) have the next largest volume of assets. Asset volume for all the rest of the provinces in total is below \$10 million. For all provinces, 60% of enterprises have assets worth less than \$275,000. Kampong Speu and Kandal are the provinces with the smallest volume of assets and greatest range between the smallest and largest amounts.

TABLE 30: ASSET SIZE BY LOCATION

#	Sector	Min	25th P	50th P	60thP	75th P	90thp	Max	Average	Sum
128	Battambang	\$600	\$63,625	\$185,000	\$271,800	\$480,000	\$1,315,000	\$10,000,000	\$496,970	\$63,612,218
7	Phnom Penh	\$2,600	\$65,000	\$202,000	\$202,000	\$203,250	\$322,700	\$500,000	\$177,300	\$1,241,100
99	Siem Reap	\$1,600	\$22,500	\$120,000	\$200,000	\$425,000	\$1,100,000	\$8,000,000	\$449,577	\$44,508,140
37	Sihanoukville	\$1,500	\$20,000	\$66,000	\$168,000	\$420,000	\$1,628,000	\$3,230,000	\$413,769	\$15,309,450
44	Banteay Meanchey	\$2,500	\$29,750	\$120,000	\$154,000	\$425,000	\$633,500	\$900,000	\$231,679	\$10,193,858
21	Kampot	\$300	\$12,000	\$44,300	\$120,000	\$205,000	\$277,500	\$718,000	\$129,371	\$2,716,800
35	Kampong Cham	\$2,000	\$33,000	\$80,000	\$109,000	\$230,000	\$624,000	\$3,180,000	\$276,674	\$9,683,600
20	Kampong Chhnang	\$1,350	\$21,500	\$53,800	\$98,200	\$162,500	\$293,300	\$550,000	\$119,578	\$2,391,565
43	Svay Rieng	\$2,000	\$20,000	\$65,000	\$83,040	\$100,000	\$305,600	\$2,035,000	\$136,826	\$5,883,520
53	Kandal	\$900	\$11,900	\$50,000	\$71,600	\$170,000	\$339,200	\$780,000	\$124,027	\$6,573,410
17	Kampong Speu	\$500	\$5,150	\$44,200	\$65,320	\$112,000	\$302,100	\$665,000	\$114,465	\$1,945,900
504	TOTAL	\$300	\$24,750	\$100,000	\$150,000	\$301,900	\$707,000	\$10,000,000	\$325,515	\$164,059,561

2.5.4.4. Loan Amounts

This section explores the current loans of the enterprises surveyed.

The total loans taken out by surveyed enterprises amount to \$13,381,313. There is a direct correlation between enterprise type, the location where it operates and loan size.

Agriculture, wholesale and hospitality enterprises have the highest loan amounts, which correlates with the locations where such businesses operate. Battambang and Siem Reap are the provinces with the highest loan amounts.

For all locations except Battambang, 60% of enterprises have a loan amount of less than \$25,000.

Although enterprises with loans have relatively high average loan amounts (\$60,549), 60% of them have a loan size smaller than or equal to \$30,000. Micro enterprises borrow up to \$2,400 and small enterprises up to \$15,400. Medium and large enterprises borrow significantly higher amounts – from \$40,000 and \$122,000, respectively.

TABLE 31: LOAN AMOUNTS BY ENTERPRISE TYPE

#	Data	Min	25th P	50th P	60th P	75th P	90th P	Max	Average	Sum
51	Micro	\$100	\$1,100	\$2,000	\$2,400	\$5,000	\$10,000	\$25,000	\$4,160	\$212,138
78	Small	\$100	\$3,625	\$10,000	\$15,400	\$30,000	\$50,900	\$210,000	\$22,267	\$1,736,820
49	Medium	\$3,000	\$20,000	\$30,000	\$40,000	\$75,000	\$104,000	\$230,000	\$53,885	\$2,640,355
43	Large	\$1,500	\$45,000	\$100,000	\$122,000	\$235,000	\$399,100	\$2,500,000	\$204,465	\$8,792,000
221	TOTAL	\$100	\$3,000	\$20,000	\$30,000	\$50,000	\$120,000	\$2,500,000	\$60,549	\$13,381,313

Although the hospitality sector has the largest loan size (\$2.9 million), 60% of hospitality enterprises have loans of up to \$16,200. Only the top 10% of hospitality companies have loans over \$95,000. Manufacturing and services enterprises have the smallest range and total amounts for loans, with 60% of respondents having a loan of less than \$10,000. The agriculture and wholesale sectors have the largest loan amounts, with 60% of enterprises having a loan of up to \$60,000 and \$36,000, respectively

TABLE 32: LOAN AMOUNTS BY ACTIVITY SECTOR

#	Sector	Min	25th P	50th P	60THp	75th P	90th P	Max	Average	Sum
96	Agriculture	\$100	\$15,000	\$40,000	\$60,000	\$100,000	\$205,000	\$500,000	\$82,140	\$7,885,455
17	Wholesale	\$378	\$10,000	\$23,500	\$36,000	\$70,000	\$168,000	\$300,000	\$61,581	\$1,046,878
16	Retail	\$1,000	\$9,750	\$17,500	\$20,000	\$40,000	\$46,500	\$100,000	\$25,563	\$409,000
22	Hospitality	\$100	\$1,865	\$10,000	\$16,200	\$27,500	\$96,000	\$2,500,000	\$133,737	\$2,942,220
37	Manufacturing	\$500	\$2,000	\$6,000	\$9,600	\$13,000	\$37,680	\$150,000	\$17,343	\$641,700
33	Services	\$200	\$1,600	\$2,400	\$4,100	\$10,000	\$20,000	\$250,000	\$13,820	\$456,060
221	TOTAL	\$100	\$3,000	\$20,000	\$30,000	\$50,000	\$120,000	\$2,500,000	\$60,549	\$13,381,313

When reviewing locations, Battambang and Siem Reap have the largest numbers of loans and Siem Rieap, the largest loans. For all locations except Battambang, 60% of enterprises have loans worth less than \$25,000. Kampong Chhnang and Svay Rieng have the smallest loans, worth less than \$10,000.

TABLE 33: LOAN AMOUNTS BY LOCATION

#	Location	Min	25th P	50th P	60thP	75th P	90th P	Max	Average	Sum
74	Battambang	\$1,200	\$19,025	\$40,000	\$70,000	\$100,000	\$207,000	\$500,000	\$89,000	\$6,586,000
14	Kampong Cham	\$1,000	\$3,875	\$20,000	\$24,000	\$46,250	\$104,700	\$395,500	\$54,214	\$759,000
35	Siem Reap	\$100	\$2,900	\$15,000	\$24,000	\$45,000	\$100,000	\$2,500,000	\$103,865	\$3,635,260
12	Sihanoukville	\$2,000	\$3,750	\$12,500	\$20,000	\$62,500	\$70,000	\$300,000	\$46,833	\$562,000
23	Banteay Meanchey	\$1,000	\$2,250	\$10,000	\$16,000	\$22,500	\$54,000	\$150,000	\$24,666	\$567,320
7	Kampong Speu	\$1,300	\$3,000	\$4,500	\$13,800	\$30,850	\$145,020	\$300,000	\$53,357	\$373,500
10	Kampot	\$200	\$2,000	\$7,500	\$12,000	\$18,750	\$42,000	\$60,000	\$15,620	\$156,200
16	Kandal	\$378	\$1,150	\$2,500	\$10,000	\$20,000	\$35,000	\$120,000	\$16,452	\$263,228
2	Phnom Penh	\$1,000	\$4,039	\$7,078	\$8,293	\$10,116	\$11,940	\$13,155	\$7,078	\$14,155
7	Kampong Chhnang	\$500	\$1,250	\$3,000	\$7,200	\$12,500	\$21,000	\$30,000	\$8,714	\$61,000
21	Svay Rieng	\$100	\$1,300	\$3,000	\$7,000	\$10,000	\$30,000	\$230,000	\$19,221	\$403,650
221	TOTAL	\$100	\$3,000	\$20,000	\$30,000	\$50,000	\$120,000	\$2,500,000	\$60,549	\$13,381,313

2.5.4.5. Monthly Turnover

\$12,905,516 is the total turnover per month for the 487 enterprises that provided these data. There is a strong correlation between type of enterprise and monthly turnover per enterprise.

The agriculture and wholesale sectors have the highest monthly turnover. The wholesale sector has a higher average turnover per enterprise (\$73,421) than agriculture (\$49,836).

Retail sales and services are the sectors with the smallest total monthly turnovers, however, retail enterprises generate 53% higher average turnover per enterprise (\$9,534) than the services sector (\$4,447).

Battambang, Siem Reap and Sihanoukville are the provinces with the highest monthly turnover in total. Battambang, Sihanoukville and Kampot are the provinces with the highest monthly turnover per enterprise.

Excluding Phnom Penh, Kampong Chhnang and Kampong Speu have the smallest total monthly turnover, while enterprises in Kampong Chhnang and Kandal have the smallest average turnover per enterprise.

TABLE 34: TOTAL MONTHLY TURNOVER (ENTERPRISE TYPE AND ACTIVITY SECTOR)

Type	# enterprises	TOTAL turnover	Average turnover per enterprise	Sector	#	TOTAL turnover	Average turnover per enterprise
Micro	173	\$686,202	\$3,966	Agriculture	152	\$7,372,124	\$48,501
Small	164	\$2,746,599	\$16,748	Retail	39	\$371,810	\$9,534
Medium	80	\$2,783,233	\$34,790	Wholesale	36	\$2,643,160	\$73,421
Large	70	\$6,689,482	\$95,564	Hospitality	76	\$1,268,038	\$16,685
TOTAL	487	\$12,905,516	\$26,500	Manufacturing	85	\$810,159	\$9,531
				Services	99	\$440,225	\$4,447
				TOTAL	487	\$12,905,516	\$26,500

There is a strong correlation between type of enterprise and average turnover per enterprise. Enterprises have a wide range of monthly turnover – from as little as \$167 to as much as \$850,000. Of the total number of enterprises surveyed, 60% have a monthly turnover of less than \$10,000. Of enterprise types, micro and small enterprises are the most likely to have a monthly turnover per enterprise of less than \$10,000. Micro enterprises have significantly lower monthly turnover than any of the other enterprise types – 60% of micro enterprises have a turnover of less than \$2,000. 60% of medium and large enterprises have a monthly turnover of less than or equal to \$40,000 and \$70,000, respectively.

The agriculture and wholesale sectors have the highest total monthly turnover per enterprise and these are the sectors that have the highest monthly turnover per enterprise. Enterprises in the hospitality, retail, manufacturing, and services sectors have significantly lower turnover per month – 60% of enterprises have a monthly turnover of less than \$10,000 per month.

TABLE 36: MONTHLY TURNOVER BY ENTERPRISE TYPE

#	Type	Min	25th P	50th P	60thP	75th P	90thp	Max	Average
173	Micro	\$167	\$700	\$1,875	\$2,540	\$4,500	\$9,360	\$42,000	\$3,966
164	Small	\$120	\$2,438	\$6,000	\$8,400	\$15,000	\$34,400	\$404,010	\$16,748
80	Medium	\$900	\$7,188	\$20,000	\$30,000	\$40,000	\$96,150	\$250,000	\$34,790
70	Large	\$400	\$12,125	\$41,250	\$70,000	\$100,000	\$237,000	\$850,000	\$95,564
487	TOTAL	\$120	\$1,838	\$5,500	\$9,000	\$20,000	\$70,000	\$850,000	\$26,500

TABLE 37: MONTHLY TURNOVER BY ACTIVITY SECTOR

#	Sector	Min	25th P	50th P	60thP	75th P	90thp	Max	Average	Sum
152	Agriculture	\$120	\$5,500	\$17,800	\$30,480	\$52,875	\$105,000	\$850,000	\$48,501	\$7,372,124
36	Wholesale	\$400	\$4,675	\$15,000	\$25,000	\$64,000	\$175,000	\$700,000	\$73,421	\$2,643,160
76	Hospitality	\$400	\$2,417	\$5,250	\$8,000	\$12,000	\$39,000	\$180,000	\$16,685	\$1,268,038
39	Retail	\$250	\$2,000	\$5,000	\$6,800	\$15,600	\$23,000	\$40,000	\$9,534	\$371,810
85	Manufacturing	\$200	\$1,200	\$3,500	\$5,000	\$8,000	\$19,200	\$230,000	\$9,531	\$810,159
99	Services	\$167	\$700	\$1,800	\$2,740	\$4,500	\$9,560	\$70,000	\$4,447	\$440,225
487	TOTAL	\$120	\$1,838	\$5,500	\$9,000	\$20,000	\$70,000	\$850,000	\$26,500	\$12,905,516

Battambang has the highest recorded turnover per month, with 60% of enterprises having a turnover of \$15,000. Sixty percent of all other provinces have a turnover of less than or equal to \$10,000 per month.

TABLE 35: TOTAL MONTHLY TURNOVER BY PROVINCE

Province	#	Total turnover per month	Average turnover per enterprise	Highest to lowest average turnover per enterprise
Battambang	128	\$5,162,216	\$40,330	
Sihanoukville	35	\$1,230,560	\$35,159	
Kampot	21	\$635,471	\$30,261	
Kampong Cham	34	\$818,817	\$24,083	
Siem Reap	98	\$2,349,267	\$23,972	
Banteay Meanchey	40	\$846,542	\$21,164	
Kampong Speu	17	\$301,000	\$17,706	
Svay Rieng	43	\$667,005	\$15,512	
Kandal	44	\$681,423	\$15,487	
Kampong Chhnang	20	\$165,347	\$8,267	
Phnom Penh	7	\$47,870	\$6,839	
TOTAL	487	\$12,905,516	\$26,500	

TABLE 38: MONTHLY TURNOVER BY PROVINCE

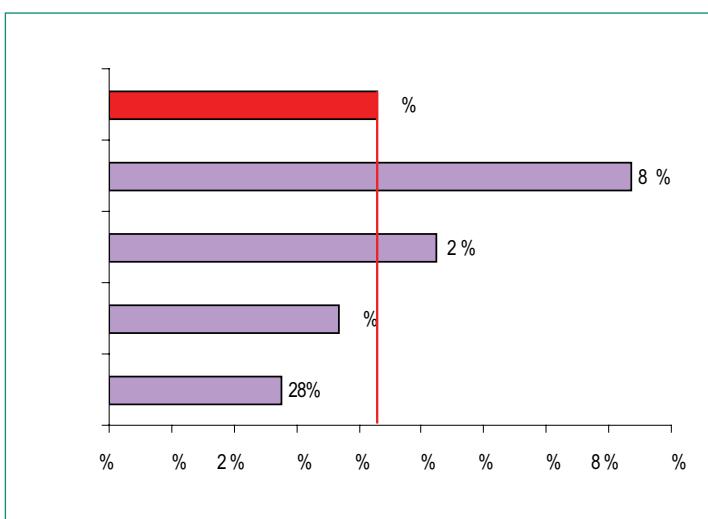
#	Province	Min	25th P	50th P	60thP	75th P	90th P	Max	Average	TOTAL SUM
128	Battambang	\$120	\$2,500	\$10,000	\$15,000	\$35,000	\$92,667	\$850,000	\$40,330	\$5,162,216
34	Kampong Cham	\$500	\$1,125	\$3,775	\$10,000	\$23,150	\$46,250	\$312,500	\$24,083	\$818,817
40	Banteay Meanchey	\$250	\$1,406	\$6,000	\$9,000	\$18,375	\$54,600	\$230,000	\$21,164	\$846,542
35	Sihanoukville	\$300	\$1,575	\$5,500	\$9,000	\$11,875	\$41,200	\$700,000	\$35,159	\$1,230,560
98	Siem Reap	\$167	\$2,825	\$6,000	\$8,400	\$23,625	\$76,500	\$180,000	\$23,972	\$2,349,267
7	Phnom Penh	\$750	\$1,950	\$3,220	\$7,288	\$10,000	\$14,000	\$20,000	\$6,839	\$47,870
20	Kampong Chhnang	\$450	\$3,450	\$5,250	\$7,140	\$12,000	\$17,400	\$30,000	\$8,267	\$165,347
21	Kampot	\$225	\$1,064	\$3,780	\$6,000	\$15,000	\$50,000	\$404,010	\$30,261	\$635,471
44	Kandal	\$200	\$1,038	\$4,750	\$6,000	\$11,375	\$32,600	\$162,650	\$15,487	\$681,423
43	Svay Rieng	\$180	\$1,050	\$3,750	\$6,000	\$9,500	\$29,625	\$250,000	\$15,512	\$667,005
17	Kampong Speu	\$200	\$1,500	\$3,000	\$5,150	\$15,000	\$38,800	\$150,000	\$17,706	\$301,000
487	TOTAL	\$120	\$1,838	\$5,500	\$9,000	\$20,000	\$70,000	\$850,000	\$26,500	\$12,905,516

2.6. Enterprises and their Banking Experience

2.6.1. Enterprise Usage of Banks

It is well known that entrepreneurs largely use cash when conducting business. The key findings on bank usage can be summarised as follows:

1. A total of 57% of surveyed enterprises do not have a bank account. Considering that these enterprises were located within 3 km of the centre of the main town in each province, where banks and other financial institutions were readily available, SME's use of financial services was very limited. This is surprising given wide coverage of MFIs, and the significant increase in banks over the last 5 years.
2. Micro (28%) and small enterprises (37%) are considerably less banked than medium (52%) and large enterprises (84%).
3. The wholesale sector is by far the most banked sector, with 64% of surveyed enterprises having a bank account. This can be attributed to the nature of business and the bigger transactions in this sector. The sector has the highest monthly turnover and the highest average turnover per business.
 - a. The retail and hospitality sectors, which in general take cash for their sales or services, are the second and third largest banked sectors (51% of enterprises use a bank). It is worth noting that retail sales enterprises have the lowest total monthly turnover and average annual turnover per enterprise.

FIGURE 21: % OF ENTERPRISES WITH A BANK ACCOUNT

Only 45% of agricultural enterprises are banked. This sector has the highest monthly turnover of all sectors, and the second highest average annual turnover per enterprise.

- b.** Services (31%) and manufacturing (34%) are the least banked of the activity sectors. One of the main reasons is the nature of business operations in the sector. Services enterprises are concerned with repairing motors/cars/equipment, printing, photocopying and publishing. These businesses normally receive cash immediately after providing their services.
4. Enterprises with smaller numbers of employees tend to be less banked. As already stated, 14% of enterprises surveyed have fewer than 4 employees, and 59% of enterprises surveyed have 4-10 employees.
 5. By province, the proportion of enterprises having a bank account is higher in Sihanoukville (68%) and Siem Reap (54.5%). The two provinces also have the highest total monthly turnover and average annual turnover per enterprise, and have a higher number of bank and MFI branches. In all other provinces, less than 50% of enterprises are banked.

FIGURE 22: % OF ENTERPRISES WITH A BANK ACCOUNT (BY ACTIVITY SECTOR)

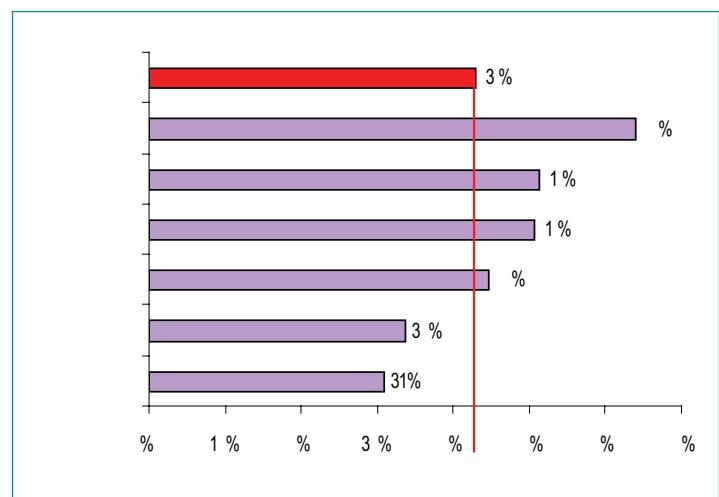
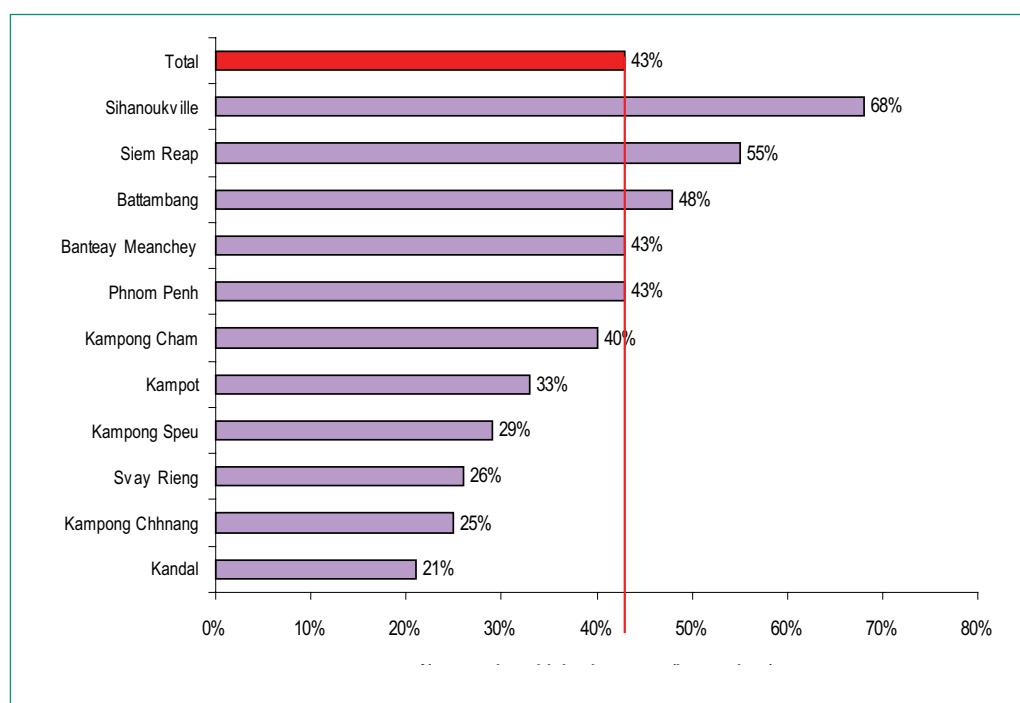


FIGURE 23: % OF BANKED ENTERPRISES BY PROVINCE



2.7. Enterprises and Banking Products

Banks are used for very basic products and transactions only.
 75% of all bank accounts are used for business and personal purposes.
 Money transfers are the most common transaction made through a bank.

A list of 13 banking products was provided to enterprises that have bank accounts (216) to identify the most frequently used products. Only basic accounts and products are used by enterprises. More sophisticated products and services are almost non-existent.

- A deposit account is more frequently used for business purposes: 50% or 82 out of a total of 160 current accounts are for business purposes only. A total of 39% of accounts are used for business and personal purposes. Almost all medium and large enterprises (100% and 95%, respectively) have a deposit account as was most frequently observed in the three main provinces: Battambang (84%), Siem Reap (83%) and Sihanoukville (92%).
- A deposit account is more frequently used for personal savings. Forty-one percent of deposit accounts are used for personal purposes only, and 35% are used for business and personal purposes. Most micro (65%) and small (92%) enterprises have a deposit account as was frequently observed in smaller provinces (93.3%)
- A total of 75% (117 enterprises) use the same bank account for both business and personal banking needs. This reflects the nature of business for SMEs that integrate family, personal, and business use in one account. For example, an entrepreneur might not draw a monthly salary but as the manager of the business, s/he might use the business account to make personal and family transactions. In addition, entrepreneurs' lack of knowledge about business accounting and lack of using properly trained accountants and auditors plays a role in entrepreneurs mixing personal and business finance.
- When reviewing the type of bank transactions enterprises use, it is clear that given the type of transactions, and the small number of transactions being made, products offered are not attractive or meeting the needs of enterprises. The ability of a client to use a bank account for multiple purposes and transactions is both beneficial to the customer and the bank. However, maximizing utilization of the bank account to meet customer needs is still in its infancy:
 - Money transfers are the most frequently used transactions (by 67% of bank account holders).
 - Only 14% or 31 enterprises with a bank account use longer-term loan products from their bank. Of this total, 25% are small enterprises and 16% are large enterprises in the provinces of Battambang and Sihanoukville.
 - Currency exchange services are used by only 14% or 19 enterprises. This relates to the fact that most enterprises only operate in the province where they were established and entrepreneurs prefer to change currency at the local market which is quicker, more convenient and often provides better exchange rates.
 - Only 7 enterprises have an overdraft facility and 6 use short-term working capital.

More sophisticated products such as trade finance, letters of credit/guarantees, short-term loans and overdrafts are not used frequently (only 10% of the total). Where such products are used, it is the medium and large enterprises in Siem Reap and Battambang that use these products. Factoring, vehicle and other forms of leasing, and making purchases by instalments were not used at all by enterprises, primarily because these forms of financing are not available or not understood by business owners. Detailed results are presented in the tables below.

TABLE 39: # OF ENTERPRISES, BY BANKING PRODUCT USAGE

	Business	Personal	Business & Personal	Total
Type of bank account				
Current account	82	16	62	160
Deposit account	36	62	55	153
Type of bank product/transaction				
Money transfer	104	14	24	142
Currency exchange	16	3	0	19
Trade finance	3	0	0	3
Letter of Credit	3	0	1	4
Letter of Guarantee	2	0	1	3
Overdraft	7	0	0	7
Short-term working capital	4	0	2	6
Factoring	0	0	0	0
Vehicle leasing	0	0	0	0
Instalment loans/leasing for vehicles, machinery	0	0	0	0
Longer-term loans – for premises	27	2	2	31

TABLE 40: % OF ENTERPRISES WITH A BANK ACCOUNT, BY BANKING PRODUCT AND BY TYPE OF ENTERPRISE

	Micro	Small	Medium	Large	Total
Current account	57%	49%	100%	95%	74%
Deposit account	65%	92%	67%	56%	71%
Money transfer	45%	68%	63%	82%	66%
Currency exchange	8%	11%	5%	10%	9%
Trade finance	0%	3%	0%	2%	1%
Letter of Credit	0%	0%	2%	5%	2%
Letter of Guarantee	0%	0%	2%	3%	1%
Overdraft	0%	0%	9%	5%	3%
Short-term working capital	0%	0%	7%	5%	3%
Longer-term loans – for premises	2%	25%	9%	16%	14%
# of enterprises having a bank account	49	63	43	61	216

TABLE 41: % OF ENTERPRISES WITH A BANK ACCOUNT, BY BANKING PRODUCT AND BY LOCATION

	Siem Reap	Battambang	Sihanoukville	Other provinces	Total
Current account	92.6%	83.9%	92.0%	46.7%	74.1%
Deposit account	50.0%	62.9%	68.0%	93.3%	70.8%
Money transfer	70.4%	61.3%	80.0%	61.3%	65.7%
Currency exchange	7.4%	1.6%	12.0%	14.7%	8.8%
Trade finance	1.9%	3.2%	0.0%	0.0%	1.4%
Letter of Credit	0.0%	4.8%	0.0%	0.0%	1.9%
Letter of Guarantee	0.0%	1.6%	0.0%	0.0%	1.4%
Overdraft	3.7%	1.6%	0.0%	0.0%	3.2%
Short-term working capital	1.9%	0.0%	0.0%	0.0%	2.8%
Longer-term loans – for premises	3.7%	11.3%	12.0%	25.3%	14.4%
# of enterprises having a bank account	54	62	25	75	216

2.7.1. Number and Size of Banking Transactions

Enterprises with a bank account were asked to provide the actual amount for each product (current/deposit account, longer-term loan) they have and the approximate number of annual transactions (money transfers, currency exchanges) they make.

Enterprises surveyed kept approximately \$10.5 million in banks at the time of the survey. Medium and large enterprises have the highest average bank account balance per enterprise.

Minimum and maximum account balances are quite extreme, ranging from \$10 to \$1,000,000.

60% of respondents had up to \$10,000 in their bank account. Micro and small enterprises had up to \$2,000 and \$5,000, respectively, and medium and large enterprises, \$15,000 and \$30,000, respectively.

On average, enterprises make only 5 money transfers and fewer than 4 currency exchanges per month.

In total, enterprises kept approximately \$10.5 million in the bank at the time of the survey, of which \$5.8 million was in current accounts. Micro, small and medium enterprises have higher bank balances in deposit accounts. The current account balance is higher than the total for deposit accounts as it is driven by the deposits and savings of large enterprises. The results for total bank balances are provided in the table below.

TABLE 42: TOTAL BALANCE OF BANK ACCOUNTS, BY ENTERPRISE TYPE

# Enterprises	Type	Total balance: Current Accounts	Total balance: Deposit Accounts	Total balance: All accounts	Average balance per enterprise
52	Micro	\$44,430	\$79,700	\$124,130	\$2,387.12
67	Small	\$329,700	\$522,600	\$852,300	\$12,720.90
49	Medium	\$1,621,350	\$2,478,660	\$4,100,010	\$83,673.67
65	Large	\$3,820,600	\$1,619,565	\$5,440,165	\$83,694.85
233	TOTAL	\$5,816,080	\$4,700,525	\$10,516,605	\$45,135.64

Minimum and maximum account balances are quite extreme, ranging from \$10 to \$1,000,000. Although average account balances per enterprise appear to be high, averages are generally twice the value of the 60th percentile. The 60th percentile reflects the data point that represents 60% of all enterprises with an account balance, up to or equal to that value. When reviewing total account balances, there is a correlation between enterprise type and the account balance. The x axis reflects the percentiles.

Micro enterprises have significantly smaller account balances than other types, as shown in the figure by a relatively “flat” line.

The average total per enterprise is \$45,754, which is higher than the 60th percentile for all enterprise types.

The majority of bank balances are low, despite the wide ranges. 60% of micro and small enterprises have a bank balance of up to \$2,000 and \$5,000, respectively, and medium and large enterprises up to \$15,000 and \$30,000, respectively.

FIGURE 24: TOTAL ACCOUNT BALANCES (ENTERPRISE TYPE)

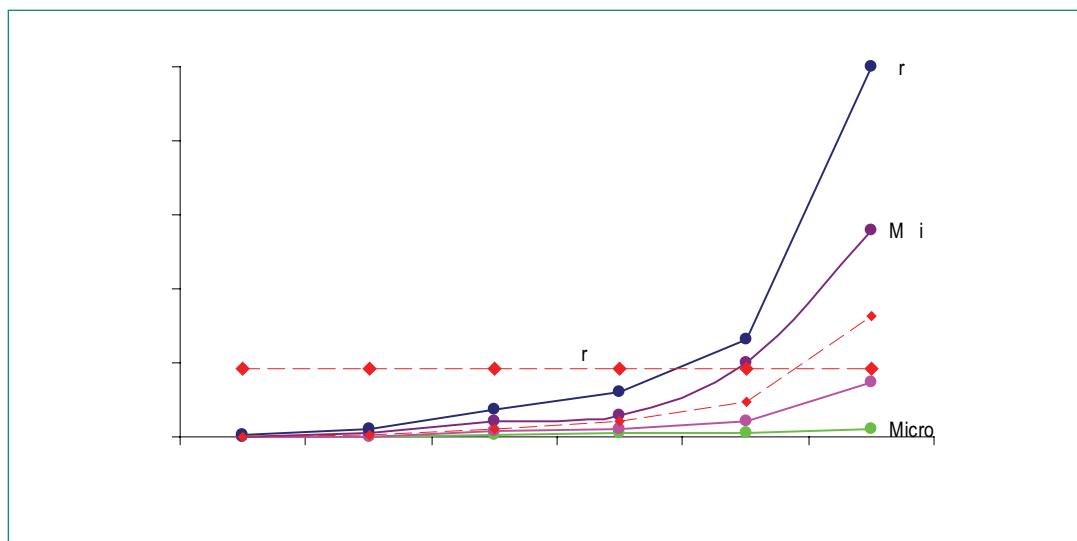
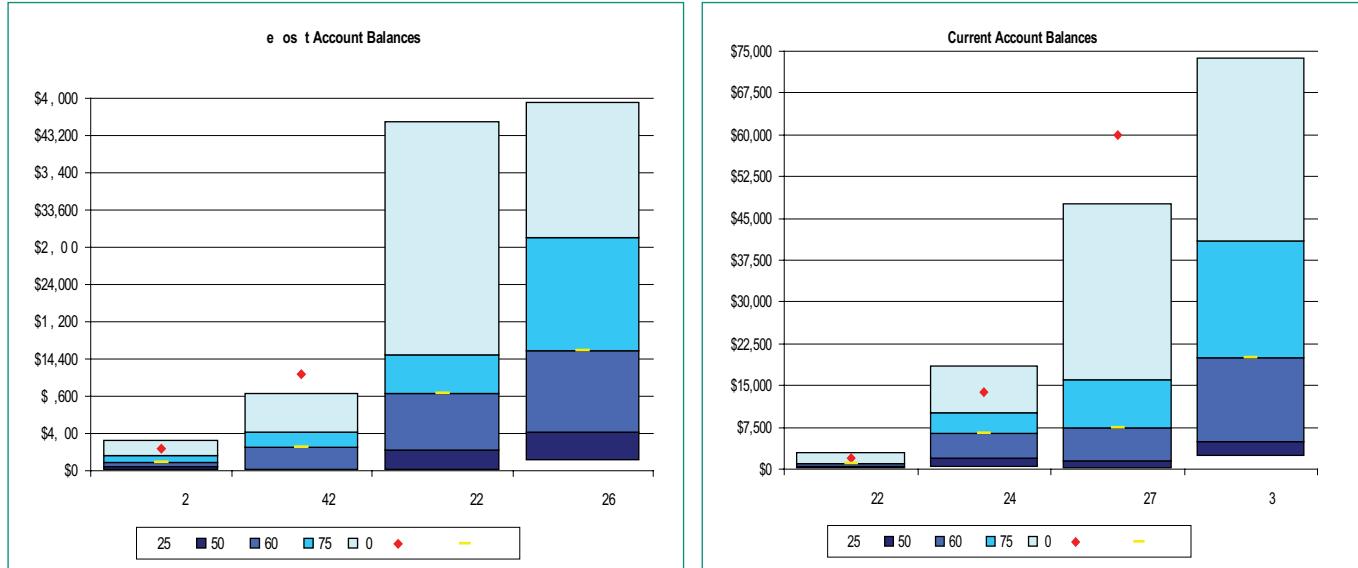


TABLE 43: TOTAL ACCOUNTS (PERCENTILES)

	min	25thP	50thP	60thP	75P	90th	Max	Average	Sum
Micro	\$30	\$500	\$1,000	\$2,000	\$3,000	\$5,000	\$20,000	\$2,518	\$128,430
Small	\$10	\$500	\$4,500	\$5,000	\$10,000	\$37,500	\$100,000	\$12,906	\$851,800
Medium	\$10	\$2,000	\$10,000	\$15,000	\$50,000	\$140,000	\$1,000,000	\$83,674	\$4,100,010
Large	\$10	\$5,000	\$18,000	\$30,000	\$66,250	\$250,000	\$1,000,000	\$85,048	\$5,443,065
TOTAL	\$10	\$1,000	\$5,000	\$10,000	\$23,750	\$82,000	\$1,000,000	\$45,754	\$10,515,305

The following figures show the percentiles for deposit account balances and current account balances by enterprise type. As stated previously, deposit account balances are generally lower than current account balances. Data tables are provided to support interpretation.

