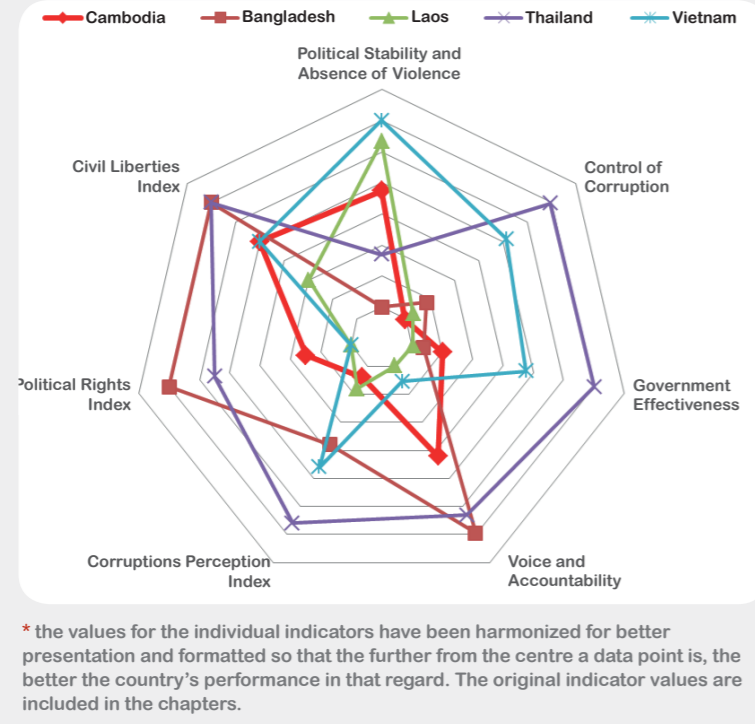




3. Political elements

Indicators assessing political elements of an enabling environment for sustainable enterprises for 2011*

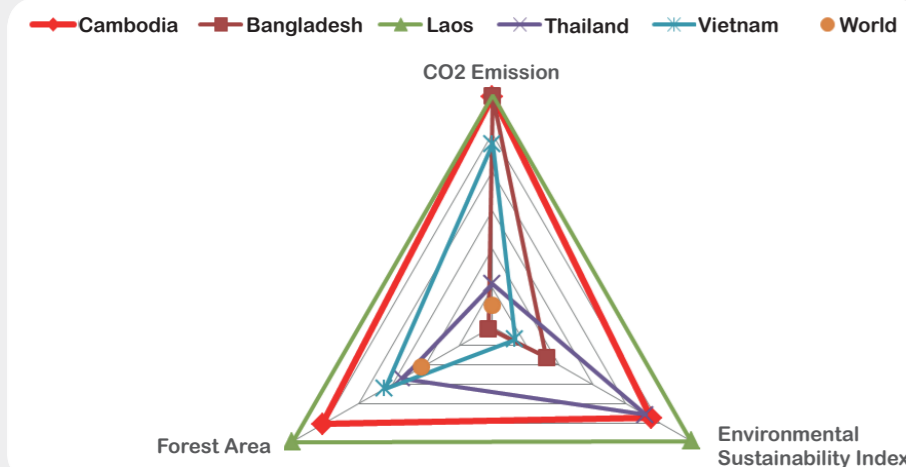
- ▶ Cambodia has seen the durability of its political system improving as well as the development of democratic institutions and practices over the last decade. However, the existence of organized crime, makes extortion a serious problem for enterprises.
- ▶ Corruption is the most hindering business constraint: it is estimated that 10 per cent of GDP is annually lost to it. Despite steady improvements in public financial management since 2002, about 30 per cent of firms still believe that policymaking is controlled by individuals with personal connections to leaders in government. This is favoured by the fact that the economy is cash-based, allowing greater possibility for corrupt behaviour.
- ▶ Concerning the capacity of providing good-quality public services as well as the degree of citizens' participation in selecting their government and freedom of expression, Cambodia does not stand out.
- ▶ The vast majority of surveyed workers do not have a contract or have only a verbal agreement with the employer. Moreover, most of work contracts are fixed term and are concentrated in the garment and tourist sectors. However, surprisingly, the largest proportion of employees prefer not to have a contract or only a verbal agreement.
- ▶ Owing to the ratification of the core ILO conventions and a comprehensive Labour Law, the number of unions increased significantly. Nonetheless, only 1 per cent of total labour force is organised into unions or associations, with the most unionised sector being the garment industry.



