

GIZ: Closing Workshop and Regional Expert Forum on  
“Trade as main driver for regional economic integration”

# Capacity Building, SME Trade, and Poverty Reduction: Cambodia Case

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Date: March 19-20

Venue: Bangkok

# Introduction

- International trade has increased export opportunities, accessed to international markets and supply chains.
- Many studies have proved the positive relationship between trade-related capacity building and the performance of trade-related SMEs (Omolo 2015; Kaplinsky and Readman 2004).
- The trade-related SMEs gives firms chances to scale up, increases innovation, manages spill-overs of technology and know-how, broadens and deepens skillset of the staff, and enhances productivity (Wagner, 2011).

# Introduction

- Trade-related SMEs has been considered an important factor in contributing to poverty reduction in many developing countries.
- Growth of trade-related SMEs provides income-generating jobs, increases real wage, improves education, and provides opportunities for the poor to catch up with the rich in international trade (Ali et al. 2014; Martin et al 2015; OECD 2017).
- Nonetheless, SMEs could contribute to the poor unless it provided salary that was high enough for poverty reduction, but low enough for the competition in the international market (Omolara 2002).

# SME Development in Cambodia

Table 1: Definition

	Employee number	Assets excluding land (USD)
<b>Micro</b>	< 11	50,000
<b>Small</b>	11-50	50,000-250,000
<b>Medium</b>	51-100	250,000-500,000
<b>Large</b>	>100	>500,000

Source: Royal Government of Cambodia Sub-Committee on Small and Medium Enterprises SME Secretariat, *Small and Medium Enterprise Development Framework (2005)*.

**Table 2: Number of Cambodia's Enterprise by Sector, 2011 & 2014**

ISIC Section	Industry	2011	2014	Share of Total (2014)
B	Mining and quarrying	179	288	0.1%
C	Manufacturing	71,326	71,929	14.0%
D	Electricity, gas, steam and air conditioning supply	4,439	4,112	0.8%
E	Water supply, sewerage, waste management etc.	440	2,973	0.6%
F	Construction	188	206	0.0%
G	Wholesale and retail trade, motor vehicle/motorcycle repair	268,169	305,785	59.5%
H	Transportation and storage	1,445	975	0.2%
I	Accommodation and food services activities	56,852	56,230	10.9%
J	Information and communication	4,114	1,096	0.2%
K	Financial and insurance activities	3,378	3,495	0.7%
L	Real estate activities	120	133	0.0%
M	Professional, scientific and technical activities	945	378	0.1%
N	Administrative and support service activities	5,851	5,931	1.2%
P	Education	9,868	11,999	2.3%
Q	Human health and social work activities	4,853	6,860	1.3%
R	Arts, entertainment and recreation	1,715	1,207	0.2%
S	Other service activities	29,481	40,163	7.8%
<b>Total</b>		<b>463,363</b>	<b>513,760</b>	<b>100%</b>

# Analysis: Using WB 2016 Enterprise Survey

## Characteristics of Data

	Micro enterprise	Small enterprise	Medium enterprise	Large enterprise	Total
<b>Number</b>	162	134	16	61	373
<b>Average of enterprise (years)</b>	13	13	14	12	13
<b>Sector</b>					
<b>Rice milling</b>	9	5			14
<b>Textile, apparel &amp; footwear</b>	7	4	3	33	47
<b>Other manufacturing</b>	23	34	7	5	69
<b>Services</b>	123	91	6	23	243
<b>Region</b>					
<b>Phnom Penh</b>	44	53	5	29	131
<b>Plains</b>	24	20		10	54
<b>Mountains</b>	33	12	4	6	55
<b>Coastal</b>	21	21	4	9	55
<b>Tonle Sap</b>	40	28	3	7	78
<b>Export related enterprises</b>	18	11	2	27	58

Source: World Bank Enterprise Survey 2016

# Data

## Level of Integration:

- Deep: Share of export more than 70% of total sales
- Good: Share of export between 40% and 70% of total sales.
- Fair: Share of export less than 40% of total sales.

# Result 1: Level of Integration and Human Resource

Human Resource		Level of Integration			
		Deep	Good	Fair	Total
Excellent	Number of firms	25	1	1	27
	% of total firms	92.6	3.7	3.7	100
	correlation	50.0	16.7	50.0	46.6
Good	Number of firms	1	1	0	2
	% of total firms	50.0	50.0	0.0	100.0
	correlation	2.0	16.7	0.0	3.4
Fair	Number of firms	6	4	1	11
	% of total firms	54.5	36.4	9.1	100.0
	correlation	12.0	66.7	50.0	19.0
Poor	Number of firms	18	0	0	18
	% of total firms	100.0	0.0	0.0	100.0
	correlation	36.0	0.0	0.0	31.0
Total	Number of firms	50	6	2	58
	% of total firms	86.2	10.3	3.4	100.0
	correlation	100.0	100.0	100.0	100.0
Pearson $\chi^2(6) = 17.0706$ Pr = 0.009					