FIGURE 25: DEPOSIT AND CURRENT ACCOUNT BALANCES (BOX PLOT)**TABLE 44: DEPOSIT ACCOUNT DATA (PERCENTILES)**

#	Deposit Account	min	25thP	50thP	60thP	75P	90th	max	average	sum
29	Micro	\$50	\$100	\$500	\$1,000	\$2,000	\$4,000	\$20,000	\$2,897	\$79,000
42	Small	\$10	\$100	\$263	\$3,000	\$5,000	\$10,000	\$100,000	\$12,431	\$522,100
22	Medium	\$10	\$140	\$2,625	\$10,000	\$15,000	\$45,000	\$1,000,000	\$112,666	\$2,478,660
26	Large	\$10	\$1,500	\$5,000	\$15,500	\$30,000	\$47,500	\$504,000	\$62,291	\$1,619,565

TABLE 45: CURRENT ACCOUNT DATA (PERCENTILES)

#	Current Account	min	25thP	50thP	60thP	75P	90th	max	average	sum
22	Micro	\$30	\$300	\$500	\$1,000	\$1,000	\$2,875	\$11,000	\$2,020	\$44,430
24	Small	\$50	\$475	\$1,925	\$6,500	\$10,000	\$18,500	\$100,000	\$13,738	\$329,700
27	Medium	\$100	\$360	\$1,500	\$7,500	\$16,000	\$47,500	\$460,000	\$60,050	\$1,621,350
38	Large	\$150	\$2,400	\$5,000	\$20,000	\$41,000	\$73,750	\$1,000,000	\$100,618	\$3,820,500

On average, enterprises make 5 money transfers and less than 4 currency exchanges per month. Most enterprises do not use banks for currency exchanges as processing is viewed as cumbersome, or entrepreneurs are unfamiliar with using banks for currency exchanges. Less formal channels are used such as money changers in the market who are quick and easy to use, and strong relationships exist between buyer and seller. More importantly, the majority of entrepreneurs noted that money exchangers provide better interest rates and services than banks, and are easy to approach.

A total of 33 respondents provided details on long-term loans for their premises, starting at a minimum of \$5,000 up to \$2 million dollars. Interest rates vary on these long-term loans from 0.8% to 1.7% per month. Due to the low number of respondents with loans, data have not been analysed further, and should be read with caution.

TABLE 46: NUMBER OF TRANSACTIONS BY TYPE

		Micro	Small	Medium	Large	Total
Money Transfers - No. of annual transactions	Minimum	2	1	2	0	0
	Maximum	365	600	365	336	600
	Average	47	49	82	65	60
	# respondents	20	35	22	41	118
Currency Exchange - No. of annual transactions	Minimum	5	2	12	10	2
	Maximum	12	365	13	48	365
	Average	9	78	13	35	47
	# respondents	2	6	2	3	13
Longer-term loans – for premises	Minimum	\$10,000	\$10,000	\$15,000	\$5,000	\$5,000
	Maximum	\$10,000	\$70,000	\$50,000	\$2,000,000	\$2,000,000
	Average	\$10,000	\$28,125	\$28,333	\$339,500	\$121,970
	# respondents	1	16	6	10	33
Longer-term loans for premises – monthly interest rate	Minimum	1.5%	0.9%	0.9%	0.8%	0.8%
	Maximum	1.5%	1.7%	1.7%	1.5%	1.7%
	Average	1.5%	1.4%	1.4%	1.2%	1.3%
	# respondents	1	14	5	6	26

2.7.2. Number of Products per Bank

Based on the data collected, a review of the number of products each enterprise has with the same bank was analysed. It is important to note that if an enterprise is banking with 2 banks, 2 answers were recorded. The products considered include: current/deposit account, trade finance, letter of credit, letter of guarantee, overdraft, short-term working capital, and longer-term loans.

The majority of enterprises (78%) use only one banking product with their bank.

The number of products a client buys at the same bank is considered an important indicator for measuring a bank's commercial performance. Given the youth of the banking sector, the nature of business operations, and the fact that the economy is mostly cash based, it is not surprising that the number of enterprises with more than one banking product is low.

Only 19.2% of enterprises use 2 products with the same bank. Micro enterprises are the only enterprises that do not have or use more than 2 products with the same bank. The opportunity for cross selling is illustrated by the previous 'voice from the field' – a rice miller using one bank for loans and another for making deposits because the latter offers higher interest rates. This demonstrates that relationships between bank and client have not been strategically developed and personnel are not aware or addressing the needs of their customers. Nor are data tracked by the bank in order to determine cross selling opportunities.

When reviewing data by activity sector, the wholesale and manufacturing sectors are the only two sectors that use more than 2 products with their bank. All other sectors use 2 products or less with their bank.

TABLE 47: % ENTERPRISES BY # OF BANKING PRODUCTS AND ENTERPRISE TYPE

	Number of products in the same bank				Total	# of answers
	1	2	3	4		
Micro	93.0%	7.0%	0.0%	0.0%	100.0%	57
Small	72.3%	26.5%	1.2%	0.0%	100.0%	83
Medium	76.6%	17.2%	3.1%	3.1%	100.0%	64
Large	73.6%	21.8%	4.6%	0.0%	100.0%	87
Total	77.7%	19.2%	2.4%	0.7%	100.0%	291

TABLE 48: % ENTERPRISES BY # OF BANKING PRODUCTS AND ACTIVITY SECTOR

	Number of products in the same bank				Total	# of answers
	1	2	3	4		
Agriculture	79.6%	18.3%	1.1%	1.1%	100%	93
Retail	82.1%	17.9%	0.0%	0.0%	100%	28
Wholesale	65.6%	21.9%	9.4%	3.1%	100%	32
Hospitality	81.4%	18.6%	0.0%	0.0%	100%	59
Manufacturing	71.8%	20.5%	7.7%	0.0%	100%	39
Services	80.0%	20.0%	0.0%	0.0%	100%	40
Total	77.7%	19.2%	2.4%	0.7%	100%	291

2.7.3. Delivery Channels

More than 90% of enterprises visit their bank to perform banking transactions.

More than 50% of enterprises go to the bank at least once or twice per month for cash deposits, withdrawals and domestic account transfers. Of these enterprises, at least 30% are going to the bank weekly.

Enterprises were asked to identify which delivery channels they use to make their transactions. As ICT is still little used in the financial sector, it is no surprise that except for cash withdrawals and balance enquiries, more than 90% of transactions are undertaken by going to the bank.

With the introduction of ATMs and the rapid increase in the number of ATMs available throughout the country, it is encouraging to see that for cash withdrawals (12%) and balance enquiries (9%), ATMs are being used by entrepreneurs for branchless banking.

TABLE 49: METHODS USED FOR BANK TRANSACTIONS

	ATM	Branch visit	Internet	ATM + Branch	Total	# respondents
Cash deposit	0.0%	96.2%	0.0%	3.8%	100%	194
Cash withdrawal	11.9%	80.5%	0.5%	7.0%	100%	198
Check deposit	0.0%	100.0%	0.0%	0.0%	100%	51
Balance inquiry	9.5%	84.9%	2.4%	3.2%	100%	130
Domestic account transfer	0.0%	94.3%	0.8%	4.9%	100%	135
International funds transfer (IFT)	0.0%	92.6%	3.7%	3.7%	100%	29
Payment of utility bills/fees/fines	0.0%	100.0%	0.0%	0.0%	100%	9

The frequency with which a bank customer visits a bank presents opportunities for relationship building, cross selling, marketing and advertising. This also allows banks to collect data and insights on customer behaviours and needs. Survey findings show how ‘hands on’ banking really is and the importance of fostering exceptional customer services. Banks see their customers frequently, therefore the opportunities for cross selling products and services, and for understanding customers and their needs, are considerable.

The types of transactions for which SMEs are visiting the bank, reflect the simplicity of banking products available to enterprises. The most frequent transactions are cash deposits, withdrawals and domestic account transfers. Transactions conducted less frequently include (i): payment of utilities. This is primarily because facilities for such payments are not available or are just being introduced in Phnom Penh; (ii) international funds transfers, which reflect the fact that SMEs are not conducting much business internationally; and (iii) cheque deposits, reflecting the fact that most transactions are conducted in cash or transferred through domestic accounts.

Results are presented in the chart below.

FIGURE 26: FREQUENCY OF BANKING TRANSACTIONS FOR ALL ENTERPRISES



2.7.3.1. Remote Banking: Perceptions, Options, Considerations

94% of enterprises (203) would prefer using a branchless banking option if fees were less than using a branch.

64% of enterprises would prefer telephone banking as a remote banking option if service fees were lower.

A common challenge related to increasing the number of bank users, is the perception that fees are charged for making a transaction. Fees are a key consideration in deciding whether to use a specific product or service. Therefore, the overwhelming majority of bank users (94%) are interested in branchless banking if it costs less than visiting the branch.

Enterprises identified their preferred remote options for branchless banking services. Of the 203 entrepreneurs who responded to the question, 64% listed telephones as their preferred option. ATMs ranked second, at 22%, as entrepreneurs state that ATMs are not always convenient to access.

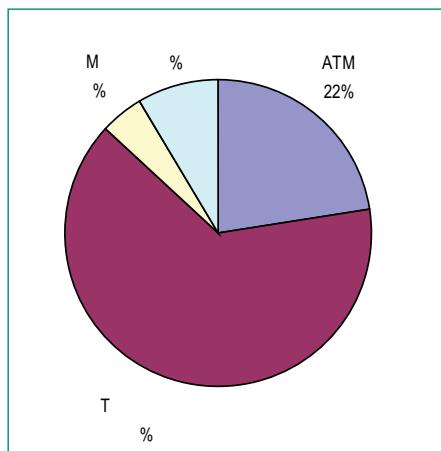
Internet and SMS services were not a preferred option, with only 9% and 5% ratings, respectively. The primary reason for the Internet receiving a relatively low rating is the inability of entrepreneurs to use the Internet effectively and their lack of affordable access to the Internet when conducting business, in other words “I do not want to go to an Internet café to do banking, when I might as well go to the bank!” Internet access in provincial locations, especially further away from the main city, is limited and expensive.

Voice from the field: SMS Banking: The concept of branchless banking will require significant education for end-users or customers. This concept is not likely to be popular among entrepreneurs in the provinces in near future because many business owners do not know how to use the Internet or read SMS messages in the English language. Furthermore, confidentiality, confidence in security and usability were often raised as key concerns by entrepreneurs. As a business owner said, “I must go to the bank every time when I make use of bank services. This is because the bank issues a short note for me which provides clear evidence of how much money I have in my bank account. How can a text message do this?”

2.7.4. Suppliers Payments and Business Expenditures

For financial institutions, it is important to know what enterprises buy and the methods they use to pay their suppliers in order to build a case for infrastructure and product development. The study established that entrepreneurs are interested in remote and branchless banking options if such banking is cost effective. The opportunity for helping entrepreneurs and businesses to reduce risk and increase productivity through swift remote payment options is certainly an area of banking that has not been explored comprehensively.

FIGURE 27: PREFERRED REMOTE OPTIONS (% ENTERPRISES)



2.7.4.1. Business Expenditures & Procedures for Purchasing

All enterprises were asked to identify their business expenditures by category as well as to articulate how they purchase goods and services. Although the majority of entrepreneurs are not interested in an Internet-based payment instrument, this is largely due to infrastructure and personal capacity constraints. The results show that there is a case for building branchless banking to minimize risks in cash of purchases.

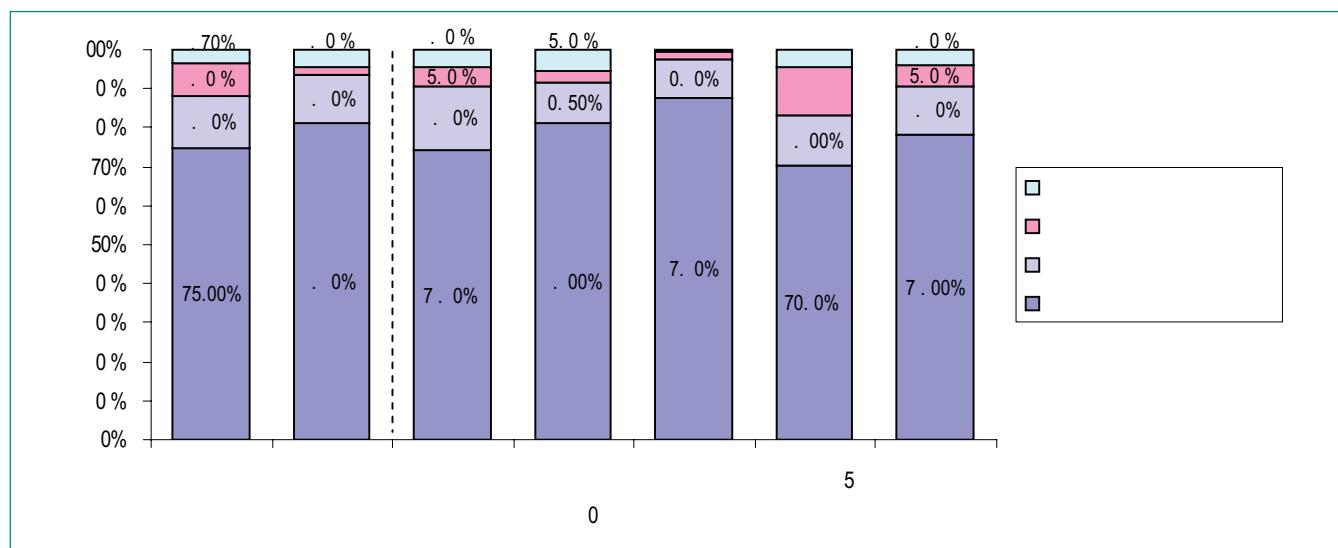
Inventory and stock purchases represent the biggest portion of annual business expenditures (78%).

59.2% of enterprises require an invoice for every business purchase.

32.5% of enterprises receive between 1 to 5 invoices per month. An approximate total of 15,058 invoices are processed per month.

36% of enterprises would be interested in an Internet-based payment tool

FIGURE 28: BUSINESS EXPENDITURE DISTRIBUTION BY ENTERPRISE



Purchasing Procedures: Enterprises were asked whether or not they require an invoice for business purchases. This is an important part of the purchasing process and reflects how formal enterprises regard basic accounting practices and ensure that they have evidence for their purchases. Such evidence is also required to claim back VAT from government on a monthly basis, for auditing purposes, whether for government, a normal internal auditing process, or to undergo a transformation for investment and demonstrate basic good practices in accounting.

Encouragingly, only a low percentage of enterprises (9%) never require an invoice for purchases. The majority of enterprises require invoices for almost all or at least most purchases. Micro and small enterprises have more than 20% of respondents using invoices for only the biggest purchases, or never using invoices. These types of companies have much smaller transactions to make, and in many cases, are family-run businesses where business and personal purchases are often mixed.

TABLE 50: ENTERPRISES USING INVOICES FOR THEIR BUSINESS PURCHASES ACCORDING TO COMPANY TYPE

	Micro	Small	Medium	Large	Total
Always used	55.7%	57.4%	64.6%	66.2%	59.2%
Used for most of purchases	9.7%	20.7%	20.7%	19.7%	16.7%
Used only for the biggest purchases	21.0%	14.8%	6.1%	11.3%	15.1%
Never used	13.6%	7.1%	8.5%	2.8%	9.0%
Total	100%	100%	100%	100%	100%
# respondents	176	169	82	71	498

Number of invoices processed per month: Approximately 15,055 invoices are processed per month for the 458 enterprises responding on this question. A third of enterprises (32.5%) receive 1-5 invoices per month. Although small enterprises appear to be processing the highest number of invoices per month, there is a correlation between average number of invoices per enterprise and enterprise type. The number of invoices processed per month provides data for investigating the feasibility of developing Internet, telephone or other forms of branchless banking for processing payments. However, it would require significant marketing and perception change for entrepreneurs to see the usefulness of such a tool.

Only 36% of entrepreneurs are interested in an Internet-based payment tool, however, 64% noted they are interested in telephone banking. Part of the reason for lower interest in an Internet-based tool is the fact that many entrepreneurs in the provinces do not have access to the Internet on a regular basis, are not familiar with using it and are not likely to invest in an Internet connection.

As will be seen in the next section, 83% of purchases are cash based, with little delay in payment or credit facilities. Branchless payment tools would need to be very cost effective or combined with other opportunities to be feasible for a financial institution. Given that 64% of entrepreneurs are interested in telephone banking, there is clearly the opportunity to explore branchless banking for business payment tools.

The following table details results on the number of invoices processed per month.

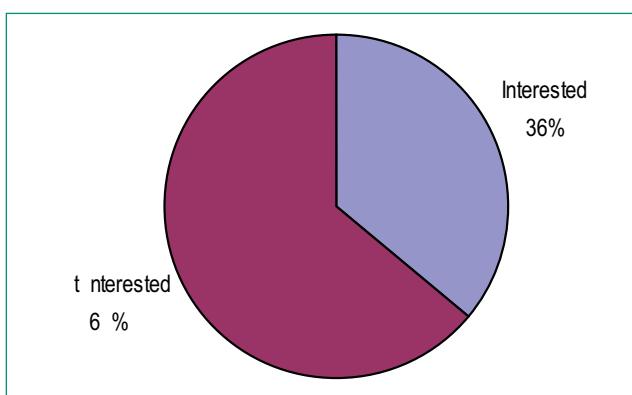
FIGURE 29: INTEREST IN INTERNET-BASED PAYMENT TOOL

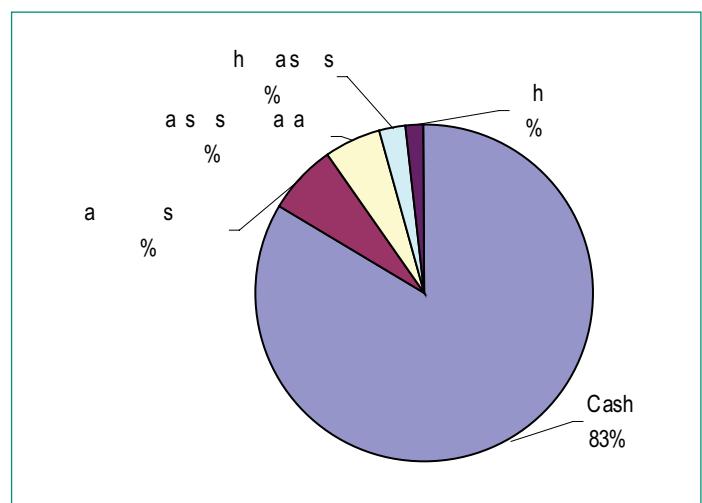
TABLE 51: % ENTERPRISES & APPROXIMATE # OF INVOICES RECEIVED MONTHLY

	Approx average # Invoices	Micro	# invoices (Micro)	Small	# invoices (Small)	Medium	# invoices (Medium)	Large	# invoices (Large)	Total	Total
1 – 5 invoices	3	44%	207	31%	144	25%	57	19%	39	33%	447
6 – 10 invoices	8	20%	247	19%	240	13%	80	12%	64	17%	631
11 – 20 invoices	16	13%	326	17%	404	12%	139	7%	77	13%	946
21 – 50 invoices	36	12%	641	15%	853	18%	496	13%	318	14%	2309
51 – 100 invoices	76	8%	901	7%	836	15%	832	17%	906	10%	3476
100 + invoices	125	4%	746	11%	2126	17%	1625	32%	2751	13%	7247
Total	262.5	100%	3068	100%	4602	100%	3229	100%	4156	100%	15055
# respondents		157	157	156	156	76	76	69	69	458	458
Average invoice per enterprise			20		30		42		60		33

2.7.4.2. Purchasing and payment methods

83.5% of enterprises use cash for purchases and payments.
 Only 26% of enterprises have approached their bank to pay their suppliers.

An overwhelming majority of enterprises use cash to buy business supplies and equipment. 7% of enterprises have “loans” from their suppliers, most notably small and micro enterprises. These loans are generally just a “delay in payment” for a month.

FIGURE 30: PAYMENT METHODS

The following tables provide a detailed breakdown of the summary findings.

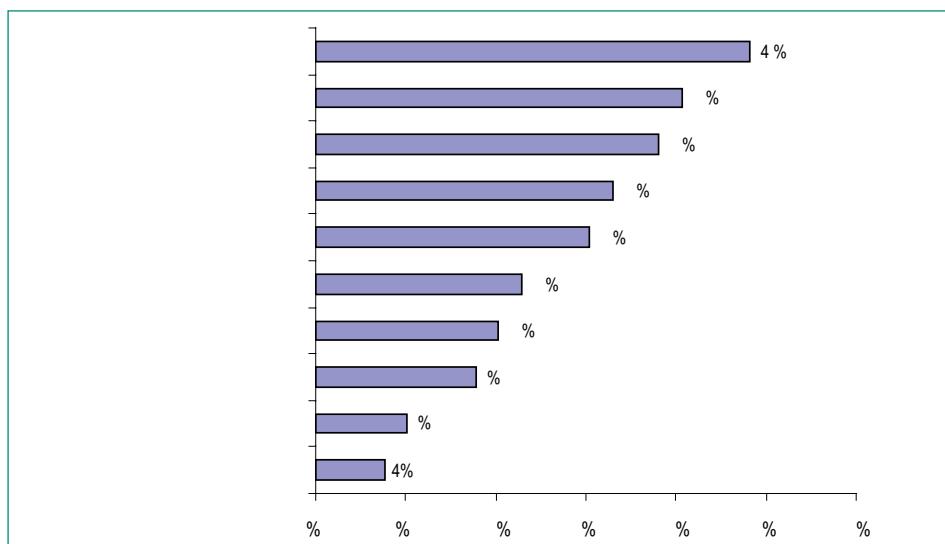
Only 26% of enterprises with a bank account have approached their bank to cover financial needs that relate to suppliers’ payments. Of those enterprises that did not approach their banks, the most frequently noted responses included lengthy credit approval procedures, lack of knowledge regarding how to use such products, and high interests rates.

TABLE 52: % ENTERPRISES BY METHOD OF PAYMENT, BY BANK ACCOUNT USAGE AND ENTERPRISE TYPE

	Bank Account	No Bank Account	Micro	Small	Medium	Large	Total
Cash	76.6%	89.1%	83.0% 5.8% 0.0% 0.3% 0.2% 8.2% 0.0% 0.0% 2.5%	82.9%	85.2%	74.5%	83.6%
Direct transfers from a bank	11.1%	1.5%		6.1%	5.0%	7.1%	5.6%
Payment/Debit/Credit cards	0.0%	0.0%		0.0%	0.0%	0.0%	0.0%
Cheque	2.1%	0.5%		1.6%	1.1%	4.2%	1.2%
Leasing	0.1%	0.2%		0.2%	0.3%	0.0%	0.2%
Loan from supplier	8.2%	5.8%		9.0%	6.5%	6.7%	6.8%
Letters of Credit (LC)	0.8%	0.0%		0.0%	1.0%	0.0%	0.3%
Letters of Guarantee (LG)	0.0%	0.0%		0.0%	0.0%	0.0%	0.0%
Other transfers	1.2%	3.0%		0.3%	0.9%	7.4%	2.4%
Total	100%	100%		100%	100%	100%	100%
# respondents	211	287		177	169	81	73
							498

TABLE 53: % ENTERPRISES BY METHOD OF PAYMENT, BY ACTIVITY SECTOR

	Agriculture	Retail	Wholesale	Hospitality	Manufacturing	Services	Total
Cash	94.1%	80.8%	50.6%	85.9%	76.4% 10.2% 0.0% 0.6% 0.2% 10.8% 0.0% 0.0% 1.8% 4%	84.0%	83.6%
Direct transfers from a bank	1.7%	6.9%	27.4%	0.3%		3.5%	5.6%
Payment/Debit Credit cards	0.0%	0.0%	0.0%	0.0%		0.0%	0.0%
Cheque	0.0%	2.6%	7.4%	0.7%		1.3%	1.2%
Leasing	0.2%	0.8%	0.0%	0.0%		0.0%	0.2%
Loan from supplier	3.0%	6.4%	3.1%	13.0%		5.6%	6.8%
Letters of Credit (LC)	0.0%	0.0%	4.6%	0.0%		0.0%	0.3%
Letters of Guarantee (LG)	0.0%	0.0%	0.0%	0.0%		0.0%	0.0%
Other transfers	1.0%	2.6%	6.9%	0.0%		5.6%	2.4%
Total	100%	100%	100%	100%		100%	100%
# respondents	159	39	35	79		89	98
							499

FIGURE 31: MAIN REASONS FOR NOT APPROACHING BANKS FOR SUPPLIER PAYMENTS

2.7.5. Employee Payments

99% of enterprises pay their employees in cash.

Paying employees in Cambodia can be a daily, weekly, bi-weekly or monthly process. Standard operating payment made regularly or seasonally is an area that requires resources, time and attention to detail from business owners and their management team. Of all the enterprises, the study found that only large enterprises use direct deposits and automatic transfers. This is consistent with the fact that the majority of large enterprises use banking services.

Given that the majority (57%) of enterprises do not have a bank account and that the majority of employee salaries are paid in cash, it is likely that of the total number of employees employed by enterprises in this survey (5,628), approximately 5,549 employees most likely do not have bank accounts. This excludes seasonal workers for the agriculture sector and other sectors that require a work force for busy periods. The total number of employees is presented in the tables below by the type of enterprise and activity sector.

Salaries and wages are likely to be low in the provinces, perhaps hindering employees from using banks because of minimum requirements for having a bank account. Whilst the opportunity to open banks appears to be relatively large, the profitability of such an effort needs to be investigated or low-cost banking options need to be introduced.

TABLE 54: % ENTERPRISES BY EMPLOYEE PAYMENT METHOD (BY ENTERPRISE TYPE)

	Micro	Small	Medium	Large	Total
Cash	99.4%	100.0%	100.0%	91.4%	98.6%
Direct deposit to employee account	0.6%	0.0%	0.0%	5.7%	1.0%
Cheque	0.0%	0.0%	0.0%	0.0%	0.0%
Automatic money transfers from bank	0.0%	0.0%	0.0%	2.9%	0.4%
Total	100%	100%	100%	100%	100%
# respondents	174	169	82	70	495

TABLE 55: # EMPLOYEES BY ENTERPRISE TYPE AND ACTIVITY SECTOR

	Micro	Small	Medium	Large	Total
Agriculture	90	417	413	410	1,330
Retail	55	108	43	121	327
Wholesale	47	137	100	63	347
Hospitality	267	437	183	738	1,625
Manufacturing	347	348	167	130	992
Services	522	312	114	59	1,007
Total	1,328	1,759	1,020	1,521	5,628

2.7.6. Customers and Managing Receivables

2.7.6.1. Number and Type of Customers

The majority of enterprises (65%) have at least 100 or more customers per month.

Micro & small enterprises have more than double the number of customers, in comparison with medium and large companies.

The approximate total number of customers being served on a monthly basis is 54,603.

The majority of customers are individuals or end users (56.5%).

The number of customers an enterprise serves presents financial institutions with the opportunity for new customers. Amongst enterprises surveyed, the majority have 100 or more customers per month. If an average number of customers is 150 per enterprise, this represents a potential client base for financial institutions of 48,000 new clients to target. Given the close proximity of businesses and the fact that most operate only in their home province, it is likely that a high percentage of enterprises service the same clients. Gaining new banking customers does not seem to be a challenge of distance, rather it is one of utilising existing clients to maximise the 'first degree network of customers'.

FIGURE 32: % OF ENTERPRISES BY # OF MONTHLY CUSTOMERS AND ENTERPRISE TYPE

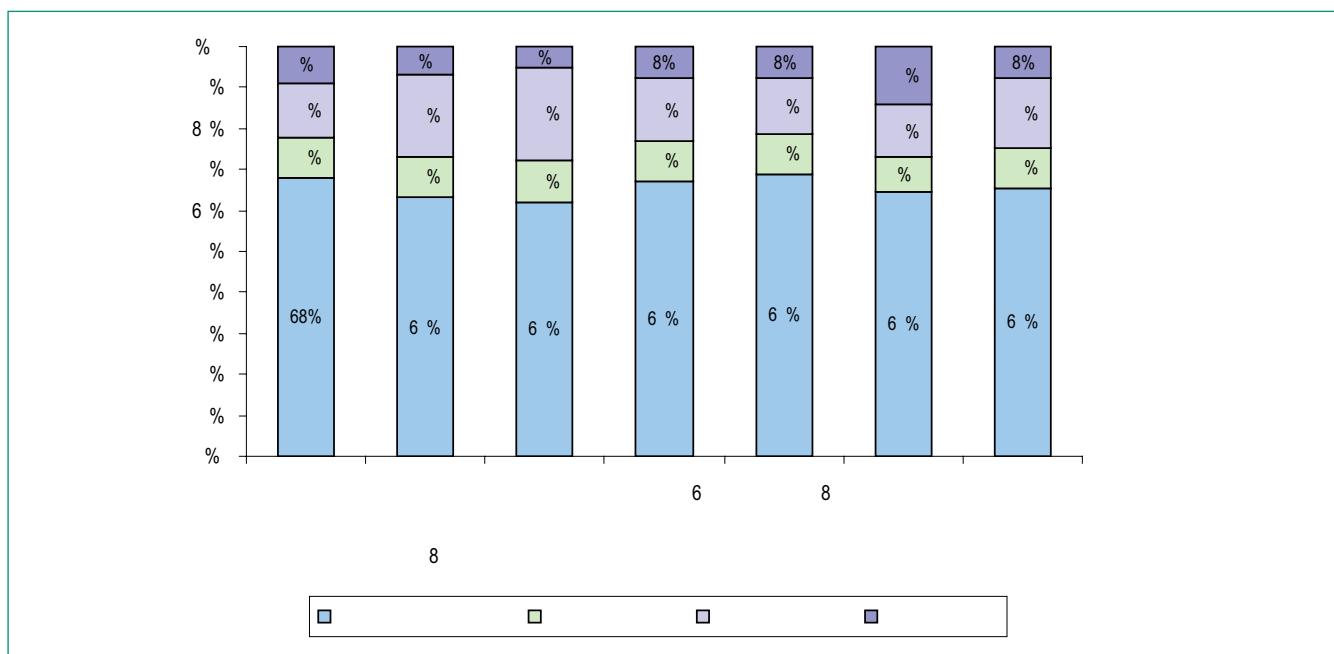


TABLE 56: APPROXIMATE # OF CUSTOMERS PER MONTH

Customer range	Av Customers selected	Micro	Small	Medium	Large	Total
< 10 customers	6	54	78	36	60	234
11 to 49 customers	30	1,168	757	331	271	2,556
50 to 99 customers	75	1,349	1,278	600	453	3,755
100 or more customers	150	16,037	16,758	8,256	6,901	48,103
Total	--	18,608	18,871	9,223	7,684	54,647

Siem Reap, as a result of tourism, has the highest percentage of enterprises with 100 or more customers per month.

TABLE 57: % ENTERPRISES BY # OF MONTHLY CUSTOMERS AND LOCATION

	Siem Reap	Sihanoukville	Battambang	Other provinces	Total
< 10 customers	3.2%	13.9%	7.1%	8.9%	7.7%
11 to 49 customers	11.8%	16.7%	18.9%	18.3%	17.1%
50 to 99 customers	10.8%	11.1%	10.2%	9.4%	10.0%
100 or more customers	74.2%	58.3%	63.8%	63.4%	65.2%
Total	100.0%	100.0%	100.0%	100.0%	100.0%
# respondents	93	36	127	235	491

Hospitality sector enterprises have the highest number of clients per month; 93.5 % of sampled respondents have 100 or more clients per month, while manufacturing is in last place, with 48.8% of enterprises having 100 customers per month. These data reflect the typical nature of business in these two sectors.

TABLE 58: % ENTERPRISES BY # OF MONTHLY CUSTOMERS AND ACTIVITY SECTOR

	Agriculture	Retail	Wholesale	Hospitality	Manufacturing	Services	Total
< 10 customers	13.3%	2.6%	6.1%	1.3%	12.8%	2.0%	7.7%
11 to 49 customers	22.2%	15.4%	6.1%	2.6%	24.4%	18.4%	17.1%
50 to 99 customers	8.2%	10.3%	21.2%	2.6%	14.0%	11.2%	10.0%
100 or more customers	56.3%	71.8%	66.7%	93.5%	48.8%	68.4%	65.2%
Total	100%	100%	100%	100%	100%	100%	100%
# respondents	158	39	33	77	86	98	491

Type of customers: The majority of customers are individuals or end users (56.5%), with the exception of large enterprises (44.8%) that mainly serve wholesalers. Enterprises in this survey rarely have manufacturing or public sector customers. The main customers for the agriculture sector are wholesalers (56.8%) and retailers (23.4%), while for all the other sectors, over 55% of customers are individuals. Details of customer types are presented in the tables below.