- ▶ Despite the existence of a forum for public-private sector dialogue and a tripartite labour regulation institution, which work fairly effectively, the lack of communication between workers and management is a considerable source of workplace disturbance. As a result, strikes are rather frequent, though industrial relations in the country are slowly maturing.
- ▶ Respect of human rights in Cambodia is brought to public attention also by a number of NGOs, and the government has made efforts to reduce poverty. However, land property rights and human trafficking remain an issue.
- ▶ General working conditions have improved over the last years and the government is exploring and piloting social security systems in the country.

4. Environmental elements

Indicators assessing environmental elements of an enabling environment for sustainable enterprises (2005)*



- ▶ Cambodia is well endowed with natural resources, but is also considered one of the most vulnerable countries in the region to climate change effects, especially when they affect agriculture.
- ▶ Secondary data show that Cambodia is improving its environment stewardship.
- ▶ Notwithstanding the Constitution requires the government to sustainably manage all natural resources, concessions to private companies increased in 2009, thus limiting local population's access and causing food security issues.

- ▶ Water is unregulated, resulting in an overabundance in the wet season and a shortage during the dry season. Furthermore, destructive fishing practices are widely used, though local communities are active in responding to this.
- ▶ Cambodia has one of the highest percentages of forest area in the region, which significantly contributes to

- the income of the rural population. However, due to the lack of implementation of existing laws and policies, deforestation represents a serious threat.
- ▶ CO2 emissions per capita are not high, though increasing.

5. Assessment results and ways forward

The EESE exercise comes timely to the process of the broader National Employment Policy development also supported by the International Labour Organization. Two of the priority topics of the EESE work (skills and industrial relations) relate to topics within the broader on-going National Employment Policy (NEP) process. Within the NEP process four priorities have been identified and studies have been commissioned, namely rural employment, macroeconomic policy and its impact on the labour market, labour migration and skills gaps. These studies informed the EESE report. CAMFEB, as national employer organization will have to have clear positions on issues such as the dollarization of the economy, weighing the possible positive effect of dollarization on investments vis a vis the vulnerability of the macroeconomic framework due to dollarization and the limited control the National Bank of Cambodia has over the money supply. In line with the broader Cambodian National Employment Policy Development exercise, there is a need for a) more public investments, b) boosting domestic investments (through entrepreneurship culture and access to credit and business development services), c) more structural transformation towards the manufacturing sector and d) expanding spending on a social protection and safety net programme to support aggregate demand.

The final results of the overall assessment on an enabling environment for sustainable enterprises in Cambodia based on primary and secondary data, thorough literature review, indicate the following as the key priority areas for policy attention;

1. education, training and skills

Skills and capacity challenges are a primary concern for the country where nearly half of surveyed enterprises expressed concern of the free flow of labour and the impact of this on their companies.

2. corruption

The research indicated that active involvement with the Anti-corruption Unit and advocacy for wider publishing of public services fees and dissemination of this information to businesses is pivotal to preventing corruption within the legal and regulatory environment, and thus facilitating more sustainable business operations.

3. social dialogue/industrial relations

Developing the institutional infrastructure to manage Cambodia's industrial relations while costly in terms of government resources and time is critical to improving the IR climate. Implementation of this requires buy in from all stakeholders, workers, trade unions, government and business.

4. legal and regulatory environment

Well-designed laws and regulations provide the framework for successful economies, enhance competition, reduce regulatory costs, boost efficiency, bring down prices and stimulate innovation. As Cambodia further integrates its economic relationship with its ASEAN neighbours, a focus on the competitiveness of the economy and the enterprises that populate it is essential to the future well-being of the country.

Building on the EESE assessment, the Cambodian Federation of Employers and Business Associations (CAMFEB) drafted four policy papers focusing on 1) education, training and skills, 2) corruption, 3) social security, 4) social dialogue and an overarching Vision Document. These will shape CAMFEB's advocacy efforts over the next years to come.

Methodological note:

Based on the ILO developed and broadly tested methodology: Enabling Environment for Sustainable Enterprises.

Assesses 17 conditions clustered in political, economic, social and environmental elements.

Report findings are based on:

- » a thorough review of 110 secondary sources
- » a nationwide enterprise survey with face to face interviews with 355 enterprises in Phnom Penh, Siem Reap and Battambang
- » face to face interviews with 257 workers

Provides evidence based recommendation on how to further improve the enabling environment for Cambodian enterprises.