Source: Author's calculation based on enterprise survey 2016



## Result 2: Level of Integration and Skill Intensity

Skill intensity		Level of integration			
		Deep	Good	Fair	Total
Skilled and production	Number of firms	30	3	2	35
	% of total firms	85.7	8.6	5.7	100.0
	correlation	100.0	100.0	100.0	100.0
Skilled and non-production	Number of firms	28	3	1	32
	% of total firms	87.5	9.4	3.1	100.0
	correlation	93.3	100.0	50.0	91.4
Unskilled and production	Number of firms	28	2	1	31
	% of total firms	90.3	6.5	3.2	100.0
	correlation	93.3	66.7	50.0	88.6
Unskilled and non-production	Number of firms	13	2	0	15
	% of total firms	86.7	13.3	0.0	100.0
	correlation	43.3	66.7	0.0	42.9
Total enterprises	Number of firms	30	3	2	35
	% of total firms	85.7	8.6	5.7	100.0
	correlation	100.0	100.0	100.0	100.0

Source: Author's calculation based on enterprise survey 2016

## Result 3: Level of Integration and Labor Productivity

Labor productivity		Level of integration			
		Deep	Good	Fair	Total
Excellent	Number of firms	9	1	1	11
	% of total firms	81.8	9.1	9.1	100.0
	correlation	18.0	16.7	50.0	19.0
Good	Number of firms	14	0	0	14
	% of total firms	100.0	0.0	0.0	100.0
	correlation	28.0	0.0	0.0	24.1
Fair	Number of firms	16	1	0	17
	% of total firms	94.1	5.9	0.0	100.0
	correlation	32.0	16.7	0.0	29.3
Poor	Number of firms	11	4	1	16
	% of total firms	68.8	25.0	6.3	100.0
	correlation	22.0	66.7	50.0	27.6
Total	Number of firms	50	6	2	58
	% of total firms	86.2	10.3	3.4	100.0
	correlation	100.0	100.0	100.0	100.0
		Pearson $\chi^2(6)=8.5855$ Pr=0.198			

Source: Author's calculation based on enterprise survey 2016

## Result 4: Level of Integration and Innovation/Technology Development

Firm's technology/innovation		Level of integration			
		Deep	Good	Fair	Total
Introduce new products or services	Number of firms	15	4	1	20
	% of total firms	75.0	20.0	5.0	100.0
	correlation	30.0	66.7	50.0	34.5
Automate manual process	Number of firms	12	4	2	18
	% of total firms	66.7	22.2	11.1	100.0
	correlation	24.0	66.7	100.0	31.0
Introduce new technology or method in improving firm process	Number of firms	11	4	1	16
	% of total firms	68.8	25.0	6.3	100.0
	correlation	22.0	66.7	50.0	27.6
Improve logistics, delivery, or distribution methods	Number of firms	11	5	0	16
	% of total firms	68.8	31.3	0.0	100.0
	correlation	22.0	83.3	0.0	27.6
Improve organizational structure/managerial practice	Number of firms	7	6	0	13
	% of total firms	53.8	46.2	0.0	100.0
	correlation	14.0	100.0	0.0	22.4
Spend on R&D	Number of firms	6	1	1	8
	% of total firms	75.0	12.5	12.5	100.0
	correlation	12.0	16.7	50.0	13.8
Use of technology licensed from a foreign-owned company	Number of firms	5	2	0	7
	% of total firms	71.4	28.6	0.0	100.0
	correlation	10.0	33.3	0.0	12.1
Total	Number of firms	50	6	2	58
	% of total firms	86.2	10.3	3.4	100.0
	correlation	100.0	100.0	100.0	100.0

Source: Author's calculation based on enterprise survey 2016

# Conclusion

- Literatures suggest positive correlation between trade-related capacity building and SMEs development, and SMEs development and poverty reduction.
- SMEs positively contributes to job creation in Cambodia, especially those residing in rural area. However, a vast majority of SMEs in Cambodia are micro and small enterprises, with relatively small production scale and low quality.
- There exists positive correlation between level of integration and skill intensity in Cambodia.

# Policy Recommendation

- Ratification of ACFTA in 2009 → Opportunity for exports of agricultural products to China's huge market.
- Many SMEs are not aware and therefore do not utilize the preferential market access to China → Awareness to SMEs is needed.
- Simplification of export procedure can help small SMEs to export.
- Improvement of product quality is also key for export.
- Cambodia is facing “missing middle”, making domestic firms to invest in R&D for long-term sustainable growth.