TABLE 59: ENTERPRISES' CUSTOMERS ACCORDING TO COMPANY TYPE

	Micro	Small	Medium	Large	Total
Individuals/End users	77.9%	49.5%	40.3%	38.3%	56.5%
Wholesalers	9.9%	31.6%	36.6%	44.8%	26.6%
Retailers	11.8%	16.6%	21.7%	16.9%	15.8%
Manufacturers	0.2%	1.9%	0.7%	0.0%	0.8%
Public Sector (army, police)	0.0%	0.4%	0.5%	0.0%	0.2%
Total	100.0%	100.0%	100.0%	100.0%	100.0%
# respondents	175	170	81	71	498

TABLE 60: ENTERPRISE CUSTOMERS ACCORDING TO COMPANY ACTIVITY SECTOR

	Agriculture	Retail sales	Wholesale	Hospitality	Manufacturing	Services	Total
Wholesalers	56.8%	9.5%	26.3%	6.0%	21.8%	5.8%	26.6%
Manufacturers	1.1%	2.3%	2.6%	0.0%	0.7%	0.1%	0.8%
Retailers	23.4%	23.6%	15.6%	4.1%	15.9%	9.7%	15.8%
Individuals /End users	18.1%	64.6%	55.2%	90.0%	61.4%	84.2%	56.5%
Public Sector (army, police)	0.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.2%
Total	100%	100%	100%	100%	100%	100%	100%
# respondents	158	39	35	79	89	98	498

2.7.6.2. Sales Transactions: Cash vs. Credit

Enterprises were asked to provide their percentage of cash sales (remunerated by immediate payment) and credit sales (remunerated by deferred payment).

The majority of enterprises (69%) use cash rather than credit sales (31%).

62.5% of enterprises grant a credit period of up to 1 month to their customers.

The detailed findings presented in the summary tables below show that the majority of receivables for enterprises are in cash (69%), while 31% of enterprises allow sales on credit. The ability for an enterprise to provide credit to their clients is appreciated because it helps clients to manage cash flow. However, providing credit to customers also means that the entrepreneur has to manage his or her cash flow carefully. Overall, study findings suggest that for non-banked and smaller businesses, entrepreneurs do not have the ability to offer sales on credit or to defer payments, either because of business needs, their ability to follow up with customers or simply the nature of the transactions.

Enterprises with bank accounts use more credit sales (35%) while enterprises without bank accounts conduct business mostly (72%) in cash. Micro and small enterprises, the least banked enterprise types, conduct business transactions overwhelmingly in cash (81% and 66%, respectively). Approximately 42% of medium and large enterprises use credit sales, while the majority require cash sales.

Enterprises in Battambang (40%) allow more sales on credit than enterprises in any of the other provinces. This is consistent with study findings on activity sectors that show that 53% of agriculture businesses allow their customers to buy on credit.

Detailed findings are presented in the tables below.

TABLE 61: DISTRIBUTION OF ENTERPRISES BY CASH/CREDIT SALES RATIO AND BY ENTERPRISE TYPE

	With bank account	No bank account	Micro	Small	Medium	Large	Total
Cash Sales %	65%	72%	81%	66%	59%	57%	69%
Credit sales %	35%	28%	19%	34%	41%	43%	31%
Total	100%	100%	100%	100%	100%	100%	100%
# respondents	208	283	175	166	81	69	491

TABLE 62: DISTRIBUTION OF ENTERPRISES BY CASH/CREDIT SALES RATIO AND BY LOCATION

	Siem Reap	Battambang	Sihanoukville	Other provinces	Total
Cash Sales %	76%	60%	83%	69%	69%
Credit sales %	24%	40%	17%	31%	31%
Total	100%	100%	100%	100%	100%
# respondents	97	125	36	233	491

TABLE 63: DISTRIBUTION OF ENTERPRISES BY CASH/CREDIT SALES RATIO AND BY ACTIVITY SECTOR

	Agriculture	Retail	Wholesale	Hospitality	Manufacturing	Services	Total
Cash Sales %	47%	81%	60%	91%	70%	84%	69%
Credit sales %	53%	19%	40%	9%	30%	16%	31%
Total	100%	100%	100%	100%	100%	100%	100%
# respondents	155	39	35	79	85	98	491

Duration of Credit: 62.5% of enterprises grant a credit period of up to 1 month to their customers. The agriculture, wholesale and manufacturing sectors are generally more flexible regarding credit duration, while the hospitality, retail and service sectors rarely provide credit over 3 months.

TABLE 64: AVERAGE CREDIT PERIOD GIVEN TO CUSTOMERS ACCORDING TO COMPANY TYPE

	Micro	Small	Medium	Large	Total
< 1 month	66.4%	66.9%	55.4%	66.4%	62.5%
1 to 3 months	25.2%	27.6%	30.8%	25.2%	29.2%
3 to 6 months	4.2%	3.4%	7.7%	4.2%	4.2%
6 to 12 months	2.1%	1.4%	0.0%	2.1%	1.7%
> 12 months	2.1%	0.7%	6.2%	2.1%	2.4%
Total	100.0%	100.0%	100.0%	100.0%	100.0%
# respondents	143	145	65	70	424

TABLE 65: AVERAGE CREDIT PERIOD GIVEN TO THE CUSTOMERS ACCORDING TO ACTIVITY

	Agriculture	Retail	Wholesale	Hospitality	Manufacturing	Services	Total
< 1 month	57.3%	65.5%	47.2%	71.4%	66.3%	68.8%	62.5%
1 to 3 months	37.3%	31.0%	27.8%	26.5%	17.5%	27.5%	29.2%
3 to 6 months	3.3%	3.4%	8.3%	0.0%	8.8%	2.5%	4.2%
6 to 12 months	0.0%	0.0%	8.3%	0.0%	3.8%	1.3%	1.7%
> 12 months	2.0%	0.0%	8.3%	2.0%	3.8%	0.0%	2.4%
Total	100%	100%	100%	100%	100%	100%	100%
# respondents	150	29	36	49	80	80	424

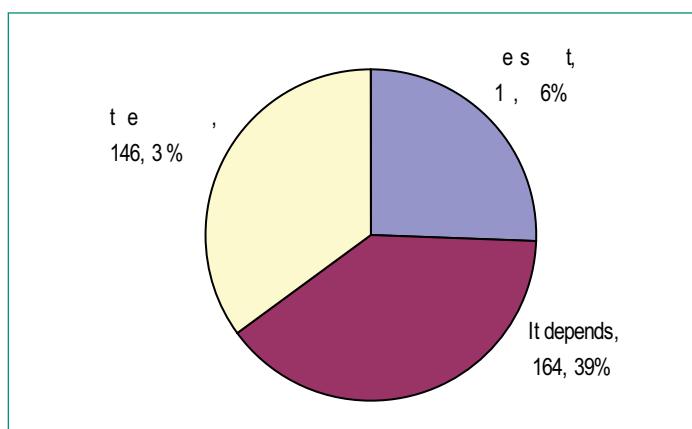
2.7.6.3. Collecting Receivables

Enterprises were asked to provide their percentage of cash sales (remunerated by immediate payment) and credit sales (remunerated by deferred payment).

An overwhelming 93.9% of enterprises receive their revenues or collectibles in cash.
A total of \$154.9 million in receivables is collected per year, of which \$145 million is received in cash.

Collecting receivables requires people and time as well as good tracking mechanisms if the enterprise provides credit facilities to its customers. Collecting large amounts of money in cash can be risky for the individual person and the enterprise. Enterprises were asked if they spend a lot of time and effort in chasing and administering inbound payments (receivables). Of those surveyed, 26% responded that providing credit is a challenge and 39% responded that it depends on the season, their activities, and the time of the month -- thus the time required for collecting payments can vary considerably.

FIGURE 33: TIME SPENT COLLECTING RECEIVABLE



Given the total annual turnover of the 504 enterprises surveyed, and that 43% of enterprises are banked, the percentage of enterprises using direct deposits (2.2%) and money transfers (2.0%), appears to be extremely low. Large enterprises, which are the most banked type of enterprise, use money transfers, direct debits and other banking transactions more than smaller enterprises, although cash sales still predominate (79.2%).

93.9% of enterprises receive their payments in cash. Comparing the cash receivable percentage (93.9% for all enterprises) to the total annual turnover (\$154.9 million), it appears that an estimated \$145 million in cash is circulating amongst the 504 enterprises.

TABLE 66: METHODS USED TO COLLECT CUSTOMER PAYMENTS ACCORDING TO COMPANY TYPE

	Micro	Small	Medium	Large	Total
Cash	98.7%	95.4%	93.1%	79.2%	93.9%
Direct deposit into company account	0.5%	1.8%	1.7%	7.8%	2.2%
Money transfer	0.0%	1.1%	4.5%	6.3%	2.0%
Cheque	0.4%	1.6%	0.4%	2.6%	1.1%
Bank debit cards	0.4%	0.0%	0.1%	3.1%	0.6%
Bank credit cards	0.0%	0.0%	0.1%	1.1%	0.2%
Total	100%	100%	100%	100%	100%
# respondents	177	169	81	71	498

TABLE 67: TOTAL ANNUAL TURNOVER BY ENTERPRISE TYPE AND ACTIVITY SECTOR (\$ MILLION)

	Micro	Small	Medium	Large	Total
Agriculture	\$1.5	\$15.1	\$25.0	\$46.9	\$88.5
Retail	\$0.5	\$1.9	\$1.5	\$0.5	\$4.4
Wholesale	\$0.4	\$9.8	\$2.9	\$18.6	\$31.7
Hospitality	\$2.1	\$2.1	\$0.8	\$10.3	\$15.3
Manufacturing	\$1.5	\$3.1	\$1.5	\$3.6	\$9.7
Services	\$2.1	\$1.0	\$1.7	\$0.5	\$5.3
Total	\$8.2	\$33.0	\$33.4	\$80.3	\$154.9

2.7.6.4. Managing Credit / Debit Cards

Only 17% of all enterprises that have a bank account use credit/debit cards

Credit and debit cards have become a more acceptable form of payment for purchasing goods and services in Cambodia. Still, such cards are not widely used nor a preferred method of conducting business. As the survey findings show, only 17% of enterprises that have a bank account use debit and credit cards. As new as the technology is, Cambodian enterprises are still at an early stage in their use of financial products and services that would simplify business processes, reduce risks, and even enhance productivity, sales and customer appreciation.

Of those enterprises using credit and debit cards, ease of accounting and an increasing number of customers are the two most frequently noted reasons for using these banking facilities. Reducing risk through minimising cash kept in the office

and increasing product value were also noted as important business advantages for using credit and debit cards. SMEs' positive experiences in accepting credit and debit cards shows how these new technologies can improve not only customer satisfaction but also productivity of the enterprise and the value of products.

The main reason cited for not accepting credit cards is lack of machines (52.9%). This partly suggests that financial service providers have proactively sold the product/service to enterprises. The second highest response (33.1%) is that enterprises are concerned about the misuse of cards or that customers do not have cards. All other responses indicate that enterprises are driven by what they perceive will be challenges, and do not have access to the right information to be able to make informed decisions.

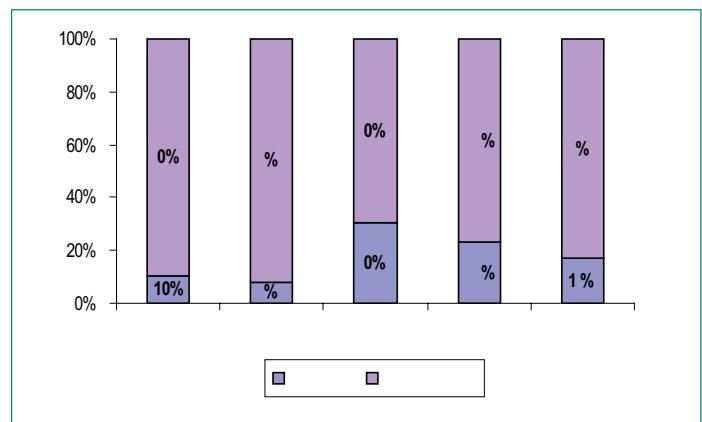
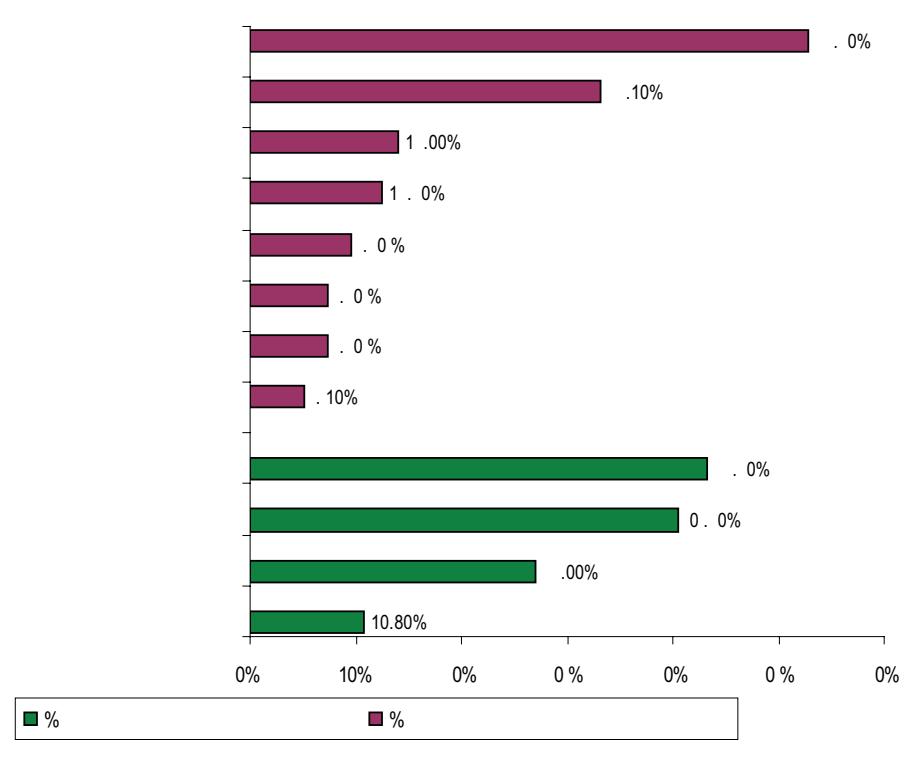
FIGURE 34: % USING CREDIT & DEBIT CARDS

FIGURE 35: MAIN REASONS FOR USE OF CREDIT/DEBIT CARD



2.7.7. Other Products & Services

“Transforming client problems into products” has been a slogan for commercial bankers over the last decade in most developed markets. Banks became one-stop-shops for sophisticated customers who prefer to concentrate all their financial operations in only one “shop”.

An evolution of the bank as a one-stop-shop is the bank serving as an advisor. With global opportunities and increased competition, customers are seeking a bank that can act as an advisor and that develops value added services that generate revenues and high profits, with relatively low risk. While this may seem to be far from what banks can offer in Cambodia today, small steps can be taken in the right direction to service SMEs in a profitable way.

The following section presents some interesting findings about the possibility for Cambodian banks to evolve into ‘one-stop-shops’ and offer new products and services or increase the sale of existing services.

2.7.7.1. Insurance Services

Less than 10% of all enterprises have an insurance product.
 54% of enterprises would like banks to propose insurance products to them.

A variety of insurance products and services are available to businesses and individuals today, however, these services are generally targeted at established industries and businesses. There are four leading insurance agencies in Cambodia: Asia Insurance, Forte Insurance, Infinity Insurance, and CAMINCO. Campu Bank, one of the top banks, has pioneered providing insurance products and services.

Business and professional insurance are not widely targeted at micro, small and medium enterprises. Such enterprises could only find out about insurance services and their benefits from newspaper or TV ads. Not surprisingly, only 39 of 504 enterprises or fewer than 10% of enterprises currently have an insurance policy. Large enterprises represent the largest proportion of enterprises with insurance and micro enterprises the least.

Of those enterprises that have insurance policies, policies total 51. The majority (52%) of polices are for motor vehicle insurance, and property insurance (20%).

The benefits of insurance products and services are widely known to many of the enterprises interviewed in this survey. This makes a good case for developing and selling insurance products. Out of the 504 enterprises interviewed, 54% said they would like banks to propose insurance products to them. There is wide awareness of insurance products and services, however little information is available for SMEs about how insurance could benefit their businesses.

2.7.7.2. Currency Exchange Services

Cambodia is a dual currency economy: although the national currency is the Khmer riel (KHR), the majority of business is conducted in United States dollars (\$US). Most government taxes need to be remitted in riel. Several utilities issue KHR invoices, but most invoices are in dollars.

FIGURE 36: % ENTERPRISES WITH INSURANCE

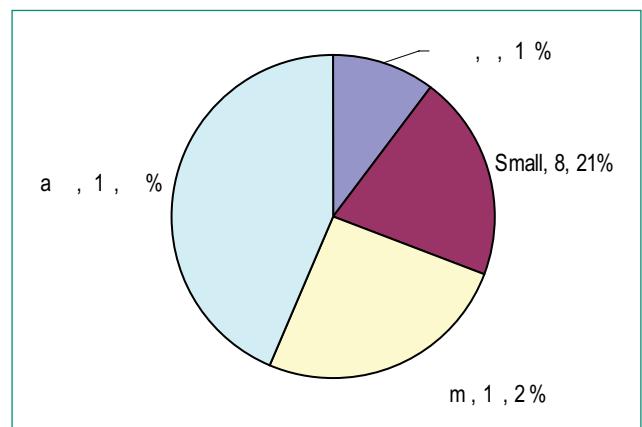
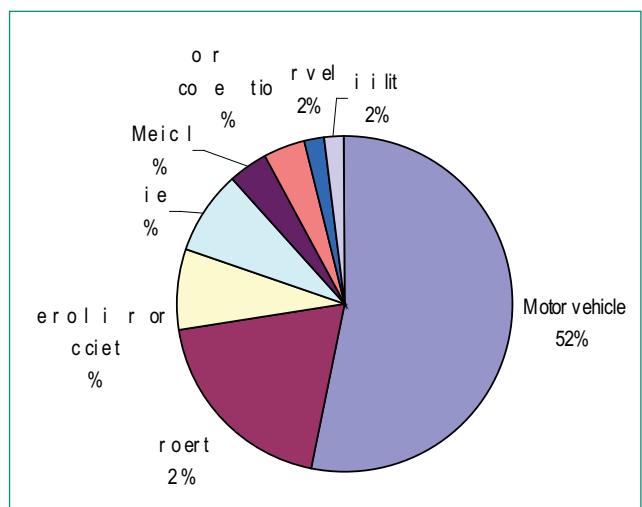


FIGURE 37: INSURANCE POLICIES USED



Currency exchanges are important services for facilitating quick changes of currency at an appropriate exchange rate. Banks have not traditionally been the most common channel for exchanging currency. Money changers are very accessible in local markets, saving customers a “special trip” to the bank.

76% of surveyed enterprises need to change currency on a regular basis.

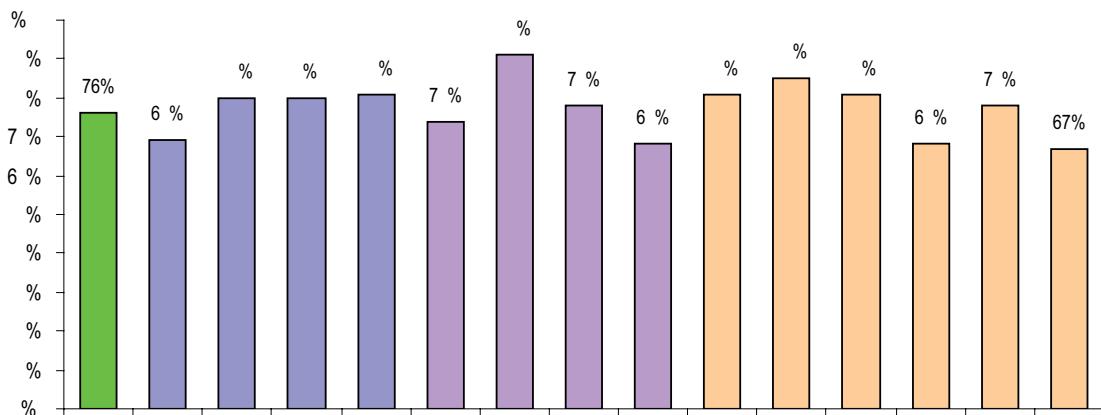
Only 7% use their bank to change currency.

Nearly 21% of enterprises receive better exchange rates at a currency exchange in the market than at a bank.

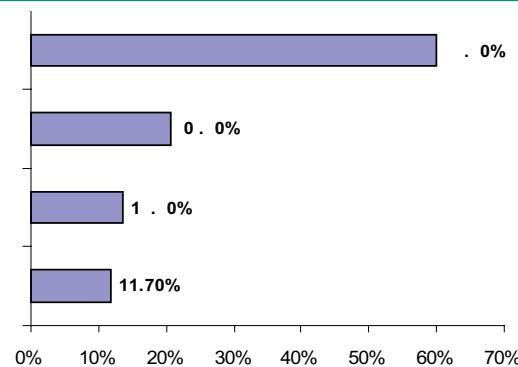
Of enterprises surveyed, 76% report changing currencies on a regular basis and only 7% use their bank to change currency. This raises the question of why banks are not used for currency exchange. Surveyors noted that entrepreneurs primarily use money changers as these are fast and provide good services. Importantly, exchange rates are better than at banks.

Figure 38 shows the percentage of enterprises changing currency by type, location and activity sector.

FIGURE 38: % OF ENTERPRISES REGULARLY CHANGING CURRENCY BY ENTERPRISE TYPE



Respondents described the reasons why they do not use banks for currency exchange services. As confirmed by surveyors in the field, the majority of enterprises (59.9%) believe that it is easier and quicker to change money at the market. Almost 21% of respondents mentioned that the exchange rates are better at the market.

FIGURE 39: BANKS VS. CURRENCY EXCHANGE SERVICES: WHY NOT BANKS?

2.8. Enterprises Interest in and Satisfaction with the Banking Sector

2.8.1. Interest in products and services

Enterprises are more attracted by business training and advisory services than financial products.
Loans are the financial products that hold the greatest interest.

Overall, enterprises are more interested in training, consulting and information services than banking products. Although access to finance is a key challenge faced by enterprises, it is clear that business owners need to understand their businesses, markets, opportunities, and threats before undertaking a financial risk. In particular, training, consulting and networking are the key interests, as presented in Figure 40.

When reviewing interest in products and services by type of enterprise, large enterprises are the most interested in business services and also have the highest interest in using on-line advisory services. As indicated in the figures, small, medium and large enterprises show the same trend in interest in business services.

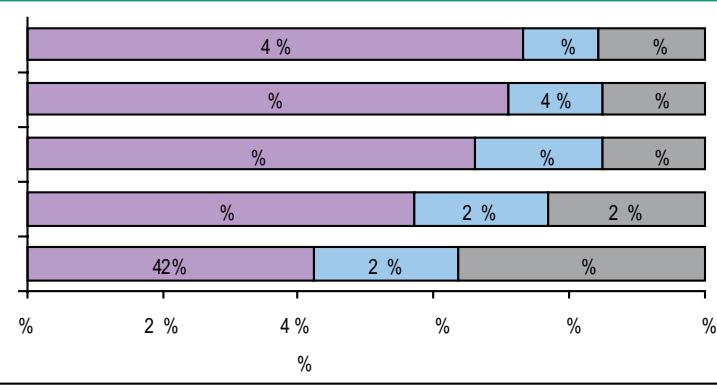
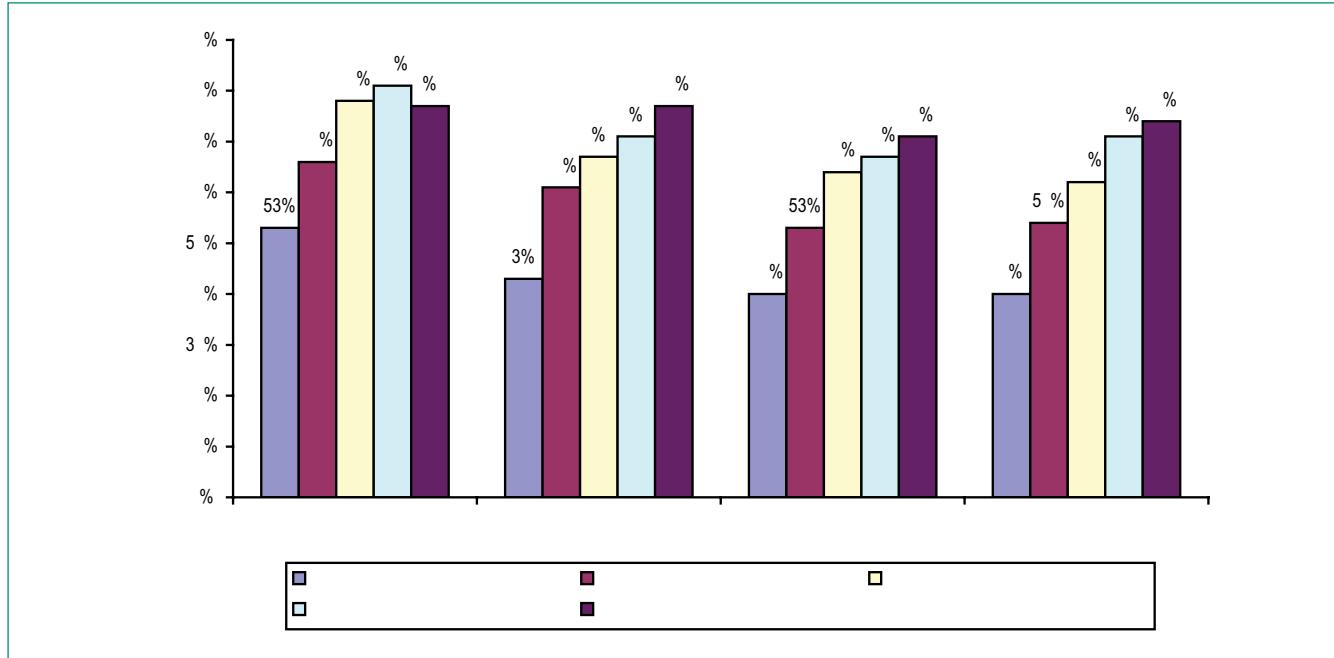
FIGURE 40: INTEREST IN BUSINESS SERVICES

FIGURE 41: INTEREST IN BUSINESS SERVICES BY ENTERPRISE TYPE

When reviewing financial products and services, the top products of interest to enterprises are lending products. Factoring and collection of payment tools and investment opportunities were listed as the top three financial products and services.

For all enterprise types, as the figures indicate, the least interesting banking products and services include corporate credit cards and online payroll services.

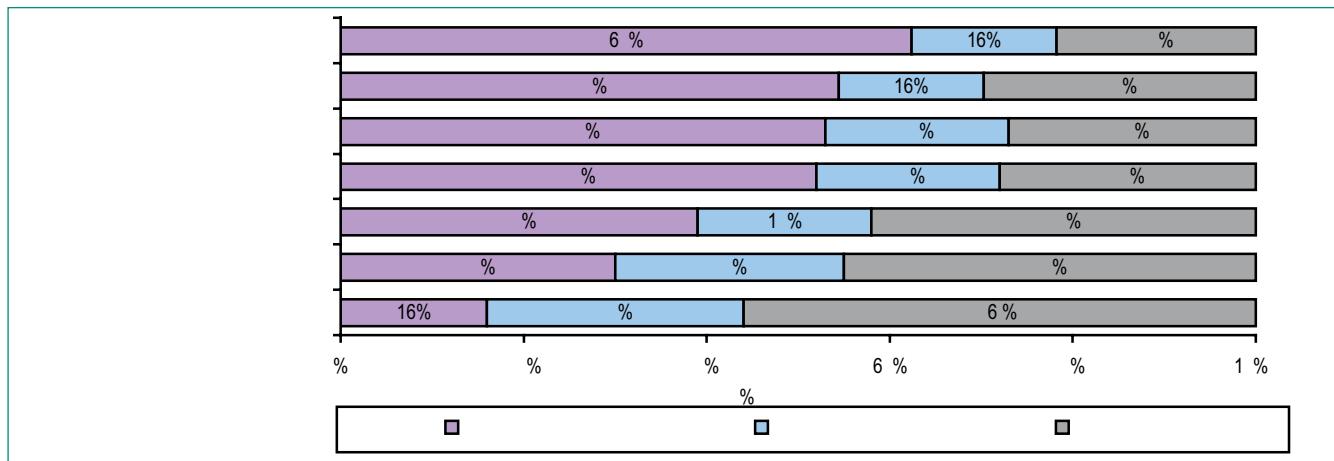
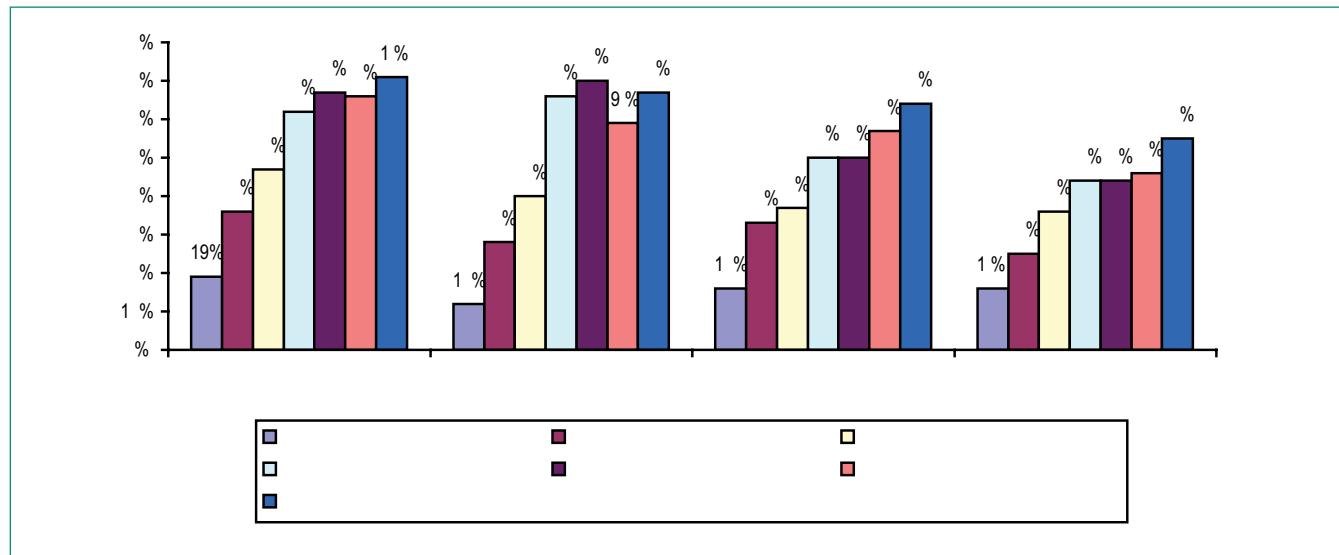
FIGURE 42: INTEREST IN FINANCIAL PRODUCTS AND SERVICES

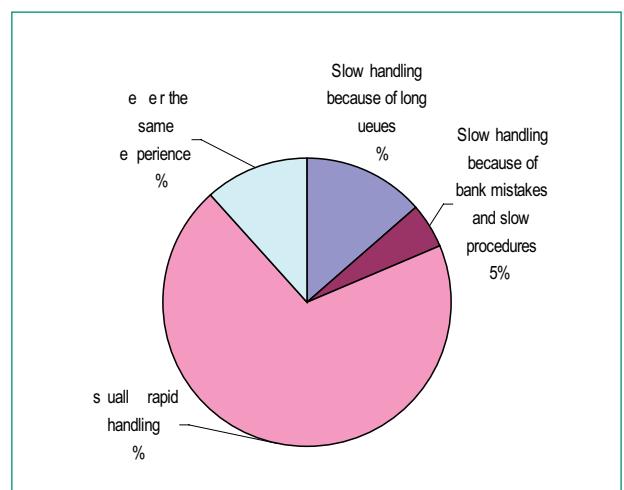
FIGURE 43: INTEREST IN FINANCIAL PRODUCTS AND SERVICES BY ENTERPRISE TYPE

2.8.2. Satisfaction with Banking Sector

31% of bank customers face challenges when withdrawing cash
Entrepreneurs were most satisfied with general staff friendliness and bank location and least satisfied with banking products

Cash withdrawal satisfaction: Although 69% of enterprises said cash withdrawals are usually fast, this percentage appears to be relatively low for a bank foundation product and service. A total of 31% of enterprises are not particularly satisfied with cash withdrawals, primarily because of slow handling due to queues, lack of staff capacity or errors. Long queues could be a “good signal” that the bank has many customers, however it detracts from customer satisfaction. Developing customer service standards and key performance indicators to measure customer experience and delivery of services would help banks to ensure that their basic banking products and services meet exceptional standards.

Satisfaction with staff: Approximately 75% of entrepreneurs surveyed are satisfied with banking staff. As mentioned previously, entrepreneurs feel that staff of banks do not understand the business needs of SMEs. While respondents

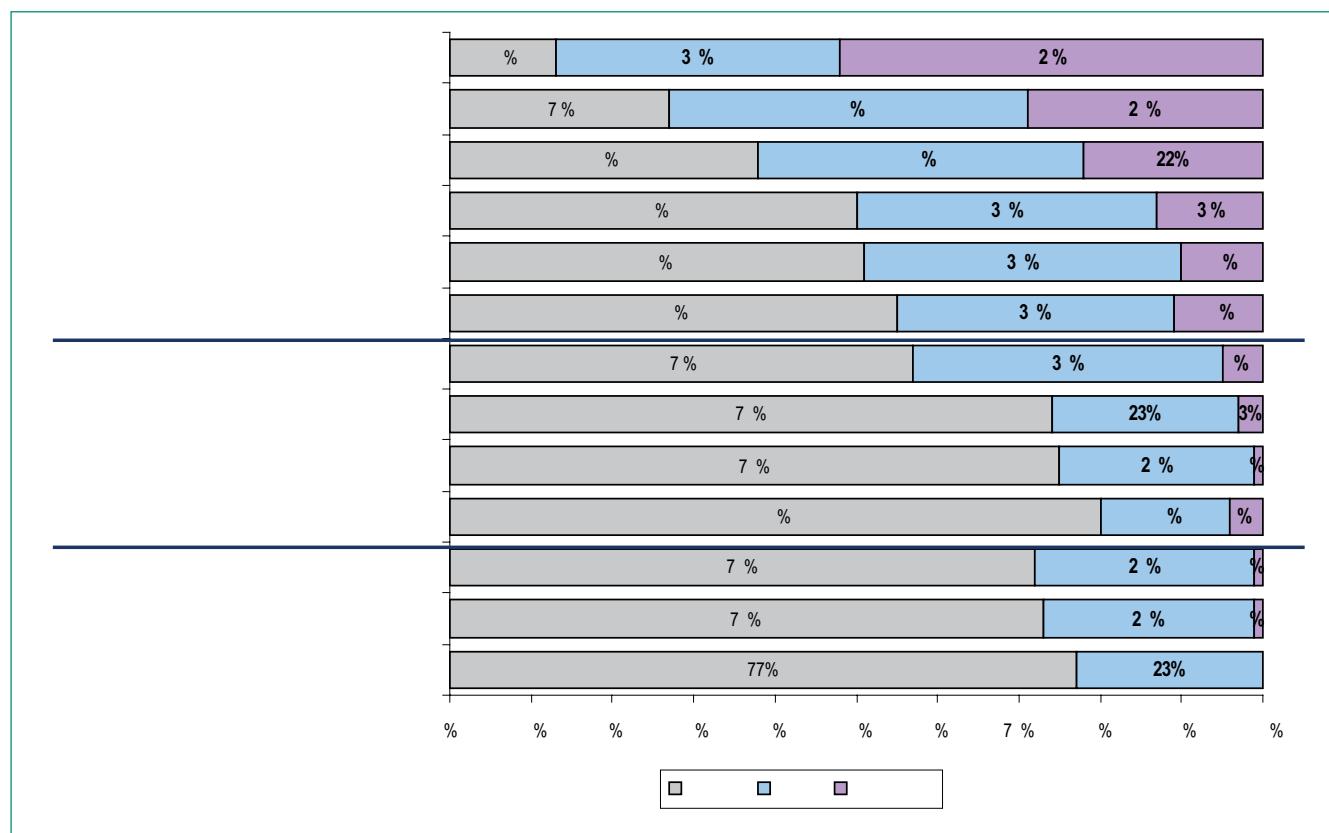
FIGURE 44: SATISFACTION WITH CASH WITHDRAWALS

are generally positive about bank staff, including their expertise with current services, staff are not being utilized as an important link between the customer and bank to ensure that the bank is addressing the needs of customers, and, based on customers' feedback to staff, developing relevant new products.

Satisfaction with Location & General Operations: Approximately 25% of respondents felt that the bureaucracy within banks and location of branches can be improved. Location of ATMs received the lowest satisfaction levels. This is an interesting finding given that all enterprises are within a 3km radius of the centre of the province's major town. Enterprises want better access to ATMs; however; infrastructure, security and number of customers are key drivers in determining the location of ATMs. Accuracy in transactions received the highest satisfaction rating.

Satisfaction with Banking Products: Banks ranked significantly lower on their products than services, reinforcing the need for product development and creativity in addressing SME needs. Penalty charges, high collateral requirements and interest rates/pricing received the lowest satisfaction levels: more than 50% of interviewees ranked these areas as neutral or with dissatisfaction.

FIGURE 45: GENERAL SATISFACTION WITH BANKS PRODUCTS, SERVICES, OPERATIONS, AND STAFF



2.9. Enterprise Financing

Limited access to finance is one of the biggest hurdles enterprises face in Cambodia. As discussed in Chapter 2, local commercial banks overall provide only 1% of working capital and 1.7% of investment capital to the SME sector. Despite the high liquidity of the banking system, the lack of financial information resulting from weak accounting standards and the absence of an effective credit information sharing system makes it difficult for banks to evaluate the creditworthiness of borrowers.

In general, short-term financing is required as working capital or for cash flow purposes. Maintaining cash flow is one of the bigger challenges for SMEs, especially for seasonal businesses. For example, in the agriculture sector, enterprises need big sums of short-term financing when they are cultivating crops. During this period, when prices are low but expenses are high, entrepreneurs and managers need access to money to pay suppliers until prices go up and they sell their products.

This section explores the different funding sources, both short term and long term, that sampled enterprises used in the last year to expand their businesses and ensure that they have sufficient cash flow to support their operations. When reading this section, the reader should keep in mind that the number of respondents can be very low for some analysis (by location and by activity sector).

2.9.1. Funding sources used in the last year

2.9.1.1. Short-term funding sources (= < 1 year)

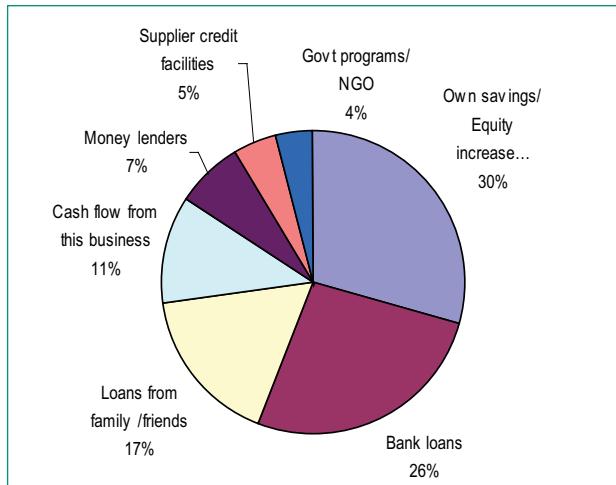
A total of 135 or 27% of enterprises used short-term funding in the last year, of which 26% was financed by banks.

The 3 main reasons for selecting short-term funding sources include: (i) getting the required loan amount (ii) being allowed a grace period and (iii) quick processing.

FIGURE 46: SHORT-TERM FUNDING SOURCES

A total of 27% of enterprises used sources of short-term funding in the last year. The most frequently used source of funding is the “personal network” of the entrepreneur. Own savings (30%) and loans from family and friends (17%) account for a total of 47% of funding. Bank loans accounted for 26% of short-term funding. Supplier credit facilities and government or NGO program credit together contributed 9% to overall short-term funding.

Having a bank account and a relationship with the bank is key to accessing lending products from banks. Although the primary source of funding is “own savings”, enterprises with bank accounts use banks the most for short-term



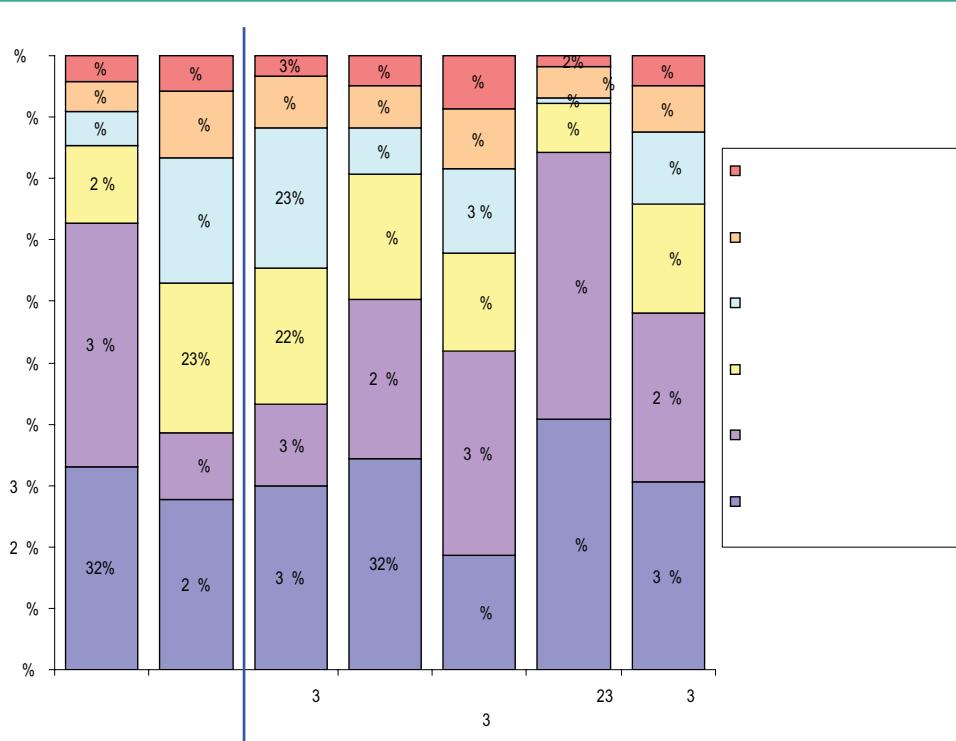
funding needs (39%), while those without bank accounts take loans from family/friends. Enterprises without bank accounts also use money lenders the most.

Bank loans are more used in Battambang (39.0%) and Siem Reap (26.2%) than in other provinces, as here one finds the biggest concentration of medium and large enterprises. Both provinces fall in the top 3 provinces for enterprises utilizing banks.

The “borrowing behaviour” depends on the type of enterprise and correlates with how each enterprise type uses banking services. Bank loans are the most important source of short-term funding for medium (31.3%) and especially for large enterprises (43.5%). These two types of enterprises are also ones that use banks the most. Medium enterprises use money lenders more frequently while large enterprises use cash flow of the current business the least. Own savings & equity increase are the primary sources of funding for micro and small enterprises. Bank loans accounted for only 13.3% of funding for micro, and 24.1% of funding for small enterprises. For micro enterprises which are predominantly family-owned, the study suggests that their personal savings, family and friends, and cash flow from this business are their important sources of finance.

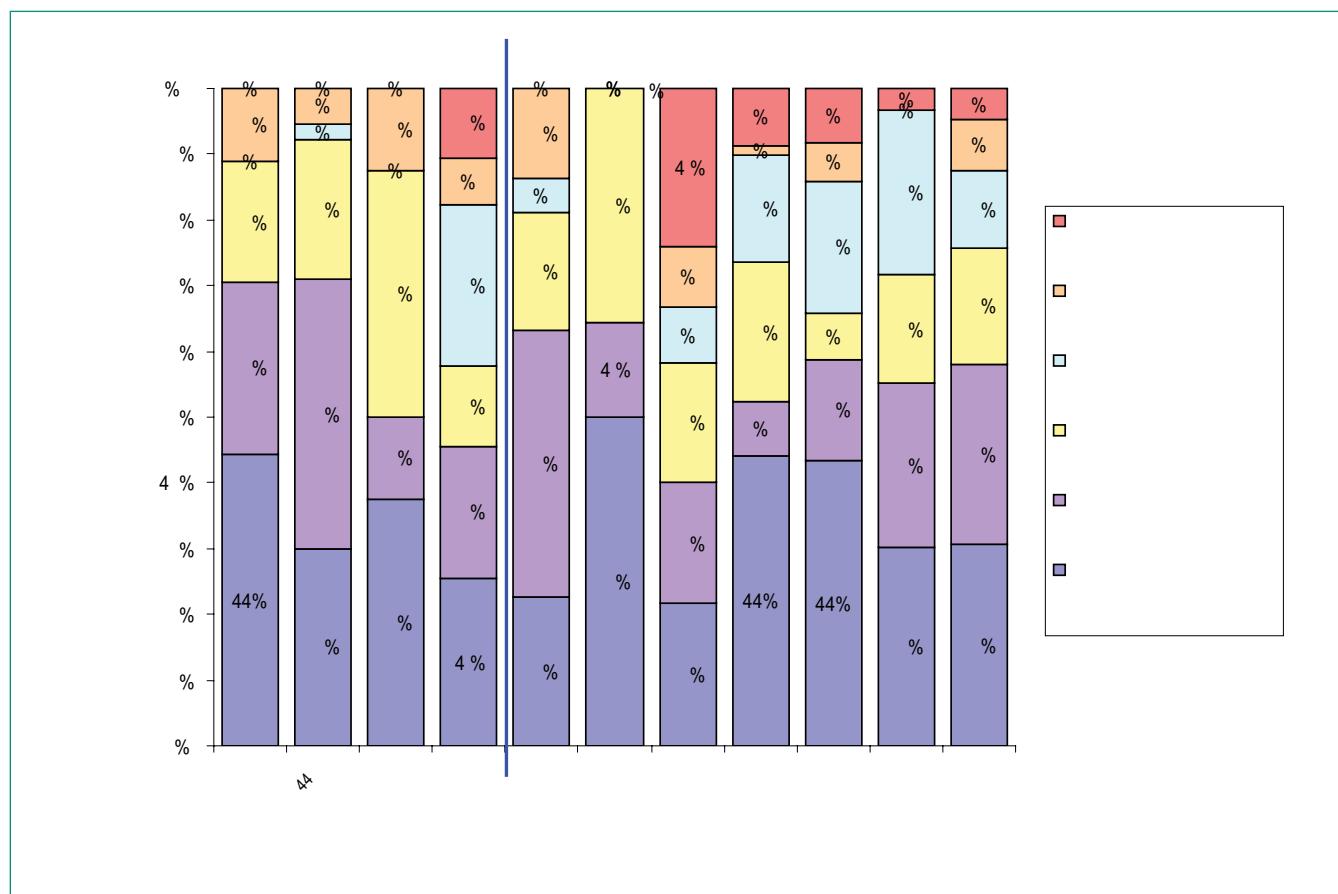
For the smaller provinces which are also the least banked provinces, cash flow from their business represents a very important source of financing (23.3%) if compared to the main provinces (less than 3%). Across all the small provinces, 19% of enterprises used bank loans.

FIGURE 47: SHORT-TERM FUNDING SOURCES USED IN THE LAST YEAR, BY BANKED ENTERPRISES AND TYPE



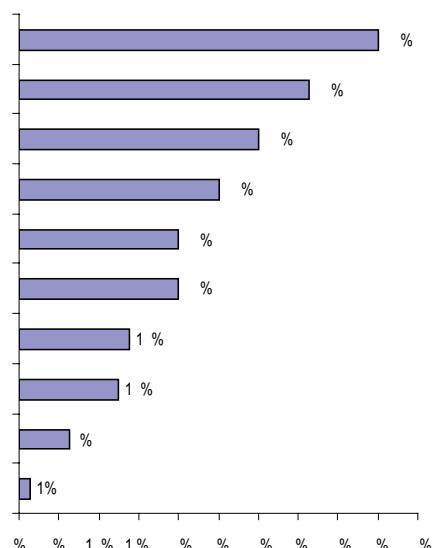
When reviewing short-term loans by activity sector, one sees that there is no link with those sectors that have the highest percentage of banked enterprises. Rather, financing depends much more on the nature of operations. Own savings plays an important role for short-term financing for all activity sectors. Agriculture enterprises have the highest percentage of bank loans (37.1%), consistent with the high concentration of medium and large enterprises in the sector. Money lenders are also the most active in agriculture. The wholesale sector uses credit facilities from suppliers the most, reflecting the nature of their business and their high value purchases.

FIGURE 48: SHORT-TERM FUNDING SOURCES USED IN THE LAST YEAR, BY LOCATION AND SECTOR



Enterprises need quick access to short-term loans, flexibility on repayment terms and appropriate interest rates. These were common themes discussed during the survey when speaking about loans. For short-term loans, enterprises ranked a variety of criteria that drove their decisions in selecting a short-term loan provider.

Interestingly, interest rates and collateral requirements were not the first challenge that enterprises listed. Of most importance to entrepreneurs in their selection of a short-term financing source is being able to access the right amount at the right time, followed by the source allowing a grace period in repaying the loan. Quick processing of the short term-loan was the third most important criteria. This confirms the need for entrepreneurs to access the right amount of money, at the right time and quickly!

FIGURE 49: MAIN REASONS FOR SELECTING SHORT-TERM FUNDING SOURCE

2.9.1.2. Long-Term Funding Sources (> 1 year)

439 or 87% of all enterprises used long-term funding in the last year, of which only 15% used bank loans.

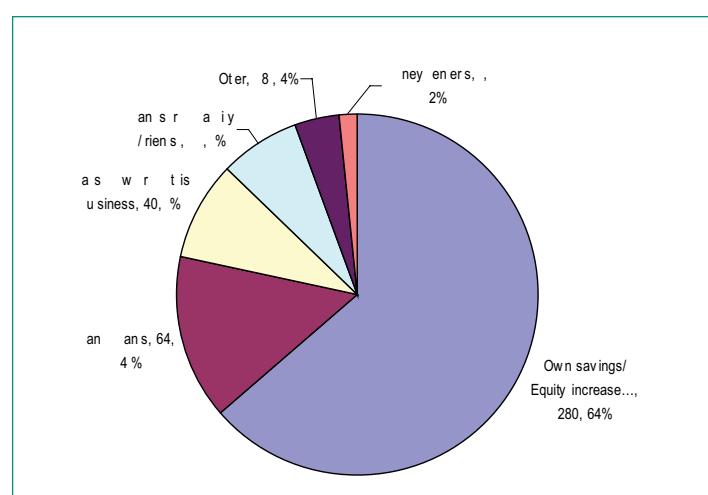
More than 70% of long-term loans are through self financing.

The top 3 reasons for selecting a long-term loan source include: (i) getting the required loan amount; (ii) lower interest rates; and (iii) quick processing.

In total, 87% of enterprises used long term funding sources in the last year. The most frequently-used source of funding is the “personal network” of the entrepreneur. Own savings (64%) and loans from family and friends (7%) account for a total of 71%. Banks loans account for 14% of long-term funding, compared to 26% of short-term funding.

The category “other” includes supplier credit facilities and government or NGO programs, associations and leasing, each with 1%.

At first sight, it seems that only enterprises that can self finance their investments have the opportunity to grow. Enterprises can make decisions to undertake major investments or expansion only when they can afford them through their own means.

FIGURE 50: LONG-TERM FUNDING SOURCES

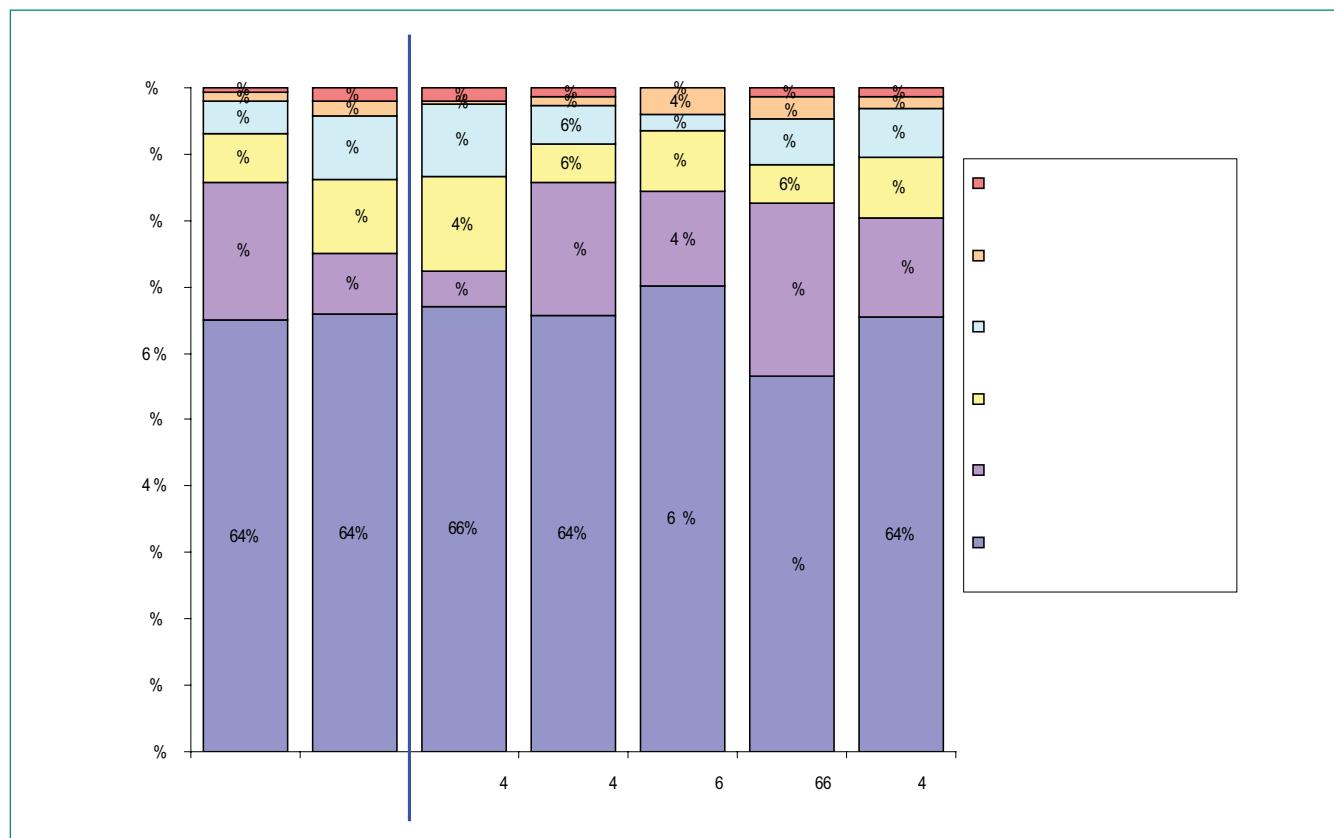
Similar to short-term loans, bank accounts are the key to accessing bank lending products. Enterprises with bank accounts have significantly more bank loans (20%) than unbanked enterprises (9%).

Borrowing behaviour varies significantly by enterprise type. There is no correlation between enterprise type or bank usage. Small and large enterprises used bank loans the most.

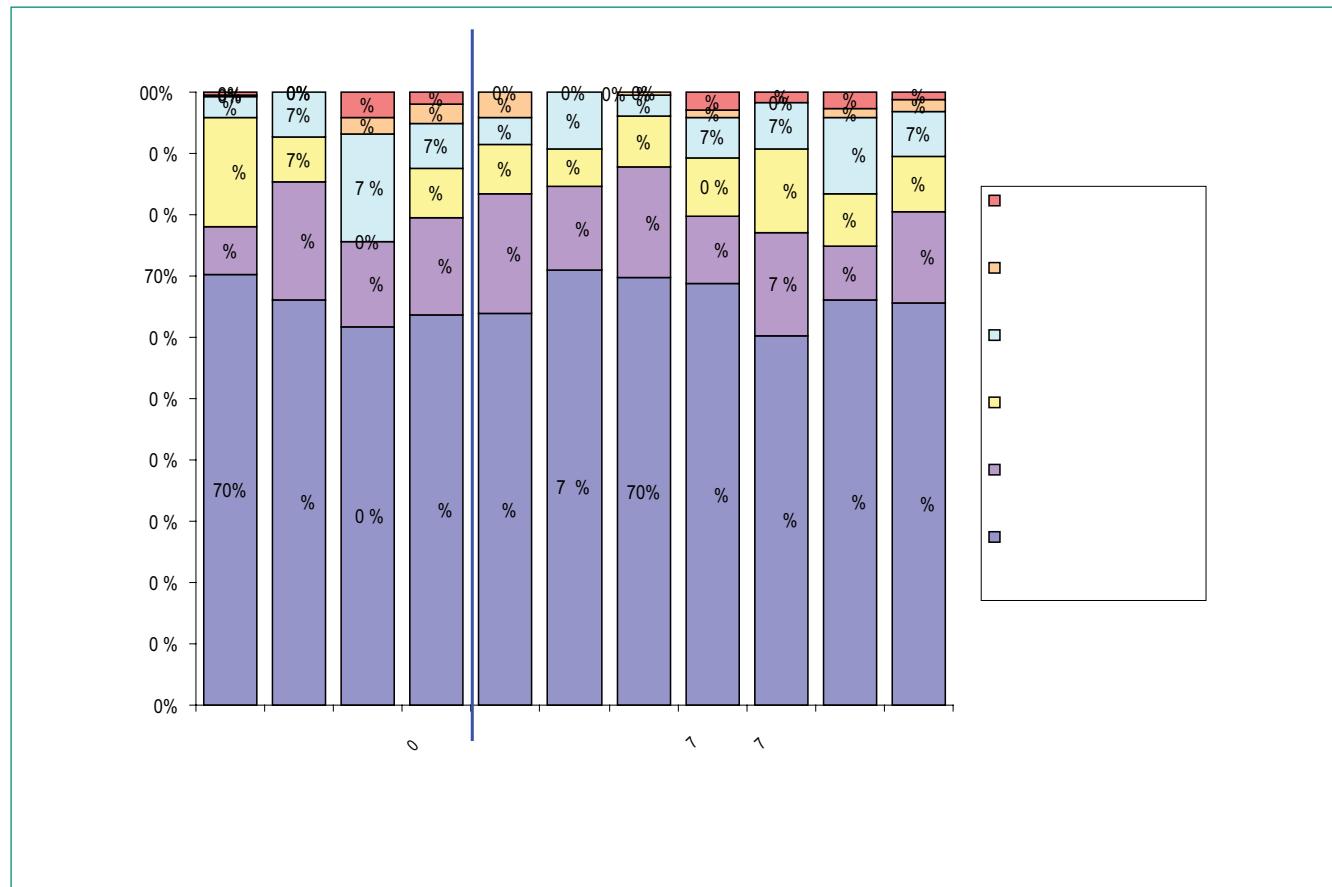
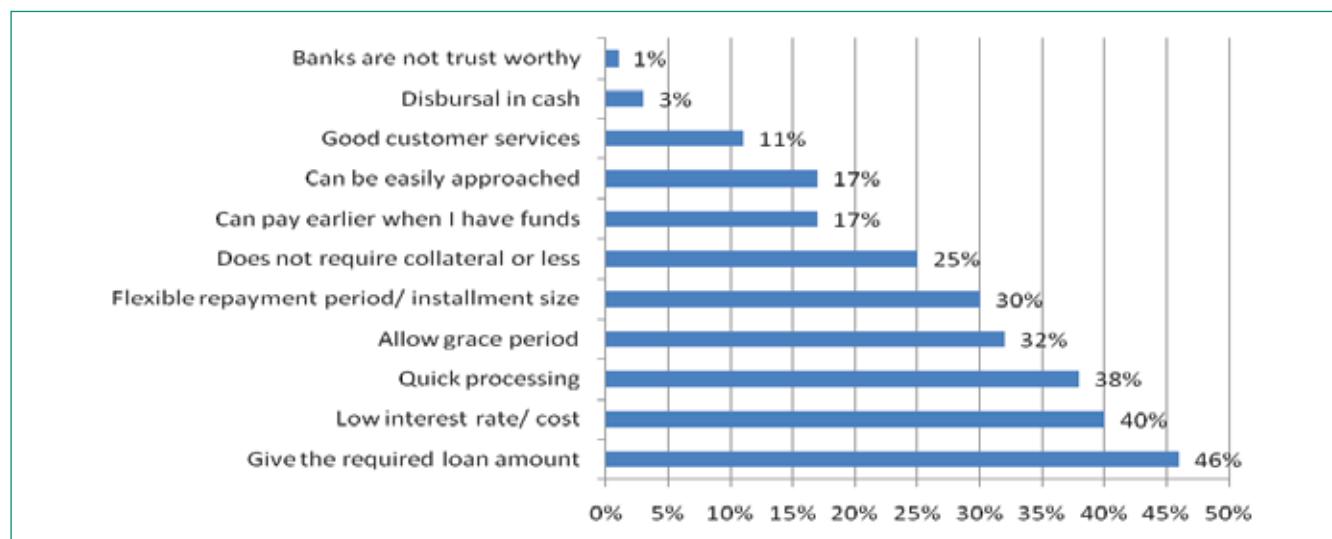
Similar to short-term loans, bank loans were used most in Battambang (18.9%). Siem Reap Province, with the second highest number of banked enterprises, has the lowest number of long-term loans from the banking sector (7.8%).

Agriculture enterprises have the highest percentage of long-term loans from a bank (18%), followed by wholesale (18%) and manufacturing (17%) enterprises. Hospitality (11%) and services (8%) have the lowest number of long-term loans with a bank.

FIGURE 51: % ENTERPRISES BY LONG-TERM FUNDING SOURCE USED IN THE LAST YEAR (BY TYPE AND BANK ACCOUNT USAGE)



Long-term loans are generally used to finance investment and growth activities of a business, rather than meet immediate and short-term needs. Enterprises access long-term loans when they need larger sums of money, including for premises and machinery purchases. The most important criteria for selecting long-term funding sources, which is the same as for short-term funding, is ensuring the source can provide the required loan amount (46%). Lower interest rates and the cost of the loan are the second criteria considered when selecting a source for funding. Quick processing, a grace period and a flexible repayment period complete the top five criteria used for selecting long-term loans.

FIGURE 52: LONG-TERM LOAN SOURCES (BY LOCATION AND ACTIVITY SECTOR)**FIGURE 53: MAIN REASONS FOR SELECTING SOURCES OF LONG-TERM FUNDING**

2.9.2. Current Borrowing Situation

This section analyzes enterprises' current borrowing, short term and long term. A total of 228 enterprises currently have loans: 96 enterprises (42%) have short-term loans and 132 enterprises (58%) have long-term loans.

When reviewing this section, the reader should keep in mind that the number of respondents can be very low in some categories (by location and by activity sector).

2.9.2.1. Short-Term Borrowing Situation (< =1 year)

19% of all enterprises currently have short-terms loans. The total short-term loan amounts are \$4,451,770.

Of enterprises with a short-term loan, the majority (60 enterprises) have a bank account.

Of enterprises with loans, 42% have short-term loans. Short-term loan amounts vary significantly from \$100 to \$.5 million. A total of \$.4.5 million in short-term loans were in use by enterprises at the time of the survey. Total outstanding debt was \$.3.4 million. These debts excluded interest charges and ranged from \$100 to \$400,000.

Repayment periods ranged from 1 to 12 months, with an average of 8.3 months across all enterprises. Monthly interest rates varied from 0% - 5%, with an overall average of 1.2%. Interest rates equal to 0%, refers to not-remunerated family loans.

Similar trends regarding bank usage by enterprises were observed; enterprises without a bank account tend to have smaller loans than enterprises using banks. There is a correlation between enterprise type and loan size. Enterprises in Siem Reap and Battambang have significantly higher loan amounts than enterprises in any of the other provinces. Figure 54 provides an overview of enterprise types, the current loans and residual debt.

FIGURE 54: TOTAL SHORT-TERM LOANS AND DEBT BY ENTERPRISE TYPE



TABLE 68: SHORT-TERM CURRENT BORROWING BY BANK ACCOUNT USAGE

Number of Enterprises with a Short-term Loan for Business Purposes	Bank Account	No Bank Account	Total
	60	36	96
Short-term Loan (nominal value)	Minimum	\$150	\$100
	Maximum	\$500,000	\$100,000
Residual Debt (excluding interest)	Minimum	\$150	\$100
	Maximum	\$400,000	\$100,000
Repayment Period (in months)	Minimum	1.0	1.0
	Maximum	12.0	12.0
	Average	8.5	8.1
Repayment Schedule (in months)	Minimum	1.0	1.0
	Maximum	12.0	12.0
	Average	2.1	1.7
Monthly Interest Rate	Minimum	0.0%	0.0%
	Maximum	2.5%	5.0%
	Average	1.2%	1.2%

When reviewing enterprise types there is a clear correlation in loan size vs. enterprise type. Micro enterprises have the smallest spread between minimum and maximum. The broader the spread becomes, the bigger the asset size of an enterprise. Figure 55 and table 69 provide the details for each enterprise type.

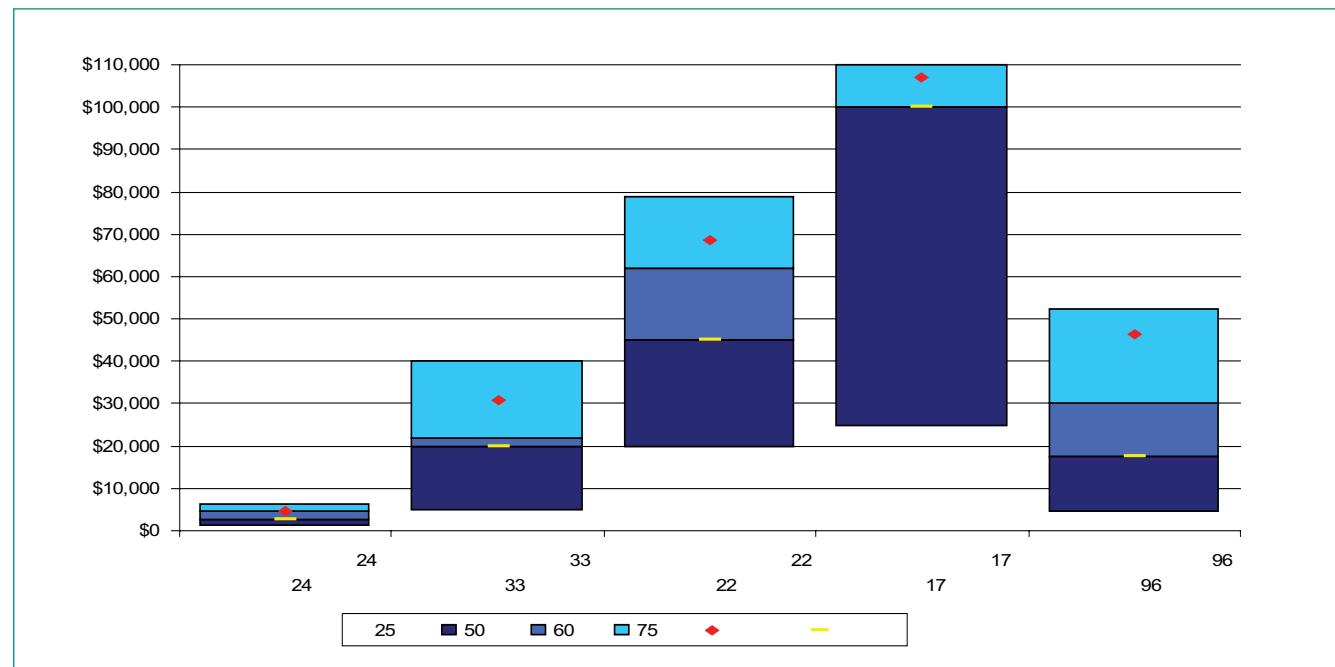
FIGURE 55: CURRENT BORROWING: SHORT-TERM LOANS BY ENTERPRISE TYPE

TABLE 69: CURRENT BORROWING: SHORT-TERM LOANS

Sector	Min	25th P	50th P	60thP	75th P	90thp	Max	Average	TOTAL SUM
Micro ST Loan N=24	\$100	\$1,450	\$2,500	\$4,600	\$6,250	\$10,000	\$20,000	\$4,563	\$109,520
Small ST Loan N=33	\$100	\$5,000	\$20,000	\$22,000	\$40,000	\$74,000	\$210,000	\$30,811	\$1,016,750
Medium ST Loan N=22	\$2,000	\$20,000	\$45,000	\$62,000	\$78,750	\$100,000	\$400,000	\$68,500	\$1,507,000
Large ST Loan N=17	\$1,500	\$25,000	\$100,000	\$100,000	\$110,000	\$208,000	\$500,000	\$106,971	\$1,818,500
TOTAL ST Loan N=96	\$100	\$4,750	\$17,500	\$30,000	\$52,500	\$100,000	\$500,000	\$46,373	\$4,451,770

TABLE 70: SHORT-TERM CURRENT BORROWING SITUATION, BY TYPE

		Micro	Small	Medium	Large	Total
Number of Enterprises with a Short-term Loan for Business Purposes		24	33	22	17	96
Short-Term Loan (nominal value)	Minimum	\$100	\$100	\$2,000	\$1,500	\$100
	Maximum	\$20,000	\$210,000	\$400,000	\$500,000	\$500,000
Residual Debt (excluding interest)	Minimum	\$100	\$100	\$3,000	\$1,500	\$100
	Maximum	\$18,700	\$210,000	\$400,000	\$220,000	\$400,000
Repayment Period (in months)	Minimum	1.0	1.0	1.0	1.0	1.0
	Maximum	12.0	12.0	12.0	12.0	12.0
	Average	6.3	8.6	8.8	10.0	8.3
Repayment Schedule (in months)	Minimum	1.0	1.0	1.0	1.0	1.0
	Maximum	2.0	10.0	12.0	12.0	12.0
	Average	1.1	1.6	2.2	3.2	1.9
Monthly Interest Rate	Minimum	0.0%	0.0%	0.0%	0.5%	0.0%
	Maximum	2.5%	5.0%	3.0%	2.5%	5.0%
	Average	1.3%	1.2%	1.2%	1.2%	1.2%

TABLE 71: SHORT-TERM CURRENT BORROWING BY LOCATION

		Siem Reap	Battambang	Sihanoukville	Other provinces	Total
Number of Enterprises with a Short-term Loan for Business Purposes		19	41	3	33	96
Short-term Loan (nominal value)	Minimum	\$100	\$1,600	\$1,250	\$100	\$100
	Maximum	\$500,000	\$400,000	\$3,000	\$110,000	\$500,000
Residual Debt (excluding interest)	Minimum	\$100	\$1,400	\$1,000	\$100	\$100
	Maximum	\$200,000	\$400,000	\$2,000	\$40,000	\$400,000
Repayment Period (in months)	Minimum	1.0	1.0	2.0	1.0	1.0
	Maximum	12.0	12.0	6.0	12.0	12.0
	Average	7.7	10.4	3.7	6.2	8.3
Repayment Schedule (in months)	Minimum	1.0	1.0	1.0	1.0	1.0
	Maximum	12.0	12.0	1.0	3.0	12.0
	Average	2.1	2.3	1.0	1.2	1.9
Monthly Interest Rate	Minimum	0.1%	0.5%		0.0%	0.0%
	Maximum	1.5%	5.0%		3.0%	5.0%
	Average	0.8%	1.4%		1.1%	1.2%

The small number of respondents per sector needs to be taken into account when reviewing activity sector as the majority respondents are in the agriculture sector. 60% of agriculture enterprises have a short-term loan size of up to \$50,000. For wholesalers, manufacturing, services and hospitality, 60% of enterprises have up to \$10,000 in short term loans.

FIGURE 56: CURRENT BORROWING: SHORT-TERM LOANS BY ACTIVITY SECTOR

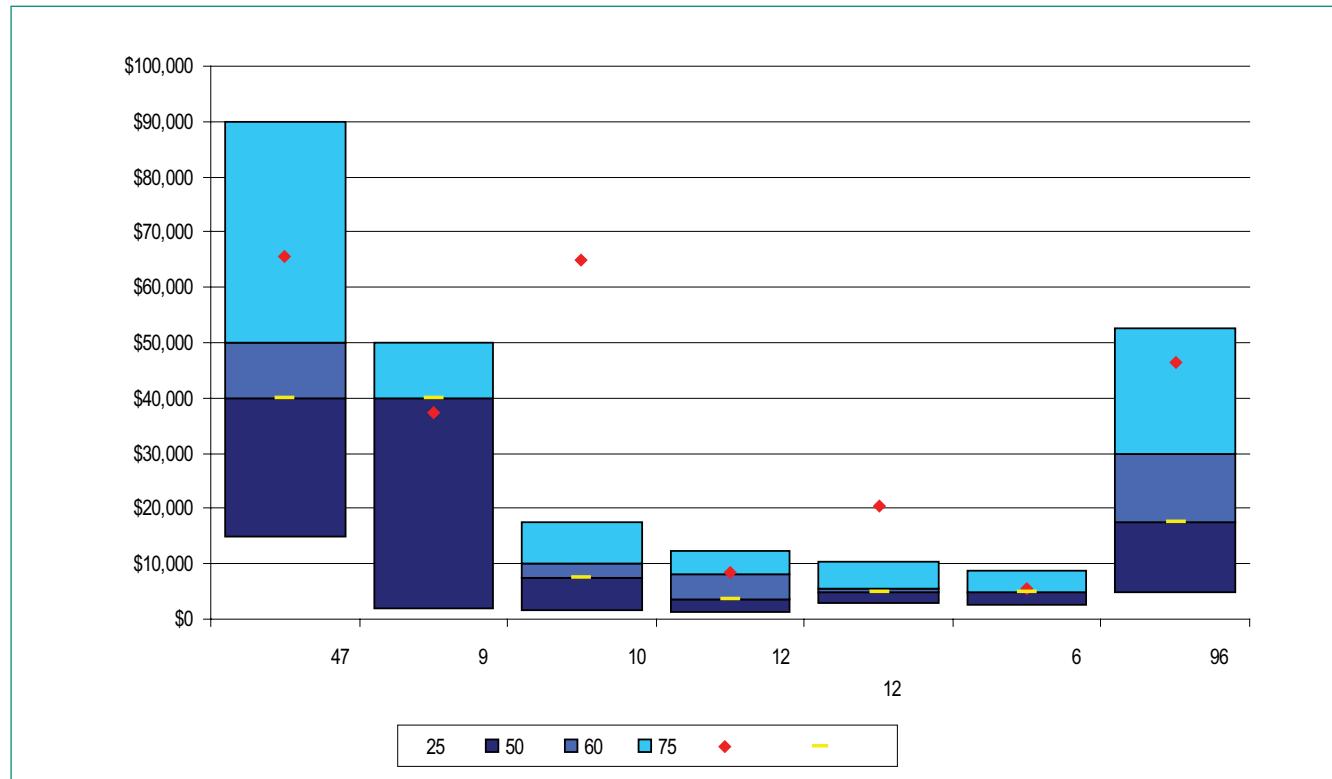


TABLE 72 CURRENT BORROWING: SHORT-TERM LOANS BY ACTIVITY SECTOR

#	Sector	Min	25th P	50th P	60thP	75th P	90thp	Max	Average	TOTAL SUM
47	Agriculture	\$100	\$15,000	\$40,000	\$50,000	\$90,000	\$170,000	\$400,000	\$65,630	\$3,084,600
9	Retail	\$1,300	\$2,000	\$40,000	\$40,000	\$50,000	\$100,000	\$100,000	\$37,456	\$337,100
10	Hospitality	\$100	\$1,625	\$7,500	\$10,000	\$17,500	\$140,000	\$500,000	\$64,875	\$648,750
12	Services	\$500	\$1,438	\$3,500	\$8,000	\$12,500	\$20,000	\$30,000	\$8,571	\$102,850
12	Manufacturing	\$1,000	\$3,000	\$5,000	\$5,600	\$10,250	\$74,000	\$110,000	\$20,500	\$246,000
6	Wholesale	\$470	\$2,750	\$5,000	\$5,000	\$8,750	\$10,000	\$10,000	\$5,412	\$32,470
96	TOTAL	\$100	\$4,750	\$17,500	\$30,000	\$52,500	\$100,000	\$500,000	\$46,373	\$4,451,770

TABLE 73: SHORT-TERM CURRENT BORROWING ACTIVITY SECTOR

		Agriculture	Retail	Wholesale	Hospitality	Manufacturing	Services	TOTAL
Number of Enterprises with a Short-term Loan for Business Purposes		47	9	6	10	12	12	96
Short-term Loan (nominal value)	Minimum	\$100	\$1,300	\$470	\$100	\$1,000	\$500	\$100
	Maximum	\$400,000	\$100,000	\$10,000	\$500,000	\$110,000	\$30,000	\$500,000
Residual Debt (excluding interest)	Minimum	\$100	\$1,300	\$378	\$100	\$700	\$500	\$100
	Maximum	\$400,000	\$50,000	\$10,000	\$100,000	\$80,000	\$30,000	\$400,000
Repayment Period (in months)	Minimum	2.0	1.0	1.0	1.0	1.0	1.0	1.0
	Maximum	12.0	12.0	12.0	12.0	12.0	12.0	12.0
	Average	9.8	10.3	5.3	6.4	4.5	8.1	8.3
Repayment Schedule (in months)	Minimum	1.0	1.0	1.0	1.0	1.0	1.0	1.0
	Maximum	12.0	6.0	1.0	1.0	2.0	1.5	12.0
	Average	2.5	2.0	1.0	1.0	1.2	1.1	1.9
Monthly Interest Rate	Minimum	0.0%	1.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	Maximum	5.0%	1.5%	2.5%	1.5%	2.0%	2.5%	5.0%
	Average	1.2%	1.2%	0.9%	1.0%	1.4%	1.4%	1.2%

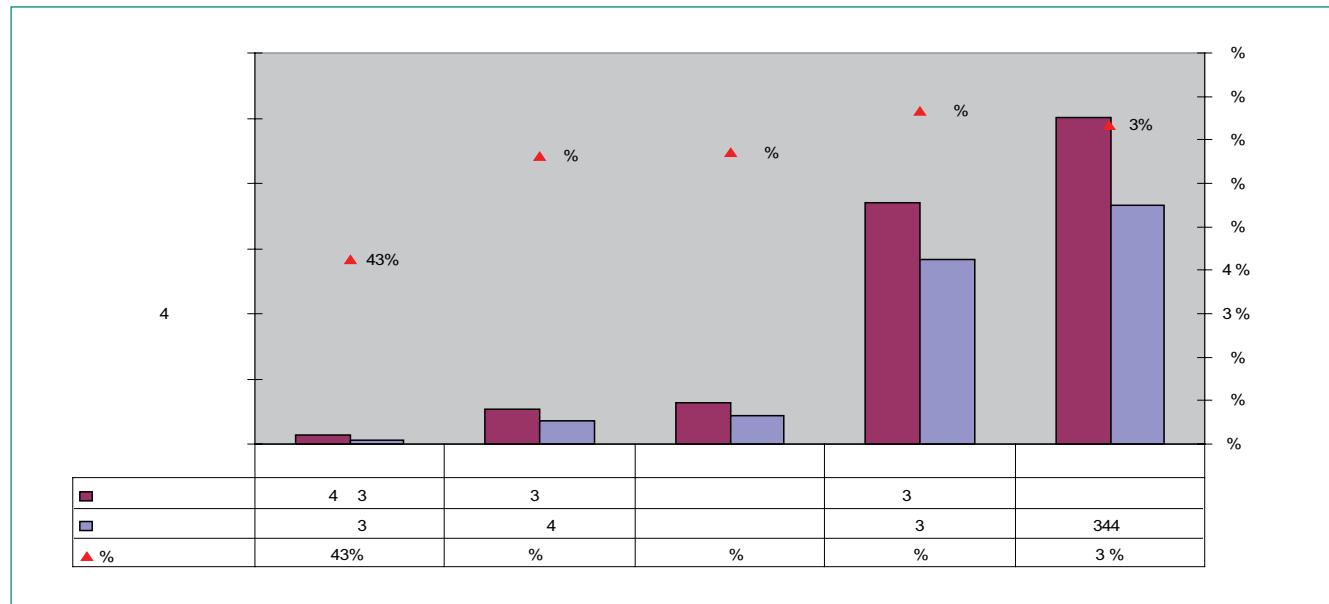
2.9.2.2. Long-term Borrowing Situation (>1 year)

26% of all enterprises currently have long-term loans. The total long-term loans amount to \$10 million.
A total of 52% of enterprises with long-term loans have a bank account

Of enterprises that have loans, long-term loans account for 58%. Loan amounts vary quite significantly from \$200 to \$2 million, with a total of \$10 million in long-term loans. The current outstanding debt (residual debt) ranges from \$50 to \$2 million, and totals \$7.3 million.

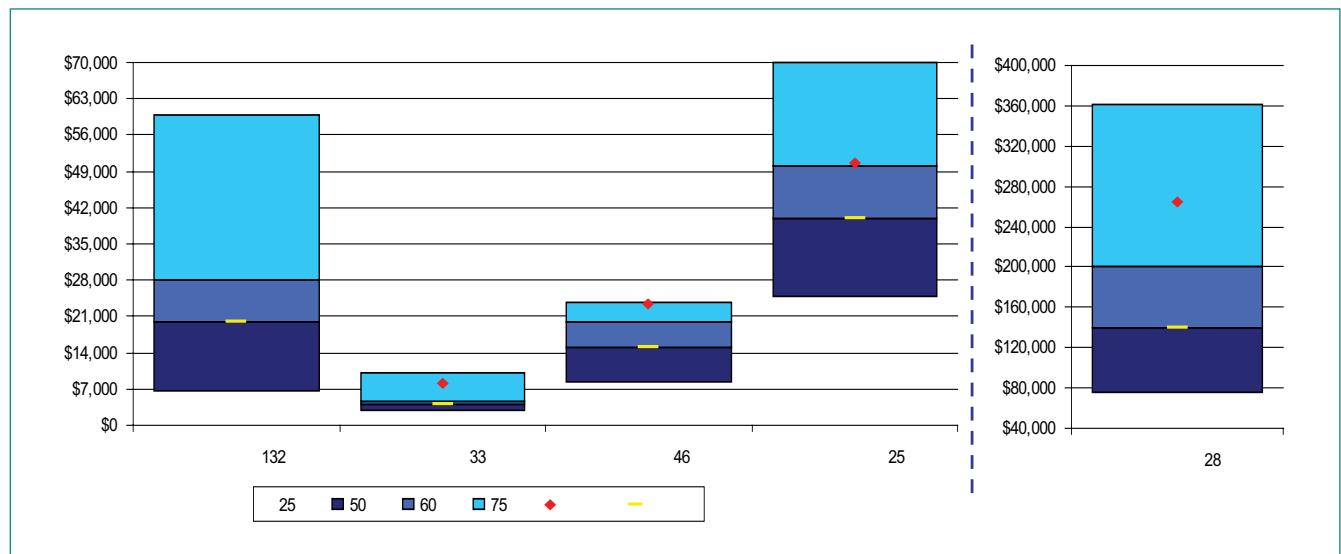
Repayment periods range from 11 months to 10 years, with an average of 2 years across all enterprises. Monthly interest rates vary from 0%-3%, with an overall average of 1.5%. Interest rates equal to 0% refer to un-remunerated family loans.

Enterprises with bank accounts have bigger long-term loan averages than enterprises without bank accounts. Figure 57 shows the total loans and debt by enterprise type.

FIGURE 57: TOTAL LONG-TERM LOANS AND RESIDUAL DEBT, BY ENTERPRISE TYPE**TABLE 74: LONG-TERM CURRENT BORROWING BY BANK ACCOUNT USAGE**

Number of Enterprises with a Long-term Loan for Business Purposes	Bank Account	No Bank Account	Total
Long-term Loan (nominal value)	Minimum	\$4,000	\$200
	Maximum	\$2,000,000	\$2,000,000
Residual Debt (without interest)	Minimum	\$500	\$50
	Maximum	\$2,000,000	\$2,000,000
Repayment Period (in years)	Minimum	0.9	1
	Maximum	10	5
	Average	2.2	1.8
Repayment Schedule (in months)	Minimum	1	1
	Maximum	18	12
	Average	1.6	1.3
Monthly Interest Rate	Minimum	0.10%	0.00%
	Maximum	3.00%	3.00%
	Average	1.30%	1.60%

When analyzing the data by enterprise type, one can see a correlation between type of enterprise and average loan size. Micro enterprises have smaller loans and progressively, as the loans get bigger, the enterprises are larger.

FIGURE 58: LONG-TERM CURRENT BORROWING BY ENTERPRISE TYPE**TABLE 75: LONG-TERM CURRENT BORROWING BY ENTERPRISE TYPE**

		Micro	Small	Medium	Large	Total
		33	46	25	28	132
Number of Enterprises with a Long-term Loan for Business Purposes	Minimum	\$200	\$500	\$2,500	\$10,000	\$200
	Maximum	\$45,000	\$150,000	\$150,000	\$2,000,000	\$2,000,000
Residual Debt	Minimum	\$200	\$50	\$10,000	\$5,000	\$50
	Maximum	\$25,000	\$100,000	\$150,000	\$2,000,000	\$2,000,000
Repayment Period (in years)	Minimum	1	1	1	0.9	0.9
	Maximum	4	5	5	10	10
	Average	1.8	1.7	2.1	2.6	2
Repayment Schedule (in months)	Minimum	1	1	1	1	1
	Maximum	12	6	18	10	18
	Average	1.5	1.1	1.9	1.4	1.4
Monthly Interest Rate	Minimum	0.10%	0.00%	0.50%	0.50%	0.00%
	Maximum	3.00%	3.00%	2.00%	1.70%	3.00%
	Average	2.00%	1.50%	1.20%	1.10%	1.50%

When analysing data by location, data have been aggregated differently due to the number of data points. Battambang has the biggest number of loans and loan sizes. Of the 36 enterprises, 60% have a loan size of up to \$100,000. Although Siem Reap has the highest average and total for long-term loan size, generally loan sizes are small (60% up to \$20,000).

In general, in all provinces, except Battambang and Kandal, 60% of enterprises have a long-term loan size ranging from \$20,000 up to \$28,000 dollars.

FIGURE 59: CURRENT BORROWING; LONG-TERM LOANS BY LOCATION

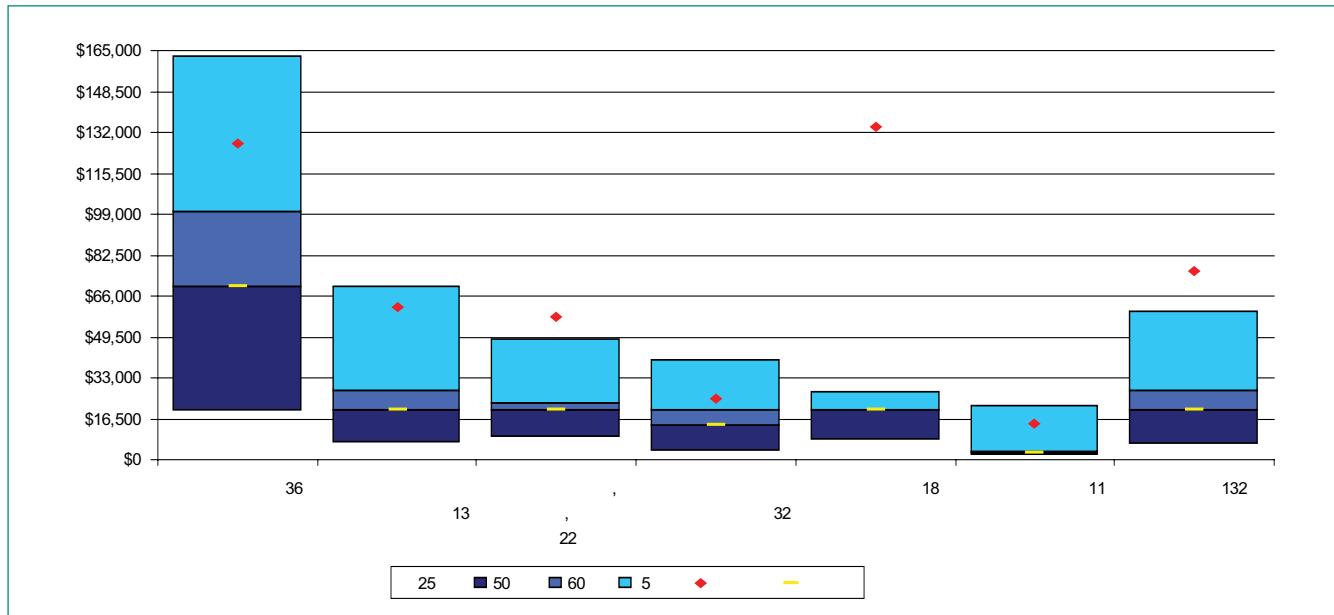


TABLE 76: CURRENT BORROWING: LONG-TERM LOANS BY LOCATION

#	Sector	Min	25th P	50th P	60thP	75th P	90thp	Max	Average	TOTAL SUM
36	Battambang	\$2,000	\$20,000	\$70,000	\$100,000	\$162,500	\$375,000	\$600,000	\$127,361	\$4,585,000
13	Kampot & Sihanoukville	\$5,000	\$7,000	\$20,000	\$28,000	\$70,000	\$96,000	\$400,000	\$61,308	\$797,000
22	Kampong Cham, Chhnang, Speu	\$1,000	\$9,250	\$20,000	\$23,000	\$48,750	\$142,000	\$395,500	\$57,477	\$1,264,500
32	Banteay Meanchey & Svay Rieng	\$500	\$3,950	\$14,000	\$20,000	\$40,000	\$59,000	\$130,000	\$24,455	\$782,550
18	Siem Reap	\$1,500	\$8,500	\$20,000	\$20,000	\$27,500	\$100,000	\$2,000,000	\$134,283	\$2,417,100
11	Kandal & PP	\$200	\$2,250	\$3,000	\$3,500	\$22,000	\$50,000	\$50,000	\$14,545	\$160,000
132	TOTAL	\$200	\$6,750	\$20,000	\$28,000	\$60,000	\$150,000	\$2,000,000	\$75,804	\$10,006,150

Agriculture and wholesale enterprises represent the sectors with the biggest long-term loans. A total of 60% of enterprises have a loan size of up to \$76,000, while for all other sectors, the majority of enterprises (60%) have a loan size of \$20,000 or less. The services and retail sectors have the smallest long-term loan sizes.

TABLE 77: LONG-TERM CURRENT BORROWING SITUATION BY LOCATION

		Micro	Small	Medium	Large	Total
Number of Enterprises with a Long-term Loan for Business Purposes		18	36	10	68	132
Long-term Loan	Minimum	\$1,500	\$2,000	\$5,000	\$200	\$200
	Maximum	\$2,000,000	\$600,000	\$400,000	\$395,500	\$2,000,000
Residual Debt	Minimum	\$500	\$1,000	\$1,000	\$50	\$50
	Maximum	\$2,000,000	\$500,000	\$300,000	\$300,000	\$2,000,000
Repayment Period (in years)	Minimum	1.3	1	1	0.9	0.9
	Maximum	4	5	5	10	10
	Average	2	2.1	2.6	1.9	2
Repayment Schedule (in months)	Minimum	1	1	1	1	1
	Maximum	18	10	1	6	18
	Average	2.8	1.4	1	1.1	1.4
Monthly Interest Rate	Minimum	0.80%	0.00%	0.10%	0.10%	0.00%
	Maximum	3.00%	3.00%	2.00%	3.00%	3.00%
	Average	1.60%	1.20%	1.20%	1.60%	1.50%

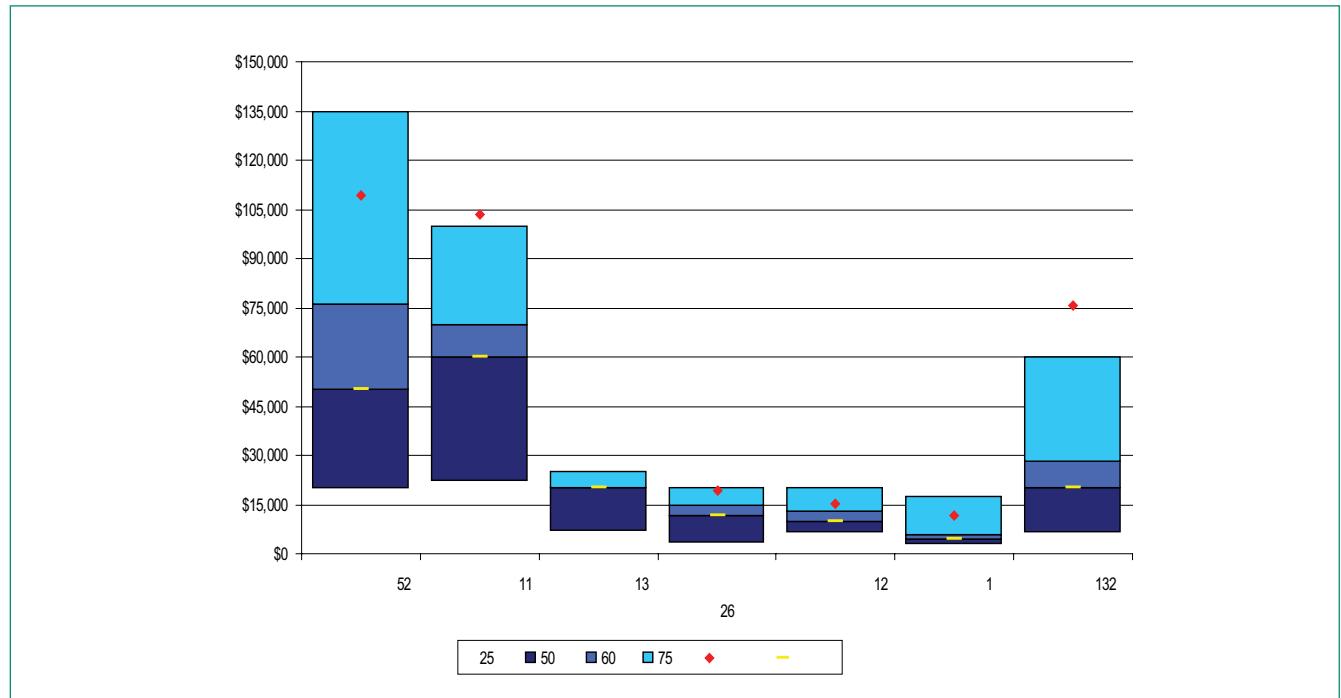
FIGURE 60: CURRENT BORROWING: LONG-TERM LOANS, BOXPLOT

TABLE 78: CURRENT BORROWING: LONG-TERM LOANS

#	Sector	Min	25th P	50th P	60thP	75th P	90thp	Max	Average	TOTAL SUM
52	Agriculture	\$1,000	\$20,000	\$50,000	\$76,000	\$135,000	\$340,000	\$600,000	\$109,179	\$5,677,300
11	Wholesale	\$2,500	\$22,500	\$60,000	\$70,000	\$100,000	\$300,000	\$400,000	\$103,409	\$1,137,500
13	Hospitality	\$1,800	\$7,000	\$20,000	\$20,000	\$25,000	\$96,000	\$2,000,000	\$176,831	\$2,298,800
26	Manufacturing	\$500	\$3,625	\$11,500	\$15,000	\$20,000	\$50,000	\$100,000	\$19,183	\$498,750
12	Retail	\$200	\$6,750	\$10,000	\$13,000	\$20,000	\$20,000	\$60,000	\$15,100	\$181,200
18	Services	\$1,500	\$3,000	\$4,500	\$5,600	\$17,250	\$33,000	\$50,000	\$11,811	\$212,600
132	TOTAL	\$200	\$6,750	\$20,000	\$28,000	\$60,000	\$150,000	\$2,000,000	\$75,804	\$10,006,150

TABLE 79: LONG-TERM CURRENT BORROWING, BY ACTIVITY

		Agriculture	Retail	Wholesale	Hospitality	Manufacturing	Services	TOTAL
Number of Enterprises with a Long-term Loan for Business Purposes		53	10	12	13	27	19	134
Long-term Loan	Minimum	\$1,000	\$200	\$2,500	\$1,800	\$500	\$1,500	\$200
	Maximum	\$600,000	\$60,000	\$400,000	\$2,000,000	\$100,000	\$50,000	\$2,000,000
	Average	\$107,175	\$17,120	\$103,409	\$176,831	\$19,183	\$11,558	\$75,804
Residual Debt	Minimum	\$1,000	\$200	\$2,000	\$800	\$50	\$500	\$50
	Maximum	\$500,000	\$53,000	\$300,000	\$2,000,000	\$75,000	\$28,000	\$2,000,000
	Average	\$86,021	\$13,689	\$88,050	\$171,778	\$12,990	\$5,906	\$64,281
Repayment Period (in years)	Minimum	0.9	1.0	1.0	1.3	1.0	1.0	0.9
	Maximum	5.0	3.0	10.0	4.0	5.0	3.0	10.0
	Average	1.8	1.8	3.3	2.3	1.8	1.8	2.0
Repayment Schedule (in months)	Minimum	1.0	1.0	1.0	1.0	1.0	1.0	1.0
	Maximum	18.0	1.0	1.0	12.0	1.0	1.0	18.0
	Average	1.9	1.0	1.0	2.0	1.0	1.0	1.4
Monthly Interest Rate	Minimum	0.1%	1.0%	0.8%	0.0%	0.0%	0.1%	0.0%
	Maximum	2.5%	2.0%	2.0%	3.0%	3.0%	3.0%	3.0%
	Average	1.2%	1.5%	1.3%	1.5%	1.8%	1.8%	1.5%

2.9.3. Financing Needs in the Next 3 Years

2.9.3.1. Assets to be Funded

386 or 77% of enterprises need financing for fixed assets totalling \$60.7 million.
 54% (210) of these enterprises do not have a bank account.
 The total number of loans required is 677 for the 386 enterprises.

All enterprises were asked what types of fixed assets they need to finance in the coming 3 years as well as the necessary amounts. In total, 77% of survey respondents answered this question and their funding needs add up to \$60.7 million. 72.5% of the enterprises need financing worth a total of \$32.5 million, representing 54% of the total financing

needs identified. 66.3% of the enterprises have financing needs totalling \$24.5 million for machinery & equipment, representing 40% of the total asset needs. Furniture and fittings and business equipment represent a small percentage of total asset needs (\$3.7million for 37% of enterprises). Figure 61 and 62 show the distribution of total asset financing by location and activity sector.

FIGURE 61: % OF TOTAL ASSET FINANCING NEEDED FOR DIFFERENT TYPES OF ASSETS (BY ENTERPRISE TYPE)

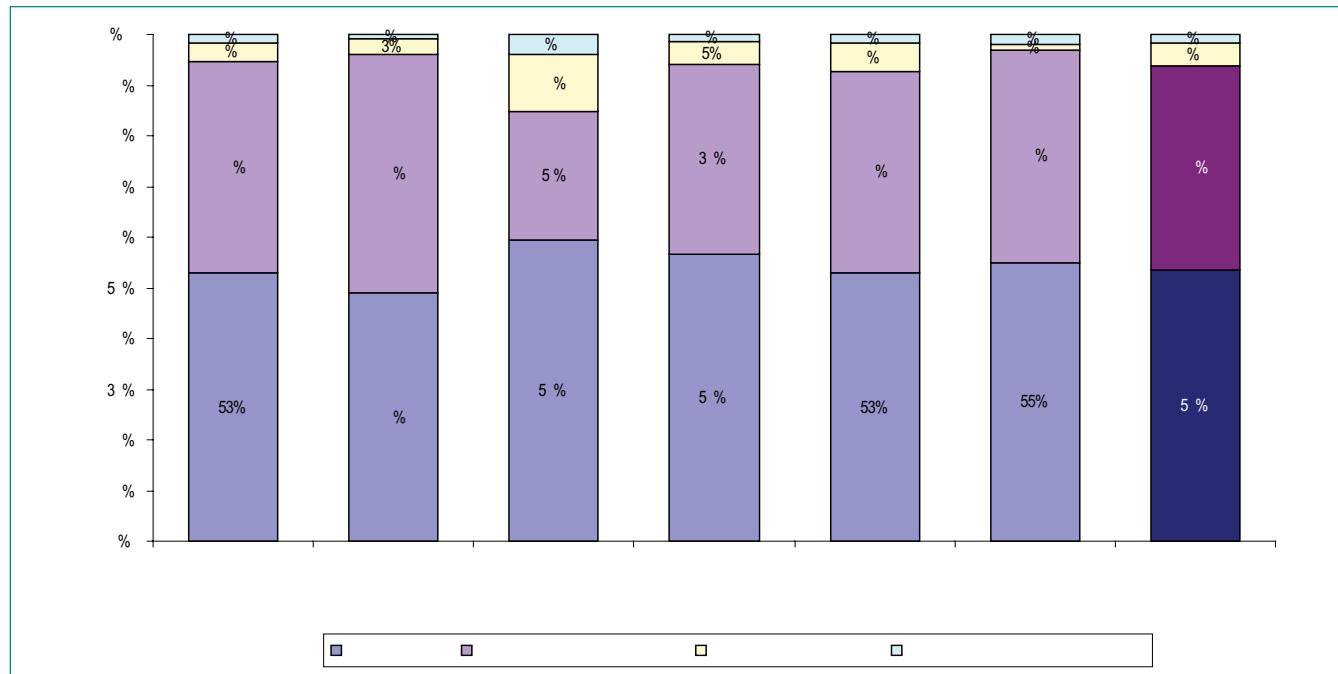
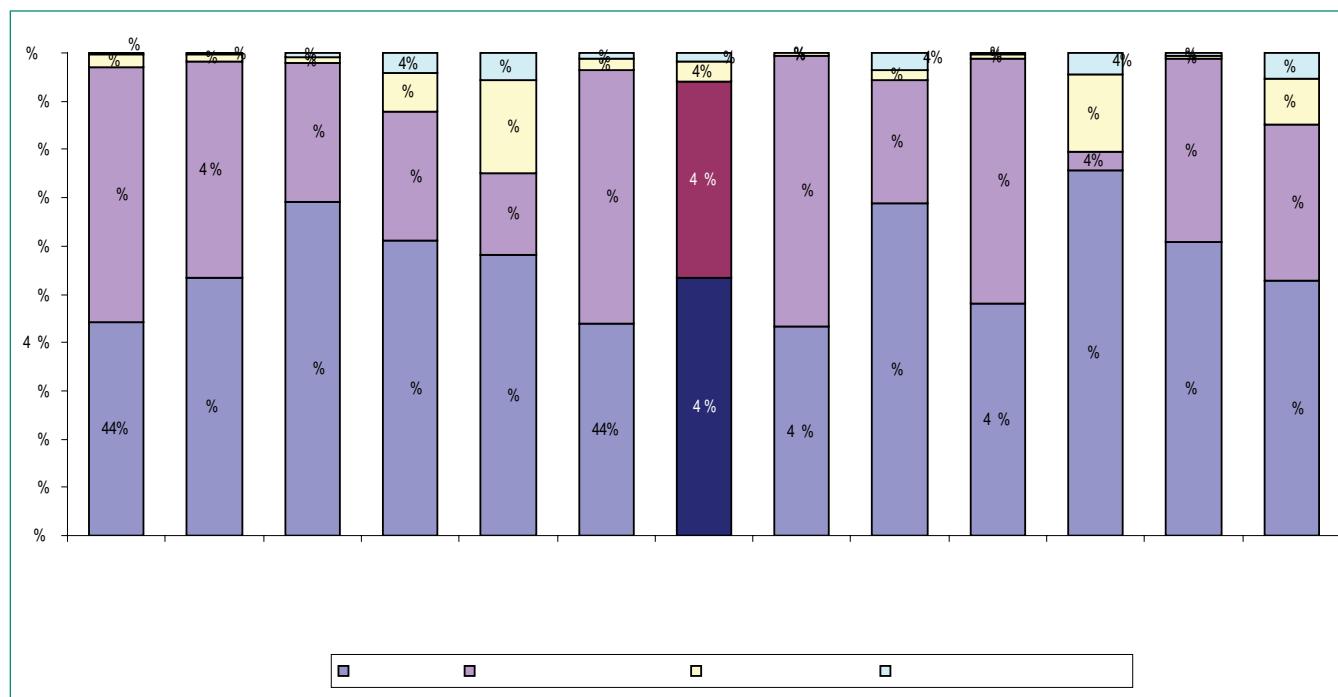
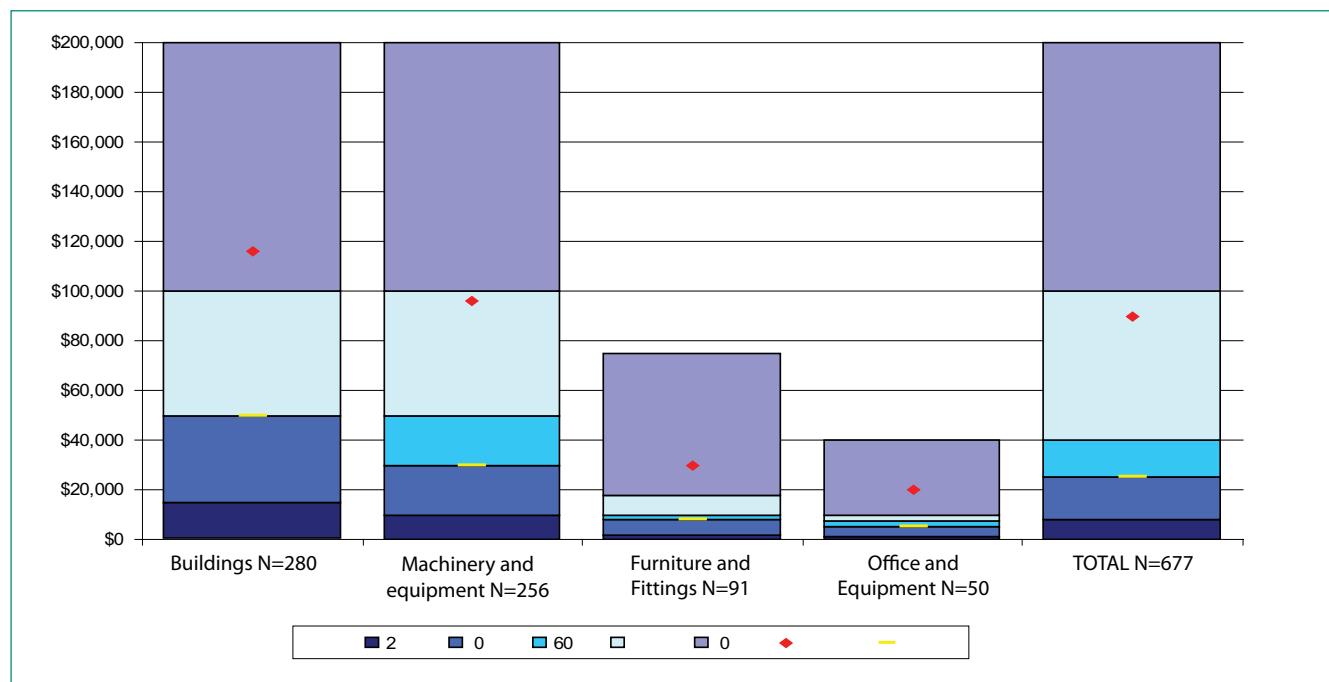


FIGURE 62: % OF TOTAL ASSETS NEEDING FINANCING BY ASSET TYPE (BY LOCATION AND ACTIVITY SECTOR)



These data show that the amounts needed to finance fixed assets range significantly from \$100 to \$5 million. Only 23.6% of all enterprises require financing for 'furniture and office fittings' and 13.0% of enterprises require financing for 'business equipment'. Although a significantly smaller portion of enterprises requires financing for 'business equipment and furniture', the amounts required vary from \$100 to \$500,000. Figure 63 and Table 80 represent the number of enterprises by type of asset requiring financing.

FIGURE 63: ASSETS NEEDING FINANCING (PERCENTILES)



There is a big demand for asset financing among enterprises without a bank account. 210 out of 386 respondents do not have a bank account. The amounts to be financed are lower for enterprises without a bank account.

When looking at the enterprises types, one can see that there is a strong correlation between the amounts to be financed and enterprise types. For all types, 'buildings' and 'machinery & equipment' still represent the assets most in need of financing. Averages should be read with caution due to the wide spread of data.

TABLE 80: ASSETS NEEDING FINANCING, BY BANK ACCOUNT USERS

		Bank Account	No Bank Account	Total
Buildings	Minimum	\$1,000	\$300	\$300
	Maximum	\$5,000,000	\$2,000,000	\$5,000,000
	Average	\$155,046	\$77,309	\$116,178
	Total	\$21,706,500	\$10,823,200	\$32,529,700
	% respondents	80.0%	66.4%	72.5%
Machinery and equipment	Minimum	\$200	\$100	\$100
	Maximum	\$5,000,000	\$600,000	\$5,000,000
	Average	\$142,769	\$58,038	\$95,770
	Total	\$16,275,700	\$8,241,350	\$24,517,050
	% respondents	65.1%	67.3%	66.3%
Furniture and fittings	Minimum	\$100	\$100	\$100
	Maximum	\$500,000	\$50,000	\$500,000
	Average	\$44,004	\$7,588	\$29,597
	Total	\$2,420,200	\$273,150	\$2,693,350
	% respondents	31.4%	17.1%	23.6%
Office and business equipment	Minimum	\$100	\$200	\$100
	Maximum	\$400,000	\$100,000	\$400,000
	Average	\$27,770	\$13,396	\$20,008
	Total	\$638,700	\$361,700	\$1,000,400
	% respondents	13.1%	12.8%	13.0%
All assets	Total	\$41,041,100	\$19,699,400	\$60,740,500
	Average	\$234,521	\$93,362	\$157,359
Respondents without double counting		100.0%	100.0%	100.0%
		175	211	386

TABLE 81: ASSETS NEEDING FINANCING, BY SIZE OF ENTERPRISE

		Micro	Small	Medium	Large	Total
Buildings	Minimum	\$300	\$3,000	\$5,000	\$2,000	\$300
	Maximum	\$300,000	\$2,000,000	\$1,000,000	\$5,000,000	\$5,000,000
	Average	\$39,752	\$82,365	\$117,263	\$326,457	\$116,178
	Total	\$3,498,200	\$7,330,500	\$6,684,000	\$15,017,000	\$32,529,700
	% respondents	64.7%	71.8%	85.1%	78.0%	72.5%
Machinery and equipment	Minimum	\$100	\$500	\$2,000	\$2,000	\$100
	Maximum	\$200,000	\$400,000	\$600,000	\$5,000,000	\$5,000,000
	Average	\$20,170	\$55,011	\$130,204	\$262,300	\$95,770
	Total	\$1,492,550	\$4,841,000	\$6,380,000	\$11,803,500	\$24,517,050
	% respondents	54.4%	71.0%	73.1%	76.3%	66.3%
Furniture and fittings	Minimum	\$100	\$1,000	\$1,500	\$200	\$100
	Maximum	\$400,000	\$200,000	\$175,000	\$500,000	\$500,000
	Average	\$16,269	\$25,496	\$35,292	\$64,544	\$29,597
	Total	\$650,750	\$586,400	\$423,500	\$1,032,700	\$2,693,350
	% respondents	29.4%	18.5%	17.9%	27.1%	23.6%
Office and business equipment	Minimum	\$100	\$200	\$900	\$500	\$100
	Maximum	\$40,000	\$100,000	\$100,000	\$400,000	\$400,000
	Average	\$7,687	\$16,155	\$36,967	\$94,700	\$20,008
	Total	\$238,300	\$177,700	\$110,900	\$473,500	\$1,000,400
	% respondents	22.8%	8.9%	4.5%	8.5%	13.0%
All assets	Total	\$5,879,800	\$12,935,600	\$13,598,400	\$28,326,700	\$60,740,500
	Average	\$43,234	\$104,319	\$202,961	\$480,114	\$157,359
Respondents without double counting		100.0%	100.0%	100.0%	100.0%	100.0%
		136	124	67	59	386

When looking at location, one sees that enterprises in Siem Reap have the highest average amount of assets needed per enterprise (\$184,738).

It is interesting to note that enterprises in the smallest provinces have the highest average ‘machinery and equipment’, ‘furniture and fittings’ and ‘office and business equipment’ needs compared to the 3 main provinces.

TABLE 82: ASSETS NEEDING FINANCING, BY LOCATION

		Siem Reap	Battambang	Sihanoukville	Other provinces	Total
Buildings	Minimum	\$1,400	\$1,500	\$1,000	\$300	\$300
	Maximum	\$2,500,000	\$500,000	\$500,000	\$5,000,000	\$5,000,000
	Average	\$153,236	\$87,872	\$99,158	\$121,102	\$116,178
	Total	\$9,040,900	\$7,557,000	\$1,884,000	\$14,047,800	\$32,529,700
	% respondents	73.8%	79.6%	65.5%	68.6%	72.5%
Machinery and equipment	Minimum	\$200	\$500	\$500	\$100	\$100
	Maximum	\$400,000	\$1,000,000	\$200,000	\$5,000,000	\$5,000,000
	Average	\$82,181	\$103,316	\$33,885	\$103,179	\$95,770
	Total	\$3,944,700	\$8,988,500	\$440,500	\$11,143,350	\$24,517,050
	% respondents	60.0%	80.6%	44.8%	63.9%	66.3%
Furniture and fittings	Minimum	\$100	\$200	\$500	\$200	\$100
	Maximum	\$500,000	\$175,000	\$400,000	\$200,000	\$500,000
	Average	\$43,220	\$27,644	\$34,194	\$15,620	\$29,597
	Total	\$1,166,950	\$442,300	\$615,500	\$468,600	\$2,693,350
	% respondents	33.8%	14.8%	62.1%	17.8%	23.6%
Office and business equipment	Minimum	\$500	\$100	\$500	\$200	\$100
	Maximum	\$400,000	\$20,000	\$70,000	\$40,000	\$400,000
	Average	\$69,611	\$6,444	\$8,600	\$10,635	\$20,008
	Total	\$626,500	\$58,000	\$103,200	\$212,700	\$1,000,400
	% respondents	11.3%	8.3%	41.4%	11.8%	13.0%
ALL ASSETS	Total	\$14,779,050	\$17,045,800	\$3,043,200	\$25,872,450	\$60,740,500
	Average	\$184,738	\$157,831	\$104,938	\$153,091	\$157,359
Respondents without double counting		100.0%	100.0%	100.0%	100.0%	100.0%
		80	108	29	169	386

When looking at activity sector, enterprises in agriculture, hospitality and manufacturing require the largest amounts of asset financing in total, while the retail and wholesale sectors require the smallest amount of total financing.

Table 83 summarises asset financing by activity sector, followed by table 84 summarising total financing according to several variables. Further segregation by province is provided in this table.

TABLE 83: ASSETS NEEDING FINANCING, BY ACTIVITY SECTOR

		Agriculture	Retail	Wholesale	Hospitality	Manufacturing	Services	Total
Buildings	Minimum	\$500	\$8,000	\$10,000	\$1,000	\$300	\$1,000	\$300
	Maximum	\$5,000,000	\$300,000	\$500,000	\$2,500,000	\$2,000,000	\$1,000,000	\$5,000,000
	Average	\$133,918	\$92,952	\$76,176	\$147,778	\$105,124	\$78,406	\$116,178
	Total	\$13,124,000	\$1,952,000	\$1,295,000	\$7,980,000	\$4,415,200	\$3,763,500	\$32,529,700
	% respondents	81.7%	67.7%	73.9%	84.4%	63.6%	58.5%	72.5%
Machinery and equipment	Minimum	\$1,000	\$2,000	\$13,000	\$2,000	\$100	\$500	\$100
	Maximum	\$5,000,000	\$400,000	\$300,000	\$200,000	\$1,000,000	\$500,000	\$5,000,000
	Average	\$159,875	\$45,438	\$85,875	\$22,833	\$62,431	\$41,273	\$95,770
	Total	\$16,946,800	\$727,000	\$1,374,000	\$411,000	\$2,746,950	\$2,311,300	\$24,517,050
	% respondents	88.3%	51.6%	69.6%	28.1%	66.7%	68.3%	66.3%
Furniture and fittings	Minimum	\$200	\$200	\$500	\$500	\$100	\$100	\$100
	Maximum	\$200,000	\$20,000	\$10,000	\$500,000	\$20,000	\$400,000	\$500,000
	Average	\$66,900	\$8,600	\$6,833	\$36,978	\$5,044	\$28,937	\$29,597
	Total	\$200,700	\$60,200	\$20,500	\$1,701,000	\$45,400	\$665,550	\$2,693,350
	% respondents	2.5%	22.6%	13.0%	71.9%	13.6%	28.0%	23.6%
Office and business equipment	Minimum		\$900	\$500	\$200	\$3,000	\$100	\$100
	Maximum		\$100,000	\$5,000	\$400,000	\$10,000	\$100,000	\$400,000
	Average		\$50,450	\$3,500	\$35,746	\$7,167	\$14,665	\$20,008
	Total	\$0	\$100,900	\$10,500	\$464,700	\$43,000	\$381,300	\$1,000,400
	% respondents	0.0%	6.5%	13.0%	20.3%	9.1%	31.7%	13.0%
ALL ASSETS	Total	\$30,271,500	\$2,840,100	\$2,700,000	\$10,556,700	\$7,250,550	\$7,121,650	\$60,740,500
	Average	\$252,263	\$91,616	\$117,391	\$164,948	\$109,857	\$86,849	\$157,359
Respondents without double counting		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
		120	31	23	64	66	82	386

TABLE 84: TOTAL ASSET FINANCING SUMMARY

Aggregated by Province	Total # financing needed	Battambang	Kampong Cham, Speu & Chhnang	Kandal & Phnom Penh	Siem Reap	Sihanoukville & Kampot	Svay Rieng & Banteay Meanchey	Grand Total				
Buildings	280	\$7,557,000	\$7,862,300	\$3,785,000	\$9,040,900	\$1,929,000	\$2,355,500	\$32,529,700				
Machinery and equipment	256	\$8,988,500	\$6,609,250	\$1,576,500	\$3,944,700	\$565,300	\$2,832,800	\$24,517,050				
Furniture and fittings	91	\$442,300	\$239,900	\$70,000	\$1,166,950	\$645,500	\$128,700	\$2,693,350				
Office and business equipment	50	\$58,000	\$23,500	\$49,200	\$626,500	\$183,200	\$60,000	\$1,000,400				
Totals	677	\$17,045,800	\$14,734,950	\$5,480,700	\$14,779,050	\$3,323,000	\$5,377,000	\$60,740,500				
By Activity Sector		Agriculture	Retail	Wholesale	Hospitality	Manufacturing	Services	Grand Total				
Buildings	280	\$13,124,000	\$1,952,000	\$1,295,000	\$7,980,000	\$4,415,200	\$3,763,500	\$32,529,700				
Machinery and equipment	256	\$16,946,800	\$727,000	\$1,374,000	\$411,000	\$2,746,950	\$2,311,300	\$24,517,050				
Furniture and fittings	91	\$200,700	\$60,200	\$20,500	\$1,701,000	\$45,400	\$665,550	\$2,693,350				
Office and business equipment	50		\$100,900	\$10,500	\$464,700	\$43,000	\$381,300	\$1,000,400				
Totals	677	\$30,271,500	\$2,840,100	\$2,700,000	\$10,556,700	\$7,250,550	\$7,121,650	\$60,740,500				
By Enterprise Type		Large	Medium	Micro	Small				Grand Total			
Buildings	280	\$15,017,000	\$6,684,000	\$3,498,200	\$7,330,500				\$32,529,700			
Machinery and equipment	256	\$11,803,500	\$6,380,000	\$1,492,550	\$4,841,000				\$24,517,050			
Furniture and fittings	91	\$1,032,700	\$423,500	\$650,750	\$586,400				\$2,693,350			
Furniture and fittings	91	\$1,032,700	\$423,500	\$650,750	\$586,400				\$2,693,350			
Office and business equipment	50	\$473,500	\$110,900	\$238,300	\$177,700				\$1,000,400			
Totals	677	\$28,326,700	\$13,598,400	\$5,879,800	\$12,935,600				\$60,740,500			
By Bank Account		Have bank account	No bank account						Grand Total			
Buildings	280	\$21,706,500	\$10,823,200						\$32,529,700			
Machinery and equipment	256	\$16,275,700	\$8,241,350						\$24,517,050			
Furniture and fittings	91	\$2,420,200	\$273,150						\$2,693,350			
Office and business equipment	50	\$638,700	\$361,700						\$1,000,400			
Totals	677	\$41,041,100	\$19,699,400						\$60,740,500			

2.9.3.2. Types of Financing Required in the Next 3 Years

Long-term loans are the most desired type of financing, accounting for 52% of the different types of financing.

64.9% of total entrepreneurs surveyed state they require a long-term loan.

55% (213) of total entrepreneurs do not have a bank account.

Results show that entrepreneurs are not financially sophisticated. While they know what kind of assets and business needs they want to finance, entrepreneurs surveyed do not know the financial products best suited to finance specific assets. There is no clear link between type of financing and the assets to be financed.

Of total financing needs, long-term loans (52%) are perceived as the most needed. Equity financing was selected as the second choice of financing needed (27% of total financing needs).

Given the nature and operations of enterprises, it is surprising that working capital is not a more prominent type of financing required by SMEs. The enterprises most in need of working capital financing are micro (16.3%) and medium enterprises (12.9%), the locations are the smaller provinces, and the sectors are the agriculture, retail, manufacturing, and services sectors. This is closely linked to characteristics of enterprises who self-financed short- and long-term loans in the past year. Even though working capital is less than 10% of total financing needs, if enterprises need working capital, the characteristics of enterprises suggest that if such a financing product was developed and strategically positioned, entrepreneurs could be convinced that it would help their enterprises to grow more dynamically and quickly.

A total of 385 interviewees listed the types of financing they need. Of the total, 65% require long-term loans, while only 15% say they need short-term loans; 34% of total interviewees (131) together make up 8% of total equity financing needs.

Enterprises without a bank account are the largest percentage of enterprises that require financing. Entrepreneurs without bank accounts have total financing needs of \$18.9 million. Although their needs are significantly less than entrepreneurs with bank accounts, entrepreneurs without bank accounts do comprise a significant untapped market for financial institutions.

FIGURE 64: TYPE OF FINANCING NEEDED (% TOTAL FINANCING NEEDS)

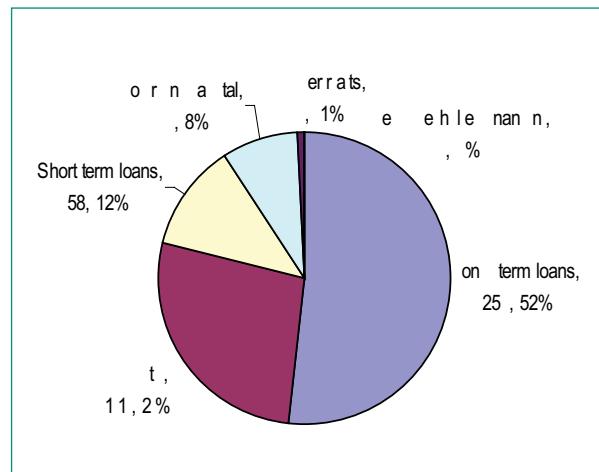
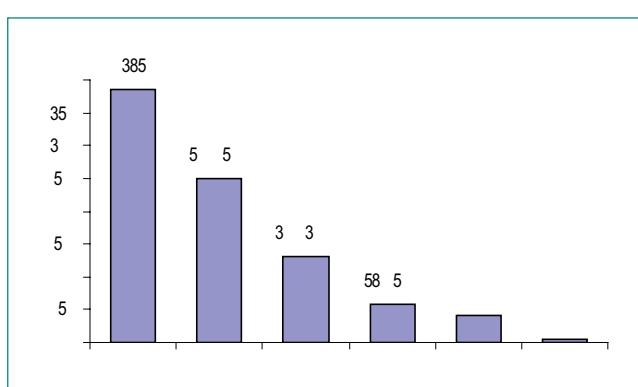


FIGURE 65: TOTAL # OF ENTERPRISES PER FINANCING TYPE (% TOTAL ENTERPRISES)



When reviewing the different types of financing, one sees a wide range from as little as \$200 to \$3 million, and \$61.9 million required in total. In total, 60% of financing needs are less than or equal to \$50,000. Only 10% of total financing needs are higher than \$300,000.

When reviewing data on long-term loans, which represent the biggest financial opportunity (\$32.1 million) as well as needs for 65% of enterprises, one sees a very wide spread from minimum to maximum. As is the case with total financing needs, 60% of long-term loans are smaller than or equal to \$72,000 (represented by the 60thP, see figure 67 and table 85).

FIGURE 66: FINANCING NEEDED: BANK USAGE (% ENTERPRISES)

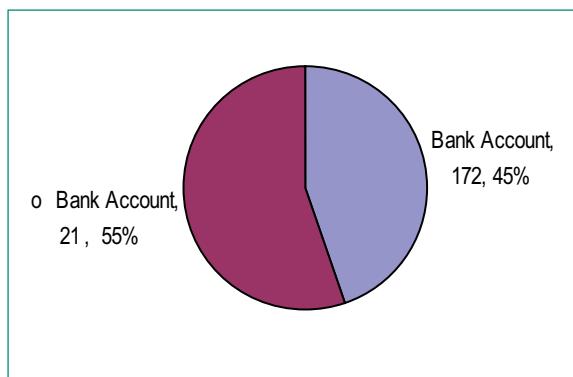


FIGURE 67: TOTAL FINANCING NEEDED (% ENTERPRISES)

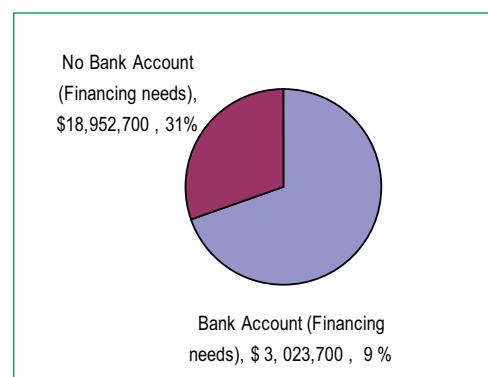


FIGURE 68: FINANCING TYPES

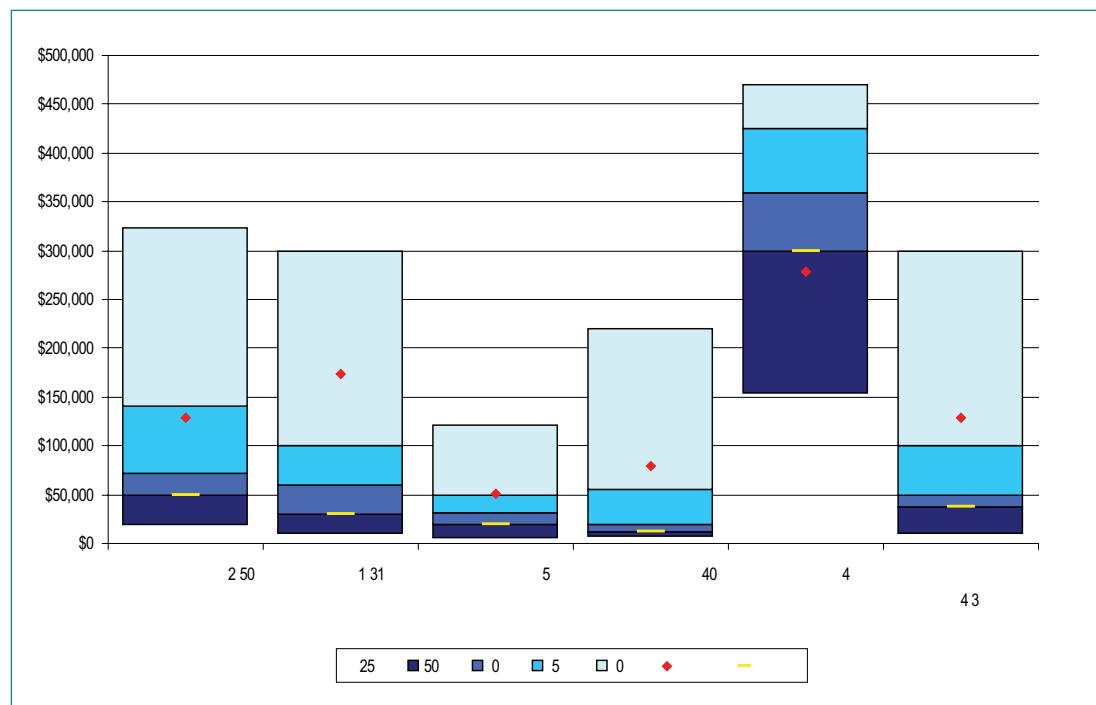


TABLE 85: FUTURE FINANCING NEEDS: ALL FINANCING TYPES

Totals by Financing Type	Min	25th P	50th P	60thP	75th P	90th P	Max	Average
Long-term loan	\$1,000	\$20,000	\$50,000	\$72,000	\$140,000	\$323,000	\$2,000,000	\$128,199
Equity	\$200	\$10,000	\$30,000	\$60,000	\$100,000	\$300,000	\$3,000,000	\$173,577
Short-term loan	\$300	\$6,000	\$20,000	\$31,000	\$50,000	\$122,000	\$500,000	\$51,450
Working capital	\$500	\$7,500	\$12,000	\$20,000	\$55,000	\$220,000	\$1,000,000	\$79,231
Overdraft	\$14,000	\$153,500	\$300,000	\$360,000	\$425,000	\$470,000	\$500,000	\$278,500
TOTAL Financing Types	\$200	\$10,000	\$37,500	\$50,000	\$100,000	\$300,000	\$3,000,000	\$128,582

Table 86 presents data by bank account usage and average per enterprise for each type of financing.

TABLE 86: TYPES OF FINANCING BY BANK ACCOUNT USAGE

		Bank Account	No Bank Account	Total
Long-term loans	Minimum	\$3,000	\$1,000	\$1,000
	Maximum	\$2,000,000	\$550,000	\$2,000,000
	Average	\$194,689	\$72,465	\$128,199
	Total	\$22,194,500	\$9,855,175	\$32,049,675
	% respondents	66.3%	63.8%	64.9%
Equity	Minimum	\$200	\$600	\$200
	Maximum	\$3,000,000	\$900,000	\$3,000,000
	Average	\$255,511	\$99,955	\$173,577
	Total	\$15,841,700	\$6,896,925	\$22,738,625
	% respondents	36.0%	32.4%	34.0%
Short-term loans	Minimum	\$2,000	\$300	\$300
	Maximum	\$500,000	\$300,000	\$500,000
	Average	\$71,857	\$32,403	\$51,450
	Total	\$2,012,000	\$972,100	\$2,984,100
	% respondents	16.3%	14.1%	15.1%
Working capital	Minimum	\$1,000	\$500	\$500
	Maximum	\$1,000,000	\$350,000	\$1,000,000
	Average	\$144,269	\$46,712	\$79,231
	Total	\$1,875,500	\$1,214,500	\$3,090,000
	% respondents	7.6%	12.7%	10.4%
Overdrafts	Minimum	\$200,000	\$14,000	\$14,000
	Maximum	\$500,000	\$14,000	\$500,000
	Average	\$366,667	\$14,000	\$278,500
	Total	\$1,100,000	\$14,000	\$1,114,000
	% respondents	1.7%	0.5%	1.0%
All types of financing	Total	\$43,023,700	\$18,952,700	\$61,976,400
Respondents without double counting (TOTAL Enterprises)		100.0%	100.0%	100.0%
		172	213	385

Enterprise types: For all enterprise types, long-term loans represent the most required financing product. Equity financing is the second choice of financing type. More than 30% of each enterprise type selected this type of financing.

Small and large enterprises required the highest amounts for short-term loans, although micro enterprises had the greatest demand for these loans (17.8% of total enterprises surveyed). Micro and medium enterprises require working capital the most, at 16.3% and 12.9% of total enterprises, respectively. Overdraft facilities were required largely by medium and large enterprises.

When reviewing financing amounts by enterprise type, one sees again a large spread of financing needs per enterprise type, with a significant concentration of enterprises requiring smaller amounts of loans and a few “elite” enterprises requiring “large amount financing”.

Given the high percentage of enterprises requesting these, long-term loans and equity financing are analyzed in Figure 69 by enterprise type. Table 87 includes all financing by enterprise type.

FIGURE 69: FUTURE FINANCING: LONG-TERM LOANS BY ENTERPRISE TYPE

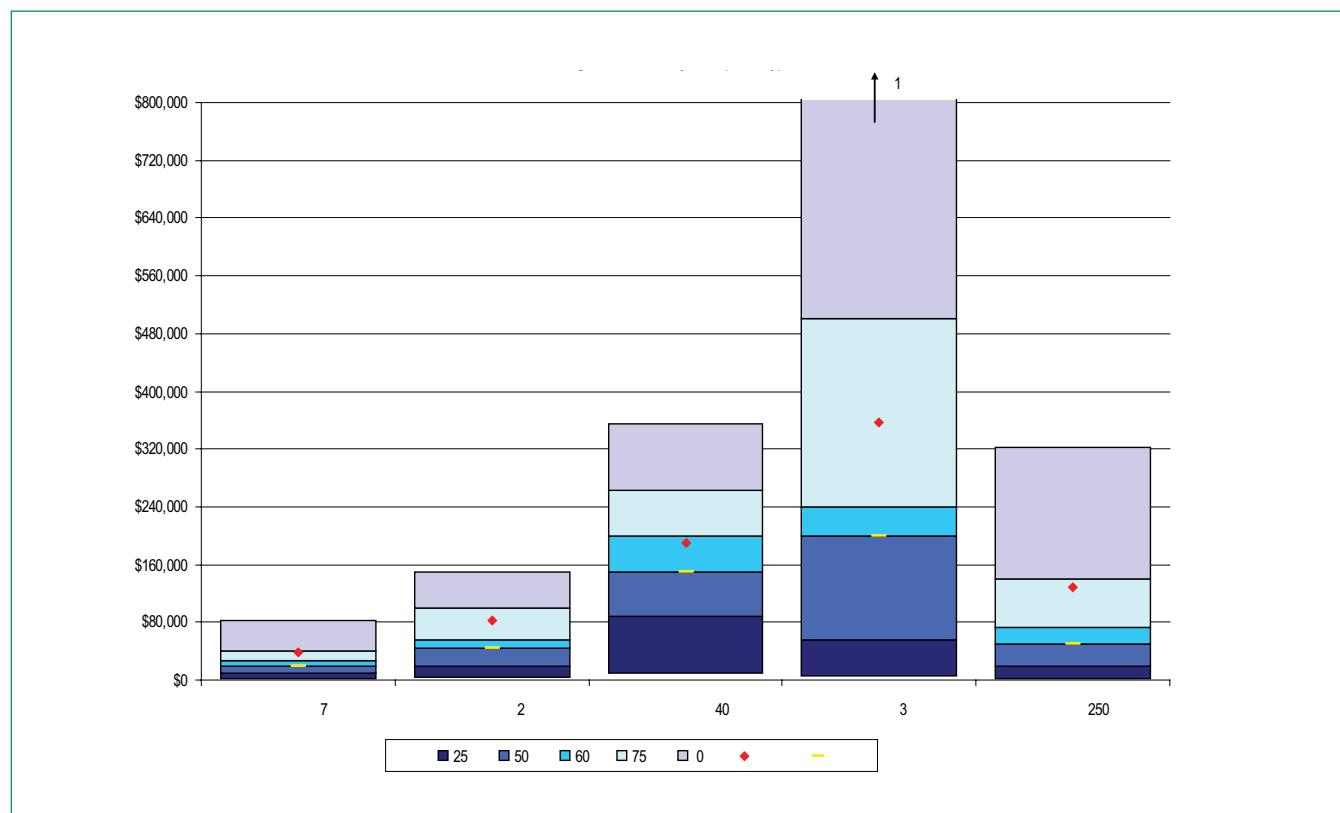
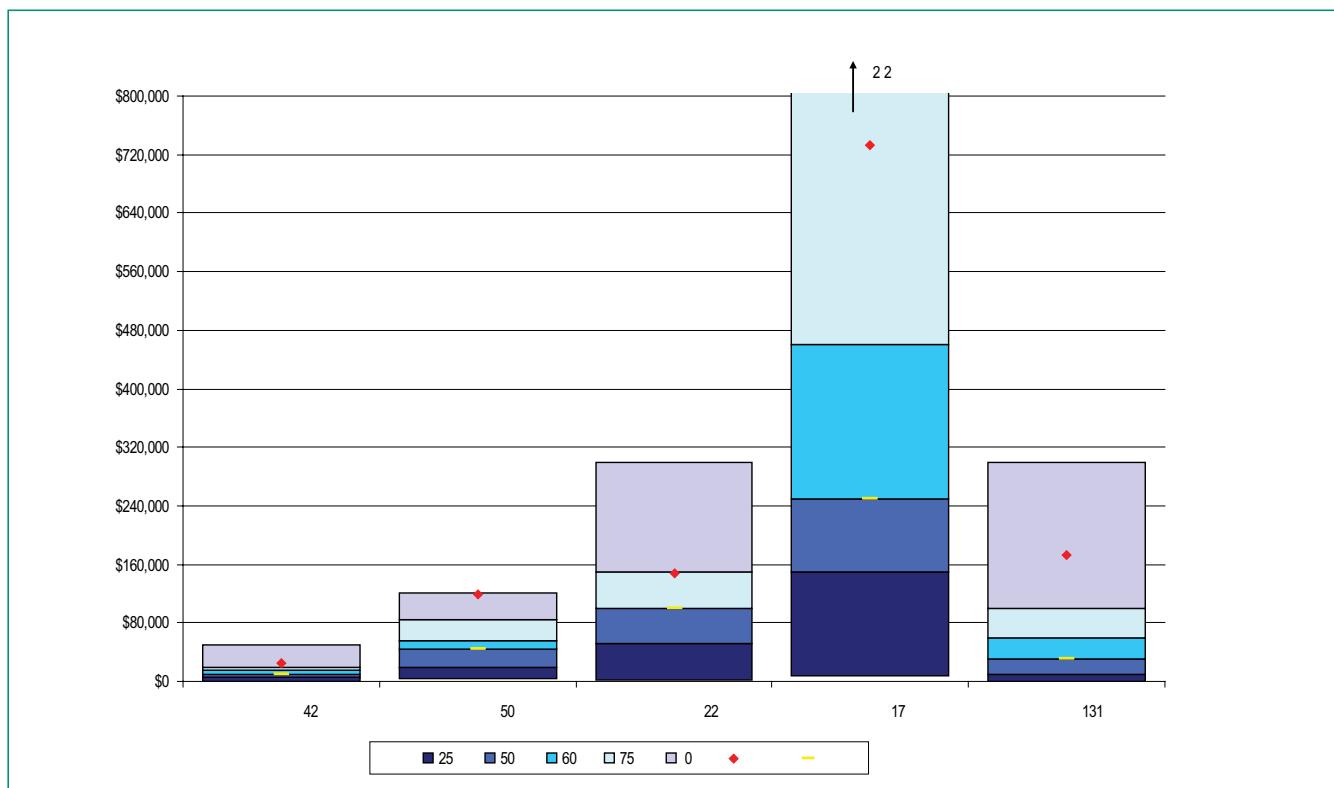


TABLE 87: FUTURE FINANCING: LONG-TERM LOANS BY ENTERPRISE TYPE

Totals by Financing Type	Min	10th P	25th P	50th P	60thP	75th P	90th P	Max	Average
Micro	\$1,000	\$5,000	\$10,000	\$20,000	\$27,000	\$40,000	\$81,600	\$400,000	\$38,198
Small	\$3,000	\$10,000	\$20,000	\$45,000	\$56,000	\$100,000	\$150,000	\$500,000	\$82,033
Medium	\$10,000	\$20,000	\$87,500	\$150,000	\$200,000	\$262,500	\$355,000	\$700,000	\$189,175
Large	\$5,000	\$44,000	\$55,000	\$200,000	\$240,000	\$500,000	\$1,000,000	\$2,000,000	\$356,872
Total	\$1,000	\$10,000	\$20,000	\$50,000	\$72,000	\$140,000	\$323,000	\$2,000,000	\$128,199

FIGURE 70: FUTURE FINANCING: EQUITY FINANCING BY ENTERPRISE TYPE**TABLE 88: FUTURE FINANCING: EQUITY FINANCING BY ENTERPRISE TYPE**

Equity Financing	Min	25th P	50th P	60thP	75th P	90th P	Max	Average
Micro	\$200	\$5,000	\$10,000	\$15,000	\$20,000	\$49,000	\$300,000	\$25,551
Small	\$3,000	\$20,000	\$45,000	\$55,800	\$83,750	\$121,000	\$3,000,000	\$119,000
Medium	\$2,000	\$52,500	\$100,000	\$100,000	\$150,000	\$300,000	\$900,000	\$148,273
Large	\$8,500	\$150,000	\$250,000	\$460,000	\$1,000,000	\$2,200,000	\$3,000,000	\$732,559
Total	\$200	\$10,000	\$30,000	\$60,000	\$100,000	\$300,000	\$3,000,000	\$173,577

TABLE 89: TYPES OF FINANCING, BY COMPANY TYPE

		Micro	Small	Medium	Large	Total
Long-term loans	Minimum	\$1,000	\$3,000	\$10,000	\$5,000	\$1,000
	Maximum	\$400,000	\$500,000	\$700,000	\$2,000,000	\$2,000,000
	Average	\$38,198	\$82,033	\$189,175	\$356,872	\$128,199
	Total	\$3,017,675	\$7,547,000	\$7,567,000	\$13,918,000	\$32,049,675
	% respondents	58.5%	68.7%	64.5%	72.2%	64.9%
Equity	Minimum	\$200	\$3,000	\$2,000	\$8,500	\$200
	Maximum	\$300,000	\$3,000,000	\$900,000	\$3,000,000	\$3,000,000
	Average	\$25,551	\$119,000	\$148,273	\$732,559	\$173,577
	Total	\$1,073,125	\$5,950,000	\$3,262,000	\$12,453,500	\$22,738,625
	% respondents	31.1%	37.3%	35.5%	31.5%	34.0%
Short-term loans	Minimum	\$300	\$3,000	\$10,000	\$4,000	\$300
	Maximum	\$300,000	\$200,000	\$50,000	\$500,000	\$500,000
	Average	\$21,921	\$58,278	\$27,857	\$134,889	\$51,450
	TotalS	\$526,100	\$1,049,000	\$195,000	\$1,214,000	\$2,984,100
	% respondents	17.8%	13.4%	11.3%	16.7%	15.1%
Working capital	Minimum	\$500	\$10,000	\$10,000	\$50,000	\$500
	Maximum	\$27,500	\$100,000	\$400,000	\$1,000,000	\$1,000,000
	Average	\$9,773	\$35,000	\$197,143	\$416,667	\$79,231
	Total	\$215,000	\$245,000	\$1,380,000	\$1,250,000	\$3,090,000
	% respondents	16.3%	5.2%	12.9%	5.6%	10.4%
Overdrafts	Minimum	\$14,000		\$200,000	\$400,000	\$14,000
	Maximum	\$14,000		\$200,000	\$500,000	\$500,000
	Average	\$14,000		\$200,000	\$450,000	\$278,500
	Total	\$14,000		\$200,000	\$900,000	\$1,114,000
	% respondents	0.7%	0.0%	1.6%	3.7%	1.0%
All types of financing	Total	\$4,845,900	\$14,791,000	\$12,604,000	\$29,735,500	\$61,976,400
Respondents without double counting		100.0%	100.0%	100.0%	100.0%	100.0%
		135	134	62	54	385

Types of financing by location: Battambang and Siem Reap have the highest total financing needs, while Sihanoukville has the least. Battambang (37%) has the highest percentage of enterprises requiring equity financing. Sihanoukville has the highest percentage of enterprises requiring short-term loans, but the lowest total. Smaller provinces have the highest percentage of enterprises requiring working capital, as well as the highest amounts for working capital required. Table 90 summarizes types of financing by province.

TABLE 90: TYPES OF FINANCING REQUIRED, BY PROVINCE

		Siem Reap	Battambang	Sihanoukville	Other provinces	Total
Long-term loans	Minimum	\$1,000	\$1,000	\$20,000	\$1,000	\$1,000
	Maximum	\$2,000,000	\$1,500,000	\$700,000	\$400,000	\$2,000,000
	Average	\$164,377	\$186,597	\$164,706	\$62,948	\$128,199
	Total	\$9,205,125	\$13,435,000	\$2,800,000	\$6,609,550	\$32,049,675
	% respondents	72.7%	66.7%	68.0%	60.0%	64.9%
Equity	Minimum	\$700	\$4,000	\$10,000	\$200	\$200
	Maximum	\$3,000,000	\$1,000,000	\$150,000	\$3,000,000	\$3,000,000
	Average	\$465,401	\$142,125	\$61,667	\$102,298	\$173,577
	Total	\$10,238,825	\$5,685,000	\$370,000	\$6,444,800	\$22,738,625
	% respondents	28.6%	37.0%	24.0%	36.0%	34.0%
Short-term loans	Minimum	\$300	\$2,000	\$2,000	\$300	\$300
	Maximum	\$500,000	\$200,000	\$10,000	\$300,000	\$500,000
	Average	\$74,442	\$59,474	\$5,500	\$44,181	\$51,450
	Total	\$893,300	\$1,130,000	\$33,000	\$927,800	\$2,984,100
	% respondents	15.6%	17.6%	24.0%	12.0%	15.1%
Working capital	Minimum	\$1,000	\$8,000	\$3,000	\$500	\$500
	Maximum	\$20,000	\$1,000,000	\$50,000	\$400,000	\$1,000,000
	Average	\$10,500	\$253,000	\$26,500	\$51,655	\$79,231
	Total	\$21,000	\$1,518,000	\$53,000	\$1,498,000	\$3,090,000
	% respondents	2.6%	6.5%	8.0%	16.6%	10.4%
Overdrafts	Minimum		\$400,000		\$14,000	\$14,000
	Maximum		\$500,000		\$200,000	\$500,000
	Average		\$450,000		\$107,000	\$278,500
	Total		\$900,000		\$214,000	\$1,114,000
	% respondents	0.0%	1.9%	0.0%	1.1%	1.0%
All types of financing	Total	\$20,358,250	\$22,668,000	\$3,256,000	\$15,694,150	\$61,976,400
Respondents without double counting		100.0%	100.0%	100.0%	100.0%	100.0%
		77	108	25	175	385

Types of financing needs by sector: Of total respondents by sector, agriculture (124) and services (79) represent the highest number of enterprises.

Sixty percent of enterprises in all sectors, except retail, require long-term loans. Agriculture has the highest number and percentage of enterprises requiring long-term loans.

The hospitality and wholesale sectors have the highest percentage of enterprises requiring equity financing. Hospitality needs the largest amounts for equity financing (\$9.7 million), followed by the agriculture sector (\$5.4 million). The services and manufacturing sectors have the highest percentage of enterprises requiring working capital. Agriculture has the highest value for working capital needed (\$2.5 million). All other sectors require financing of up to \$155,000.

The retail and hospitality sectors have the highest percentage of enterprises requiring short-term loans. Agriculture requires the largest amounts for short-term working capital (\$1.6 million), followed by the hospitality sector (\$803,000). The wholesale sector has the lowest percentage of enterprises, and the lowest total amount needed for short-term loans.

The retail sector, overall, has the smallest total value of financing required for all types of financing, except for short-term loans.

Figure 71 and table 91 review long-term loans in detail by activity sector. Although maximum amounts for long-term loans go into the millions dollars for the agriculture and hospitality sectors, the 75th percentile of the total is \$140,000. The retail, wholesale and services sectors have the smallest spread in long-term loans needed. With the exception of the agriculture and hospitality sectors, 90% of long-term loans needed are worth less than \$300,000, and 50% of financing needs are for less than \$70,000.

FIGURE 71: FUTURE FINANCING: LONG-TERM LOANS BY ACTIVITY SECTOR

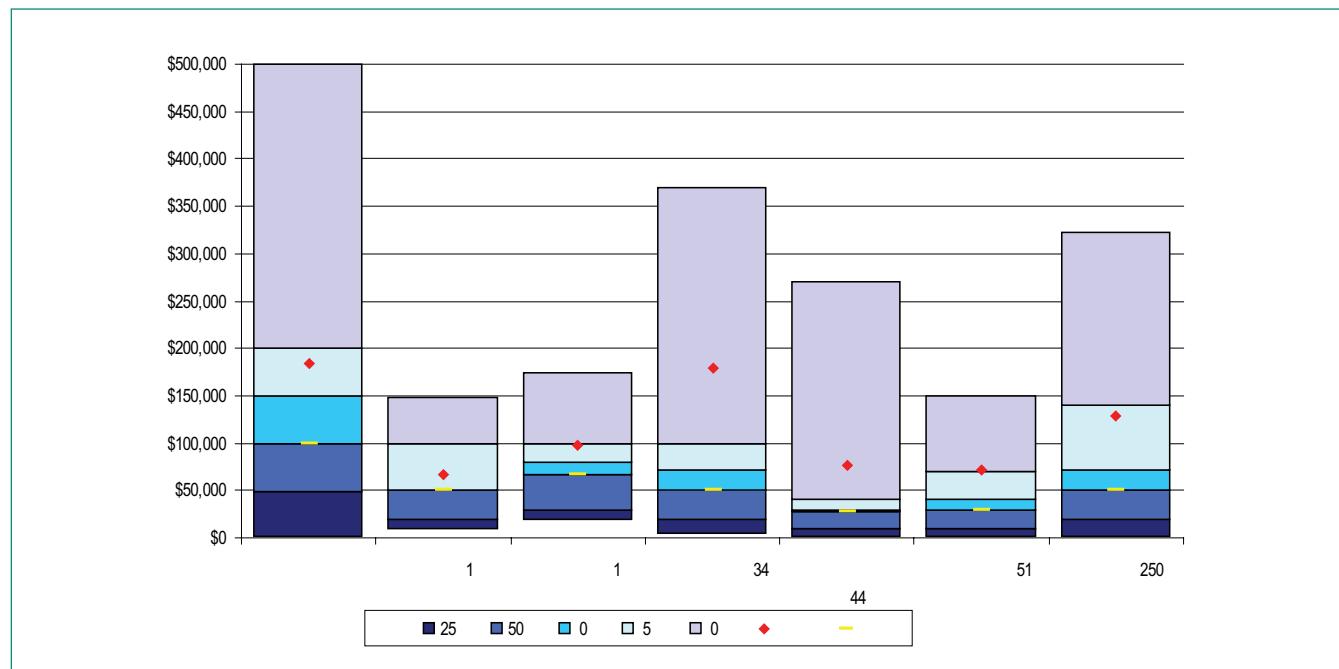


TABLE 91: LONG-TERM LOANS BY ACTIVITY SECTOR

Long-term loans	Min	25th P	50th P	60thP	75th P	90th P	Max	Average
Agriculture	\$1,250	\$48,750	\$100,000	\$150,000	\$200,000	\$500,000	\$1,500,000	\$184,787
Retail	\$10,000	\$20,000	\$50,000	\$50,000	\$100,000	\$148,200	\$200,000	\$66,294
Wholesale	\$20,000	\$30,000	\$67,500	\$80,000	\$100,000	\$175,000	\$500,000	\$97,188
Hospitality	\$5,000	\$20,000	\$50,000	\$71,600	\$100,000	\$370,000	\$2,000,000	\$179,382
Manufacturing	\$1,000	\$10,000	\$27,500	\$30,000	\$40,000	\$270,000	\$640,000	\$76,716
Services	\$1,000	\$10,000	\$30,000	\$40,000	\$70,000	\$150,000	\$700,000	\$71,214
TOTAL	\$1,000	\$20,000	\$50,000	\$72,000	\$140,000	\$323,000	\$2,000,000	\$128,199

Figure 72 and table 92 review equity financing by activity sector. With the exceptions of the agriculture and manufacturing sectors (29%), equity financing is required by more than 30% of enterprises. The y axis is not at \$1.3 million to ensure that all activity sectors can be viewed easily.

Averages in equity financing are significantly out of proportion to the main data set, as can be clearly seen in Figure 72. These are “distorted” by the high values for very few enterprises. With the exception of the agriculture sector, in each activity sector, fewer than 30 enterprises are represented.

FIGURE 72: FUTURE FINANCING: EQUITY FINANCING, BY ACTIVITY SECTOR

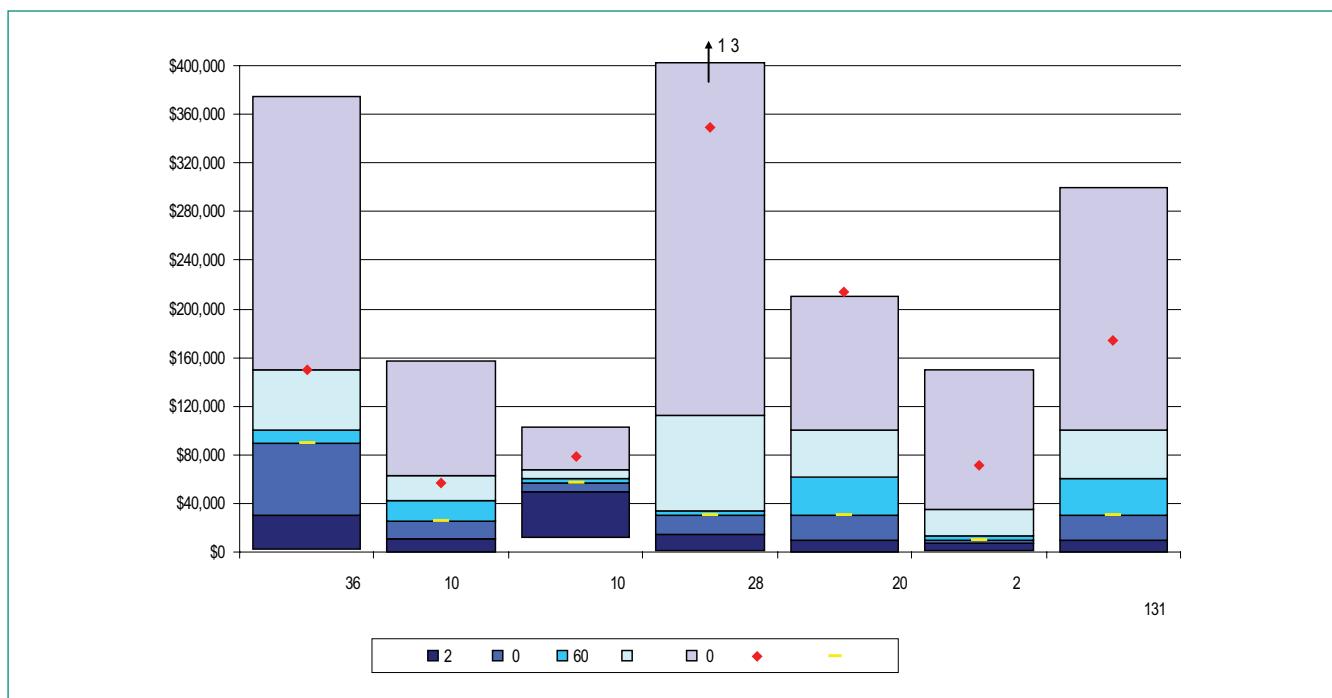


TABLE 92: FUTURE FINANCING: EQUITY FINANCING BY ACTIVITY SECTOR

Equity Financing	Min	25th P	50th P	60th P	75th P	90th P	Max	Average
Agriculture	\$3,000	\$30,000	\$90,000	\$100,000	\$150,000	\$375,000	\$1,000,000	\$149,361
Retail	\$200	\$11,250	\$25,000	\$42,000	\$62,250	\$156,500	\$215,000	\$57,270
Wholesale	\$12,000	\$50,000	\$56,500	\$60,000	\$67,500	\$103,000	\$310,000	\$78,500
Hospitality	\$1,000	\$14,500	\$30,000	\$34,000	\$112,500	\$1,300,000	\$3,000,000	\$349,732
Manufacturing	\$600	\$10,000	\$30,000	\$62,000	\$100,000	\$210,000	\$3,000,000	\$213,605
Services	\$700	\$7,750	\$10,000	\$13,450	\$35,000	\$150,000	\$900,000	\$71,827
TOTAL Equity Financing	\$200	\$10,000	\$30,000	\$60,000	\$100,000	\$300,000	\$3,000,000	\$173,577

Figure 73 and table 93 summarize the agriculture sector in detail by financing types, as the sector has a very high number of enterprises (124 out of the total). Total financing needs for the agriculture sector are \$26.6 million for 124 enterprises. That is an average of \$214,913 per enterprise.

Of total financing needed, \$16.3 million is required for long-term loans, \$5.4 million for equity financing, and \$2.5 million for working capital. The additional needs are for short-term loans and overdrafts. The agriculture sector has the highest needs for all types of financing, with the exception of equity financing, for which the hospitality sector has a higher total.

When reviewing figure 73, it is noticeable that the averages for all types of financing are within the 75th percentile, with the exception of overdrafts. Overdrafts have the smallest range and the highest lower quartiles. Overdrafts are often used to suit the cycle of harvesting and the price of commodities. For example, in the post-harvest season when commodities are stored instead of sold, entrepreneurs need access to money for a short period until the prices increase and they sell their commodities.

For the three main financing types, long-term loans, equity and working capital, the 50th percentile representing 50% of all financing needs for that type of financing is very similar (around \$100,000).

FIGURE 73: FUTURE FINANCING: AGRICULTURE SECTOR, ALL TYPES OF FINANCING

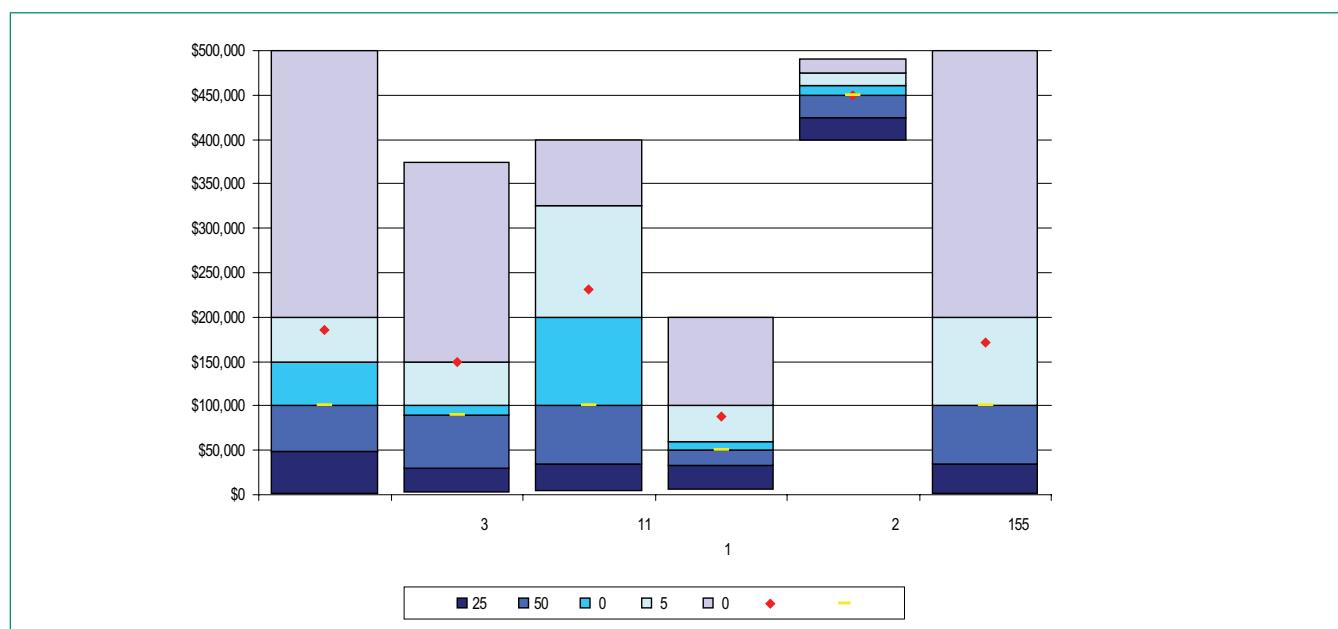


TABLE 93: FUTURE FINANCING: AGRICULTURE SECTOR, ALL TYPES OF FINANCING

Agriculture Sector	Min	25th P	50th P	60th P	75th P	90th P	Max	Average
Long-term loans	\$1,250	\$48,750	\$100,000	\$150,000	\$200,000	\$500,000	\$1,500,000	\$184,787
Equity	\$3,000	\$30,000	\$90,000	\$100,000	\$150,000	\$375,000	\$1,000,000	\$149,361
Working capital	\$5,000	\$35,000	\$100,000	\$200,000	\$325,000	\$400,000	\$1,000,000	\$230,455
Short-term loans	\$6,000	\$32,500	\$50,000	\$60,000	\$100,000	\$200,000	\$300,000	\$87,556
Overdrafts	\$400,000	\$425,000	\$450,000	\$460,000	\$475,000	\$490,000	\$500,000	\$450,000
TOTAL	\$1,250	\$35,000	\$100,000	\$100,000	\$200,000	\$500,000	\$1,500,000	\$171,931

TABLE 94: TYPES OF FINANCING REQUIRED BY ACTIVITY SECTOR

		Agriculture	Retail	Wholesale	Hospitality	Manufacturing	Services	Total
Long-term loans	Minimum	\$1,250	\$10,000	\$20,000	\$5,000	\$1,000	\$1,000	\$1,000
	Maximum	\$1,500,000	\$200,000	\$500,000	\$2,000,000	\$640,000	\$700,000	\$2,000,000
	Average	\$184,787	\$66,294	\$97,188	\$179,382	\$76,716	\$71,214	\$128,199
	Total	\$16,261,250	\$1,127,000	\$1,555,000	\$6,099,000	\$3,375,500	\$3,631,925	\$32,049,675
	% enterprises	71.0%	58.6%	66.7%	56.7%	63.8%	64.6%	64.9%
Equity	Minimum	\$3,000	\$200	\$12,000	\$1,000	\$600	\$700	\$200
	Maximum	\$1,000,000	\$215,000	\$310,000	\$3,000,000	\$3,000,000	\$900,000	\$3,000,000
	Average	\$149,361	\$57,270	\$78,500	\$349,732	\$213,605	\$71,827	\$173,577
	Total	\$5,377,000	\$572,700	\$785,000	\$9,792,500	\$4,272,100	\$1,939,325	\$22,738,625
	% enterprises	29.0%	34.5%	41.7%	46.7%	29.0%	34.2%	34.0%
Working capital	Minimum	\$5,000	\$500	\$30,000	\$10,000	\$1,000	\$2,000	\$500
	Maximum	\$1,000,000	\$25,000	\$120,000	\$50,000	\$100,000	\$27,500	\$1,000,000
	Average	\$230,455	\$12,750	\$75,000	\$20,900	\$19,375	\$10,909	\$79,231
	Total	\$2,535,000	\$25,500	\$150,000	\$104,500	\$155,000	\$120,000	\$3,090,000
	% enterprises	9.7%	6.9%	8.3%	8.3%	11.6%	13.9%	10.4%
Short-term loans	Minimum	\$6,000	\$3,000	\$10,000	\$2,000	\$300	\$300	\$300
	Maximum	\$300,000	\$150,000	\$35,000	\$500,000	\$110,000	\$30,000	\$500,000
	Average	\$87,556	\$53,600	\$22,500	\$57,357	\$23,913	\$9,164	\$51,450
	Total	\$1,576,000	\$268,000	\$45,000	\$803,000	\$191,300	\$100,800	\$2,984,100
	% enterprises	14.5%	17.2%	8.3%	23.3%	11.6%	13.9%	15.1%
Overdrafts	Minimum	\$400,000				\$200,000	\$14,000	\$14,000
	Maximum	\$500,000				\$200,000	\$14,000	\$500,000
	Average	\$450,000				\$200,000	\$14,000	\$278,500
	Total	\$900,000				\$200,000	\$14,000	\$1,114,000
	% enterprises	1.6%	0.0%	0.0%	0.0%	1.4%	1.3%	1.0%
All types of financing	Total	\$26,649,250	\$1,993,200	\$2,535,000	\$16,799,000	\$8,193,900	\$5,806,050	\$61,976,400
		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
		124	29	24	60	69	79	385

2.9.3.3. Other Types of Financing

36% of enterprises would be interested in factoring.

80.7% of enterprises would be interested in loans from banks
if moveable assets were accepted as collateral.

1. Factoring Financing

Factoring is synonymous with accounts receivable financing. Factoring is simply the sale of unpaid accounts to a financial institution. The amount the financial institution pays to the enterprise is lower than the total owed to the enterprise (invoice discount). The financial institution then becomes responsible for collecting the outstanding amounts.

This type of financing allows entrepreneurs and business owners to acquire money quickly to boost their cash flow.

The concept of factoring is relatively new in Cambodia and met with interest during the survey. Entrepreneurs were curious to know more or were not at all familiar with factoring. Survey results reflect this in an almost even distribution of responses with regard to the categories 'interested', 'not sure' and 'not interested at all'. Overall 36% of enterprises stated that they would be very interested in factoring.

2. Moveable assets as collateral

One of the challenges SMEs face in taking out loans, as mentioned frequently in the field, is the unrealistic collateral requirements of financial institutions. Enabling enterprises to use moveable assets as collateral is one way to facilitate access to finance.

Entrepreneurs in this study repeatedly mentioned the need for flexibility in repayment, lower interest rates, and addressing unrealistic collateral requirements.

In total, 81% of entrepreneurs said that if banks accepted moveable assets as collateral against loans, they would be interested in seeking loans from banks to upgrade and/or expand their business.

During a value chain study in Pursat, stone carvers were asked whether they would be interested in taking out loans from micro finance institutions in order to buy new machinery that would enhance their productivity and the quality of their carvings. The overwhelming response was 'no'. Respondents said that in the past many families had lost their land when they were unable to repay their loan on time because there was no flexibility in repayment terms. Entrepreneurs said they would rather persist with old machinery and low productivity than risk losing their land by borrowing against it. At the time of this 2009 study, the cost of a new stone carving machine was approximately \$400.

FIGURE 74: FACTORING FINANCING

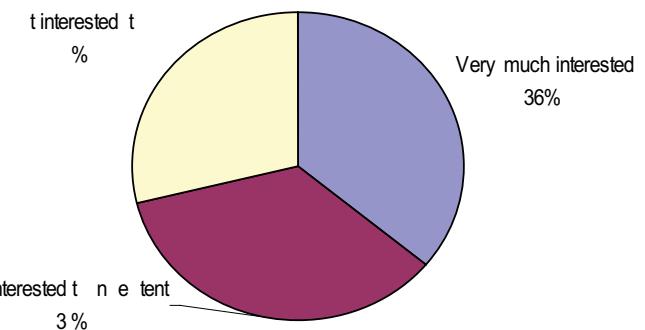
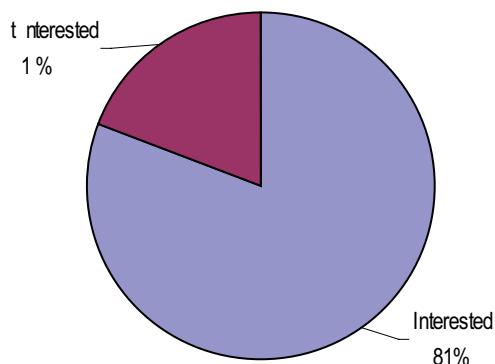


FIGURE 75: MOVEABLE ASSET FINANCING



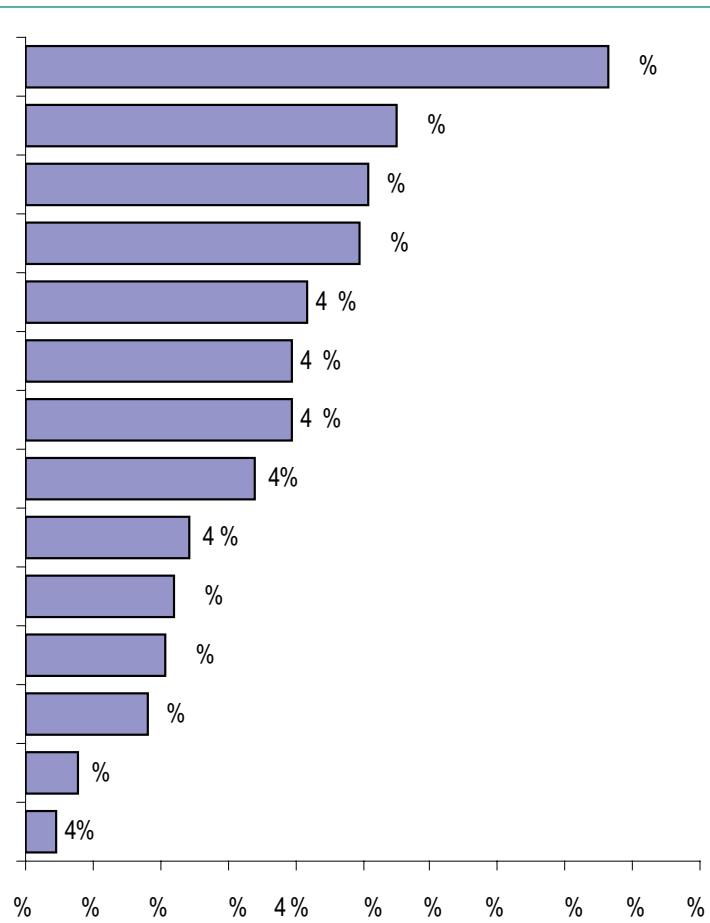
2.9.4. Decision-making Parameters for Taking Loans

87% of enterprises consider interest rates and price as the key determining factor in selecting a bank from which to take a loan.

In total, 87% of entrepreneurs surveyed consider the interest rate and price as the most important parameter in selecting a bank from which to take a loan. The next most important criteria that enterprises consider are bank reputation (55%), convenience of branches (51%) and reduced bureaucracy (50%). Interestingly, flexibility in repayment terms (39.5%) and collateral requirements (39.5%) are both in sixth place, after all the above-mentioned parameters and also after speed of decision making (42%).

It is quite surprising that collateral requirements, always mentioned among the biggest challenges for SMEs in Cambodia, does not have a significant weight when enterprises decide from where to take a loan.

FIGURE 76: MOST IMPORTANT CRITERIA ENTERPRISES USE IN SELECTING A BANK FROM WHICH TO BORROW



2.10. Enterprises' Current Challenges and Future Growth Expectations

2.10.1. Current Challenges

71% of enterprises say that lack of capital or money to invest is the main hurdle to overcome in expanding their business.

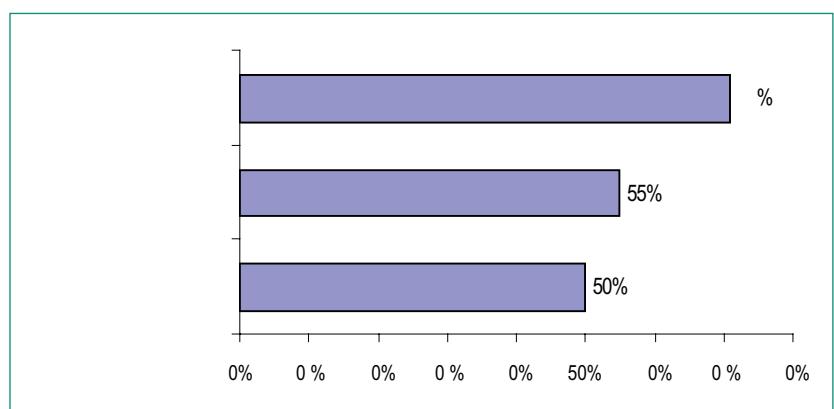
Competition and pressure to lower prices (55% overall) is considered the second greatest challenge by SMEs.

This challenge is particularly felt in large enterprises, in Sihanoukville Province, and within the retail and hospitality sectors.

Access to new markets and/or customers (50% overall) is considered the third greatest challenge to enterprises. This is particularly felt in micro enterprises, in Siem Reap Province, and in the wholesale and hospitality sectors.

Enterprises were provided with a list of impediments they currently face in expanding their business and asked to name their top 3 challenges.

FIGURE 77: TOP 3 CHALLENGES TO GROWING OF BUSINESS



Lacking capital or financing to invest (71%): As discussed earlier in this study, the majority of entrepreneurs started their business with their own money. Secondly, ongoing business development is largely financed with the entrepreneur's own savings. High interest rates, high collateral requirements, and access to appropriate financial institutions are among the top concerns in finding capital to upgrade and expand a business. This challenge is particularly prevalent in the agricultural sector.

Too much competition and pressure to lower prices (55%): Many entrepreneurs mentioned that similar businesses offering the same products or services creates pressure on them to lower prices or diversify their products or services to something more profitable. However, even if new opportunities can be identified, diversification is not easy to achieve without financing. Greater competition reduces the profit margins of enterprises, threatens their sustainability, and their ability to expand. This challenge is particularly felt by large enterprises and enterprises in Sihanoukville.

Not enough customers (50%): This is closely linked to the challenge of competition in many provinces. As noted above, entrepreneurs are conscious of the need to find new markets and new customers. Lack of information and technology, knowledge, finance, and support in accessing regional and international markets were noted by entrepreneurs. Furthermore, not enough customers is also a consequence of the economic crisis, as is customers reducing their purchases of goods or services. This challenge was cited primarily by enterprises in Siem Reap, and in the wholesale and hospitality sectors.

The following were perceived as less of a challenge to enterprises, but as still pertinent in expanding a business.

Lack of adequate technology (18%): This challenge is mostly felt by enterprises in the agricultural and services sectors, and mostly in Battambang and Siem Reap Provinces.

Lack of qualified and efficient staff (14%): These challenges were most prominent in micro enterprises and in the services and manufacturing sectors.

Wrong location (13%): This challenge is most prevalent for micro enterprises and the retail and services sectors.

Lack of storage (12%): Lack of storage is considered a factor hindering growth, most notably in medium and small enterprises and overwhelmingly in the agriculture and retail sectors. Aiding development of the agriculture sector has become a top priority for government in the last year. Diversification in agriculture, and improving productivity, yields, and related infrastructure, are all core challenges in developing the agricultural sector.

Other challenges (less than 10% each): Contrary to other studies, it is encouraging that ‘having to pay bribes’ is considered among the least important factors hindering enterprise growth. Although the economic crisis ranked low in the challenges named by entrepreneurs, it is clear that the crisis was an issue when entrepreneurs discussed such challenges as greater competition, lack of customers, lack of market access, etc. Encouragingly crime and theft and consumer debt were cited by very few enterprises.

FIGURE 78: OTHER CHALLENGES TO GROWING OF BUSINESS

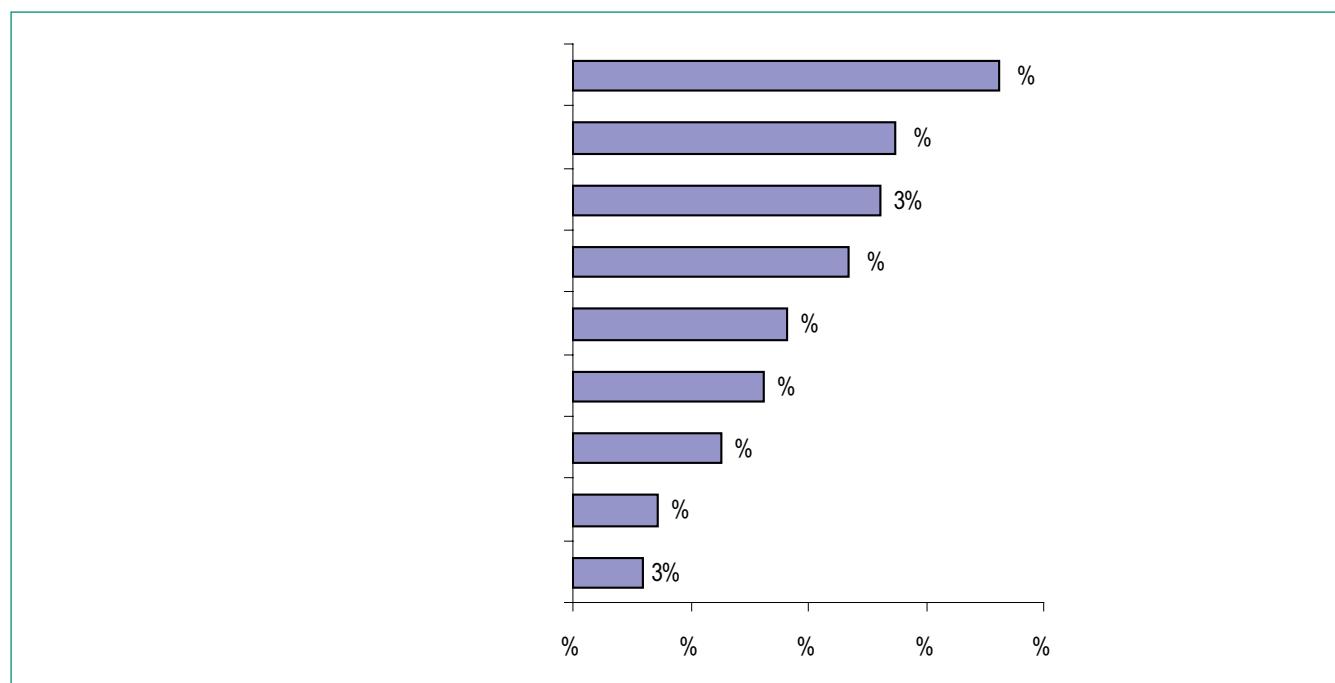


TABLE 95: CHALLENGES HINDERING GROWTH (% ENTERPRISES BY ENTERPRISE TYPE AND LOCATION)

	Micro	Small	Medium	Large	Siem Reap	Batt'bang	S'velle	Other provinces	Total	
Lack of capital/financing to invest	69.7%	69.6%	76.8%	73.2%	71.7% 46.5% 70.7% 19.2% 11.1% 23.2% 10.1% 10.1% 3.0% 6.1%	75.6%	62.2%	70.4%	71.4%	
Too much competition, pressure on price	51.4%	59.5%	37.8%	70.4%		53.5%	70.3%	56.2%	54.6%	
Not enough customers	53.1%	47.0%	47.6%	49.3%		48.0%	48.6%	41.6%	49.6%	
Lack of adequate technology	13.7%	17.3%	26.8%	21.1%		22.8%	10.8%	16.3%	18.1%	
Lack of qualified/efficient staff	17.7%	10.7%	11.0%	14.1%		17.3%	27.0%	10.7%	13.7%	
Wrong location	19.4%	9.5%	9.8%	9.9%		9.4%	37.8%	6.9%	13.1%	
Lack of storage	7.4%	12.5%	20.7%	9.9%		18.1%	2.7%	10.3%	11.7%	
Too much regulation to comply with	8.0%	11.9%	6.1%	8.5%		11.8%	5.4%	7.7%	9.1%	
Have to pay bribes	7.4%	10.1%	6.1%	7.0%		10.2%	18.9%	4.3%	8.1%	
Economic crisis	2.9%	7.1%	9.8%	8.5%		3.9%	2.7%	9.4%	6.3%	
Credit Sale/Consumer Debt	3.4%	3.0%	1.2%	4.2%		3.9%	2.7%	1.3%	3.0%	
Crime and theft	2.9%	1.2%	1.2%	1.4%		0.8%	2.7%	1.7%	1.8%	
Tax	2.9%	1.8%	1.2%	0.0%		1.6%	0.0%	1.3%	1.8%	
# of respondents	175	168	82	71		99	127	37	233	496

TABLE 96: CHALLENGES HINDERING GROWTH (% ENTERPRISES BY ACTIVITY SECTOR)

	Agriculture	Retail	Wholesale	Hospitality	Manu'cturing	Services	Total
Lack of capital/financing to invest	90.3%	58.1%	65.7%	55.1%	66.3%	67.0%	71.4%
Too much competition, pressure on price	52.6%	60.5%	51.4%	60.3%	47.2%	58.8%	54.6%
Not enough customers	35.1%	53.5%	65.7%	64.1%	43.8%	58.8%	49.6%
Lack of adequate technology	29.9%	7.0%	8.6%	7.7%	9.0%	24.7%	18.1%
Lack of qualified/efficient staff	5.2%	14.0%	5.7%	16.7%	21.3%	20.6%	13.7%
Wrong location	4.5%	20.9%	2.9%	21.8%	10.1%	22.7%	13.1%
Lack of storage	24.7%	20.9%	5.7%	2.6%	6.7%	1.0%	11.7%
Too much regulation to comply with	4.5%	7.0%	8.6%	14.1%	14.6%	8.2%	9.1%
Have to pay bribes	2.6%	14.0%	8.6%	14.1%	6.7%	10.3%	8.1%
Economic crisis	6.5%	2.3%	17.1%	2.6%	11.2%	2.1%	6.3%
Credit Sale/Consumer Debt	1.9%	0.0%	14.3%	2.6%	5.6%	0.0%	3.0%
Crime and theft	1.3%	4.7%	0.0%	3.8%	2.2%	0.0%	1.8%
Tax	0.0%	4.7%	0.0%	2.6%	2.2%	3.1%	1.8%
# of respondents	154	43	35	78	89	97	496

2.10.2. Future Growth and Expectations

Despite their challenges with regard to fewer customers, increased competition, and lack of access to finance, business owners were surprisingly optimistic about the future. However, they were cautious about their plans and growth targets for the coming three years. A total of 381 enterprises provided views on their plans and opportunities, and how they planned to achieve them.

Enterprises expect sales to grow 30% over the next 3 years (2009–2011), despite the global financial crisis. The wholesale sector was the most optimistic (36%).

89% of entrepreneurs say they have a business plan for the next 3 years.

79% of entrepreneurs plan to keep their business as it is today and focus on increasing sales.

42% of enterprises plan to expand their business by launching new activities and by opening new branches.

Expectations for the future: For many entrepreneurs, it was difficult for them to forecast the future, given the financial crisis. Some business owners say that their sales were not increasing, but remain constant or have declined about 10%. In the worst cases, sales were down some 50%. At least 6% of entrepreneurs in the study mentioned that sales are declining, with some forecasting an 18% decrease. Regardless of the uncertainties, the overall forecast for growth is 30% over the coming three years.

There is no correlation between enterprise type and outlook on future growth.

Micro enterprises in Kampong Chhnang have the most optimistic growth forecasts of 51%, as do those in the agriculture sector of 40%.

Small enterprises have the most optimistic growth forecasts of 141% in Kampot and 30% in Kampong Speu with 47% in the wholesale and 38% in the retail sectors.

FIGURE 79: EXPECTED SALES GROWTH IN THE NEXT 3 YEARS (BY TYPE)

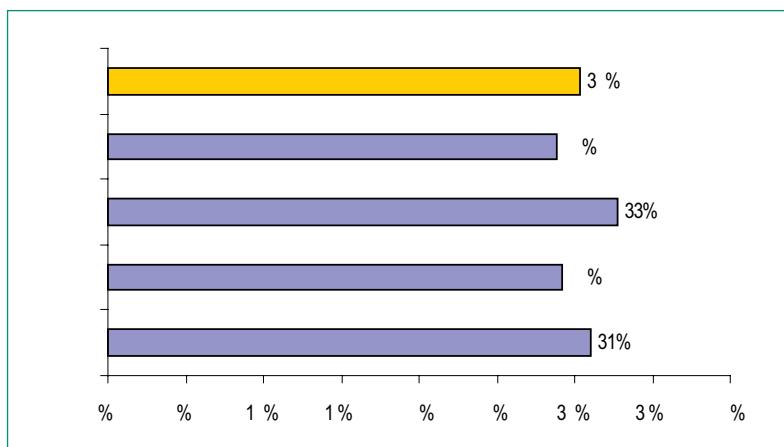
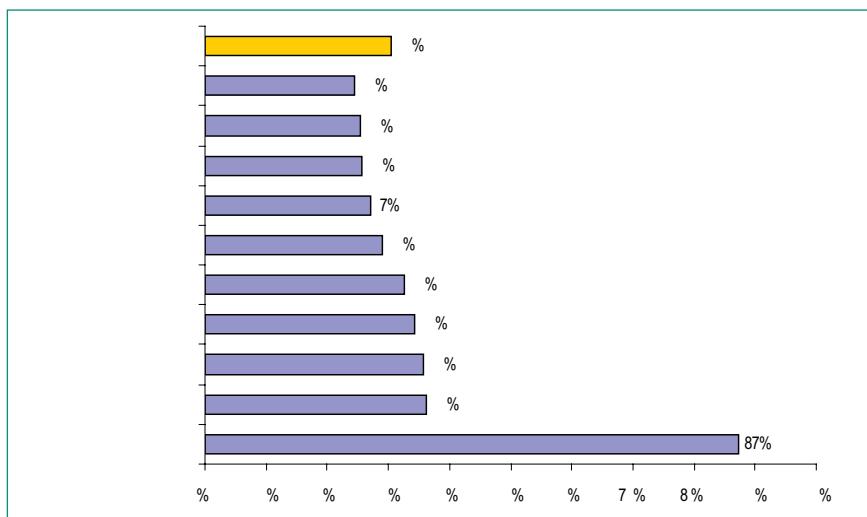


FIGURE 80: EXPECTED SALES GROWTH IN THE NEXT 3 YEARS (BY LOCATION)



Medium enterprises have the most optimistic forecasts in Kampong Speu, Kampot (50%) and Banteay Meanchey (42%) and in the services and hospitality sectors (37%).

Large enterprises have the most optimistic growth forecasts in Svay Rieng of 50% and Kampong Cham of 38%, and in the manufacturing sector of 55%.

Entrepreneurs in smaller provinces are the most optimistic and the least optimistic in the bigger provinces. Except for Kampot, in which entrepreneurs gave unusually high forecasts for growth, entrepreneurs in the smaller provinces forecast growth from 33%-36%, and in the bigger provinces, they forecast growth from 25%-29%.

In Kampot, small enterprises have the most optimistic growth forecast in the retail sector (300%) and wholesale sector (118%).

In Kampong Chhnang, micro enterprises forecast sale growth of 67% in the hospitality and 40% in retail sectors

In Svay Rieng, large enterprises (>50%) and in the agriculture and wholesale sectors (>40%) have the most optimistic forecasts.

In Kampong Speu, medium enterprises (50%) in wholesale (40%) and manufacturing (42%) have the most optimistic forecasts.

In the agriculture sector, micro enterprises (41%) have by far the most positive outlook and those in Svay Rieng Province (42%) are the most optimistic. In Kampong Cham and Battambang, agricultural entrepreneurs predicted less than 30% growth.

In the retail and wholesale sectors, owners of small enterprises have the most optimistic forecasts. In Kampong Chhnang and Banteay Meanchey (both 40%), and for wholesalers, entrepreneurs in Svay Rieng (41%) and Kampong Speu (30%) Provinces are the most optimistic. For both the retail and wholesale sectors, interviewees in Kampot gave the highest growth forecasts -- over 100%. The wholesale sector had the most optimistic forecast of all sectors (36%).

For medium enterprises, the hospitality and services sectors have the most optimistic outlook. Hospitality entrepreneurs

FIGURE 81: EXPECTED SALES GROWTH IN THE NEXT 3 YEARS, BY ACTIVITY SECTOR

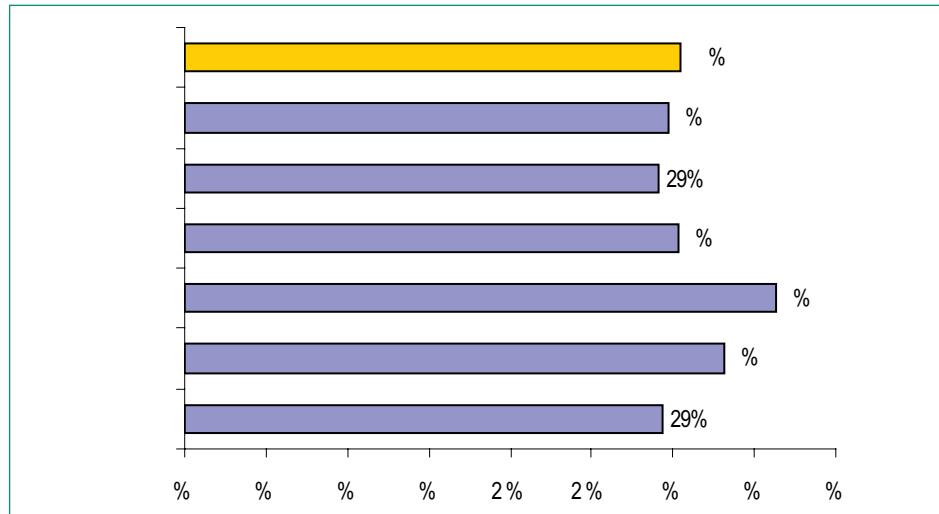


FIGURE 82: DO YOU HAVE A BUSINESS PLAN?

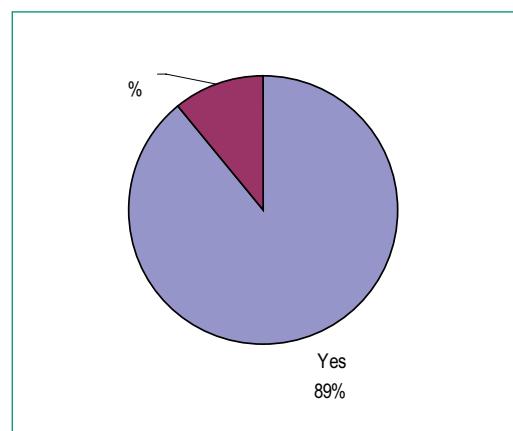
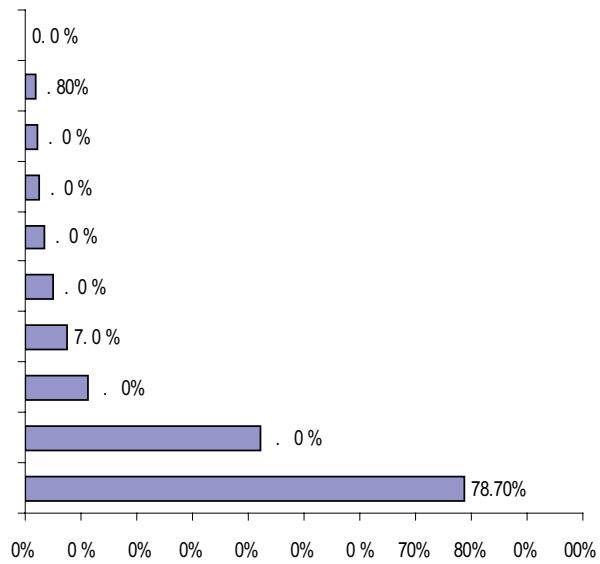


FIGURE 83: ACHIEVING EXPECTED GROWTH? FUTURE PLANS

in Kampong Chhnang (68%) and services entrepreneurs in Kampong Speu (57%) gave the most optimistic forecasts.

Manufacturing is the only sector in which interviewees from large enterprises had an optimistic outlook (55%). For Sihanoukville (43%) and Battambang (35%), manufacturers were the most optimistic.

Planning for the Future: A business plan is an important document not only for the entrepreneur, but for financial institutions to use in evaluating the feasibility of a business. All enterprises were asked whether they have a business plan for the coming 3 years. A total of 89% of respondents indicated that they have a business plan. Although this study did not evaluate or look at business plans, these findings are encouraging as enterprises are clearly thinking about their business opportunities and making plans. For financial services providers seeking to invest in SMEs, basic documentation is likely available for evaluating the feasibility of funding an enterprise.

To understand how enterprises are expecting to achieve their plans and optimistic growth figures, enterprises were asked to select from a list of activities they plan to undertake in the next 3 years. A total of 78.7% of enterprises would like to keep the business as it is today and focus on increasing sales. This will entail looking for new customers and markets. A total of 42% of entrepreneurs plan to achieve their growth targets by launching new activities and opening new branches. This is a positive development, given that the majority are only operating in one area and challenged by competition, lower prices and lower profitability. Only 1.8% of enterprises are expecting to grow through starting export operations. This is most likely because few enterprises know how to access international markets or know about their export prospects.

About 10% of enterprises are planning to undertake organizational development activities; whether restructuring, staff training, IT development etc. Given the lack of interest in business training and consulting services, it is quite likely that entrepreneurs are not aware of the impact that organizational development activities can have in improving their businesses.



III. Conclusion and Opportunities

Small and medium enterprises are an important part of the Cambodian economy, contributing to economic and social development. They play an important role in: (i) creating jobs (an estimated 40%-50% of total employment can be attributed to SMEs, according to the Ministry of Industry, Mines and Energy SME Working Group); (ii) generating income for low-income people and vulnerable populations, but also for the population at large, and (iii) fostering economic growth, social stability, and contributing to the development of a dynamic private sector. SMEs constitute the most dynamic segment in many developing economies as they are more innovative, faster growing, and sometimes more profitable.

The study suggests that the financial services sector in Cambodia does not respond to all the needs of the SME sector, nor does the financial sector have a targeted strategy or focus on SMEs; primarily because they are considered high risk. The absence of a credit information sharing system makes it difficult for banks to evaluate the creditworthiness of borrowers, and weak financial and legal infrastructure to enforce loan agreements or liquidate collateral makes SMEs a very uncertain and risky segment. Other challenges of SMEs that make them a high risk market, as detailed in the study, are:

1. Lack of financial statements due to weak accounting standards. Only 59% of enterprises surveyed in this study prepare even basic financial reports, of which only 16% have formal financial reporting (balance sheet, profit & loss statements, etc.)
2. Lack of suitable collateral
3. Lack of a bank account, in part due to lack of outreach by the financial services sector. In total, 57% enterprises that are within a 3 km radius of a province's main town, do not have a bank account

Yet, as this study shows, SMEs are very diverse in their needs for financial services and access to finance so that they can develop their businesses. Business growth is often hindered by not having access to capital. SMEs continue to lack

access to the formal banking sector. The findings of this study confirm these challenges but also show that, overall, the opportunities to provide financial services for SMEs is in fact quite large for the following reasons:

- Lack of capital or investment financing is considered the main challenge to growth by 71% of entrepreneurs surveyed
- Over 90% of entrepreneurs use personal money to start their business; they also have to rely on personal financing to expand their enterprises
- 47% of short-term funding and more than 70% of long-term funding used by entrepreneurs in the last year came from personal savings or borrowing from family or friends. The total for short-term loans is \$4,451,770, and for long-term loans, \$10 million. Of those enterprises with short-term loans, 38% do not have a bank account. Of those enterprises with long-term loans, 52% do not have a bank account
- 73% of enterprises need funding for assets in the next three years, totaling more than \$60 million. This is to finance buildings, machinery, office furniture and fittings, and business and office equipment

The study shows that there is an opportunity to provide existing and new financing products and services to SMEs. Given the embryonic stage of both financial services and SMEs, financial services providers should be strengthening their outreach to this sector so that they can reap the benefits of providing products and services to this dynamic sector.

3.1. The Opportunities

The opportunities for financial institutions are presented in table 97 according to each major variable covered by the study. Where data were insufficient, the financing amounts were not included. Each type of financing and asset to be funded has been discussed at length earlier in this report and financial institutions will be able to use these data to choose which financing products are likely to be the most suitable, in which location, and for which size and type of enterprise.

BY PROVINCE: (Please note that provinces have been aggregated for better presentation of the data).

- Battambang has the highest number of enterprises covered by the survey and also the highest financing needs (\$17,045,800). Enterprises in this province are primarily in the agricultural sector and this province has the highest number of small enterprises (37.5%)
- Siem Reap has 19.6% of the total sampled enterprises, and the largest percentage of micro enterprises. Siem Reap Province also has the highest concentration of hospitality businesses and requires the second highest amount of total financing (\$14,779,050)
- Kampong Cham, Kampong Speu and Kampong Chhnang have almost 14% of the total enterprises surveyed. The majority of enterprises in these provinces are small and micro enterprises. Together they require the third highest total for financing (\$14,734,950)
- Kandal Province and Phnom Penh city together have \$5,480,700 in financing needs (the third smallest amount)

- Svay Rieng and Banteay Meanchy Provinces comprise 17.2% of total enterprises surveyed. Micro and small enterprises in the agriculture, services and manufacturing sectors dominate in these provinces. These two provinces require \$5,377,000 in financing, of which \$5.1 million is for financing buildings, and machinery and equipment.
- Sihanoukville and Kampot Provinces together comprise about 11.5% of total enterprises. Both seaside towns are dominated by micro enterprises in the services and hospitality sectors. Together these enterprises require the smallest amount of financing (\$3,323,000).

BY ACTIVITY SECTOR:

- The agriculture sector represents 31.9% of enterprises surveyed. Small, medium and large enterprises dominate the sample, with most located in Battambang Province. In line with Battambang's high financing needs, agriculture is the activity sector with the highest financing needs (\$51,909,750).
- Hospitality represents the sector with the second highest financing needs. Hospitality is represented by 15.7% of total enterprises. These are primarily micro, small and large enterprises in Siem Reap and Sihanoukville. Total financing for this activity sector amounts to \$26,448,200.
- The retail and wholesale sectors both require the smallest amounts of financing (less than \$5 million).
- Manufacturing and services require similar amounts of financing (\$14,898,150 and \$12,692,900, respectively).
 - Manufacturing enterprises represent 17.7% of total enterprises sampled, with the majority being micro enterprises in Siem Reap, Battambang and Banteay Meanchey.
 - Services enterprises represent almost 20% of total enterprises sampled, and are predominantly micro enterprises operating in Siem Reap, Battambang and Sihanoukville.

BY ENTERPRISE TYPE:

- Large enterprises constitute 14.5% of the total enterprises surveyed. Large enterprises are predominantly found in the agriculture sector and in Battambang. These enterprises require the largest amount of financing.
- Small enterprises require slightly more funding than medium enterprises. Medium enterprises comprise 16.3% of the enterprises surveyed, while small enterprises comprise 33.9%. It is important to remember that in most cases, there is a close correlation between the amount of financing needed and enterprise type. Given the larger sample of small enterprises, it is understandable that a higher total of financing is required.
- Micro enterprises comprise the largest percentage of enterprises surveyed (35.3% of total enterprises). Micro enterprises are mostly in the services and manufacturing sectors in Siem Reap, Battambang and Kandal Provinces. Micro enterprises require just under \$10 million in financing.

The following summary table concludes the findings of the survey.

TABLE 97: SUMMARY OF TOTAL ASSET FINANCING

Aggregated by Province	Battambang	Kampong Cham, Speu & Chhnang	Kandal & Phnom Penh	Siem Reap	Siha-noukville & Kampot	Svay Rieng & Banteay Meanchey	Grand Total
Assets to be financed							
Buildings	\$7,557,000	\$7,862,300	\$3,785,000	\$9,040,900	\$1,929,000	\$2,355,500	\$32,529,700
Machinery and equipment	\$8,988,500	\$6,609,250	\$1,576,500	\$3,944,700	\$565,300	\$2,832,800	\$24,517,050
Furniture and fittings	\$442,300	\$239,900	\$70,000	\$1,166,950	\$645,500	\$128,700	\$2,693,350
Office and business equipment	\$58,000	\$23,500	\$49,200	\$626,500	\$183,200	\$60,000	\$1,000,400
Totals	\$17,045,800	\$14,734,950	\$5,480,700	\$14,779,050	\$3,323,000	\$5,377,000	\$60,740,500
By Activity Sector		Agriculture	Retail	Wholesale	Hospitality	Manufacturing	Services
Assets to be financed							
Buildings	\$13,124,000	\$1,952,000	\$1,295,000	\$7,980,000	\$4,415,200	\$3,763,500	\$32,529,700
Machinery and equipment	\$16,946,800	\$727,000	\$1,374,000	\$411,000	\$2,746,950	\$2,311,300	\$24,517,050
Furniture and fittings	\$200,700	\$60,200	\$20,500	\$1,701,000	\$45,400	\$665,550	\$2,693,350
Office and business equipment		\$100,900	\$10,500	\$464,700	\$43,000	\$381,300	\$1,000,400
Totals	\$30,271,500	\$2,840,100	\$2,700,000	\$10,556,700	\$7,250,550	\$7,121,650	\$60,740,500
Equity Financing	\$5,377,000	\$572,700	\$785,000	\$9,792,500	\$4,272,100	\$1,939,325	\$22,738,625
Long-term Loans	\$16,261,250	\$1,127,000	\$1,555,000	\$6,099,000	\$3,375,500	\$3,631,925	\$32,049,675
By enterprise type		Large	Medium	Small	Micro	--	--
Assets to be financed							
Buildings	\$15,017,000	\$6,684,000	\$7,330,500	\$3,498,200			\$32,529,700
Machinery and equipment	\$11,803,500	\$6,380,000	\$4,841,000	\$1,492,550			\$24,517,050
Furniture and fittings	\$1,032,700	\$423,500	\$586,400	\$650,750			\$2,693,350
Office and business equipment	\$473,500	\$110,900	\$177,700	\$238,300			\$1,000,400
Totals	\$28,326,700	\$13,598,400	\$12,935,600	\$5,879,800			\$60,740,500
Equity Financing	\$12,453,500	\$3,262,000	\$5,950,000	\$1,073,125			
LT Loan by Type	\$13,918,000	\$7,567,000	\$7,547,000	\$3,017,675			\$32,049,675
GRAND TOTAL FINANCING	\$54,698,200	\$24,427,400	\$26,432,600	\$9,970,600			\$92,790,175
By bank account		Have bank account	No bank account	--	--	--	Grand Total
Assets to be financed							
Buildings	\$21,706,500	\$10,823,200					\$32,529,700
Machinery and equipment	\$16,275,700	\$8,241,350					\$24,517,050
Furniture and fittings	\$2,420,200	\$273,150					\$2,693,350
Office and business equipment	\$638,700	\$361,700					\$1,000,400
Totals	\$41,041,100	\$19,699,400					\$60,740,500



N°70, Norodom Boulevard
Sangkat Chey Chumnas,
Phnom Penh, Cambodia
Tel: +(855) 23 210 922
Fax: +(855) 23 215 157
www.ifc.org



No. 1, Street 21, Sangkat Tonlé Bassac,
Phnom Penh, Cambodia
Tel: +(855) 23 216996
Fax: +(855) 23 216997
E-Mail: Delegation-Cambodia@ec.europa.eu
Website: www.delkhm.ec.europa.eu