Full report available for free download under: <http://www.ilo.org/eeese>

For further information please contact the ILO EESE Team under: eeese@ilo.org



EESE business,
create jobs

Enabling Environment for Sustainable Enterprises



International
Labour
Organization



Enabling Environment for Sustainable
Enterprises in Cambodia:

Main Findings

AUTHORS
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MARCH 2014



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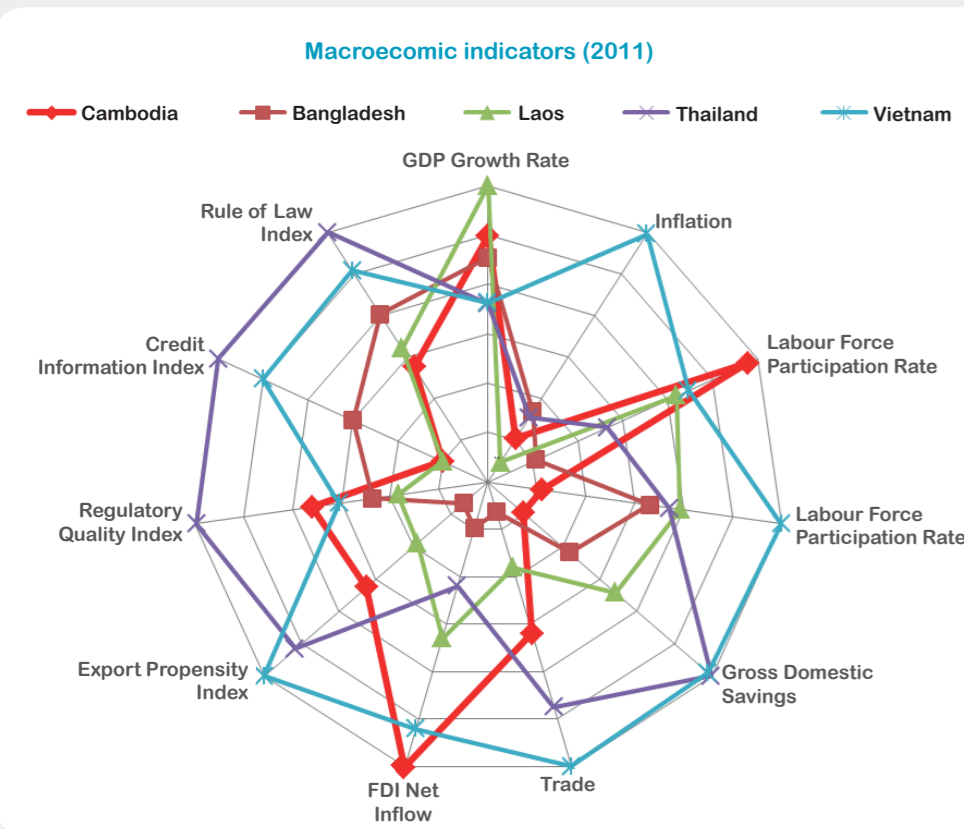
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1. Economic elements

Indicators assessing economic elements of an enabling environment for sustainable enterprises*

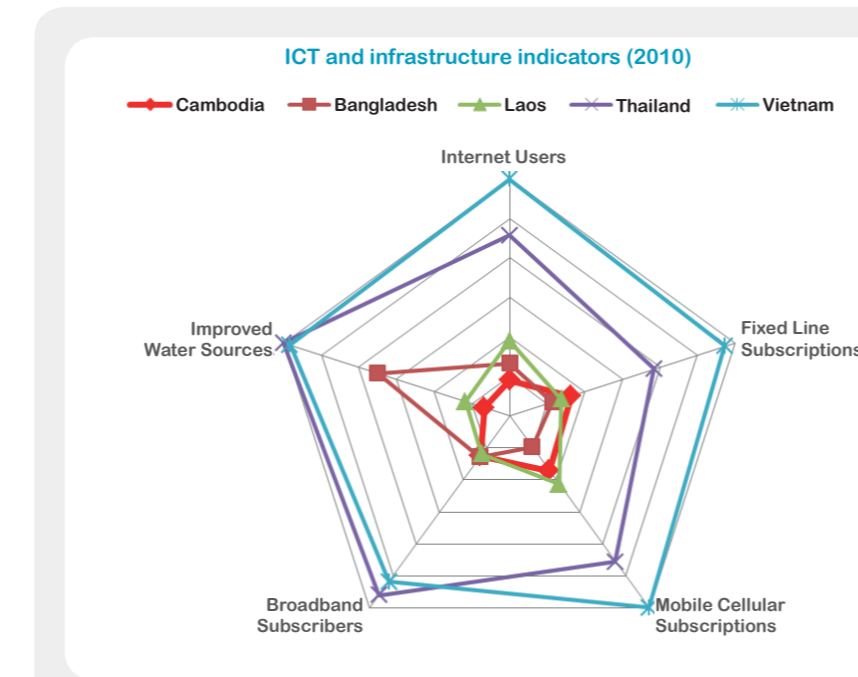


* the values for the individual indicators have been harmonized for better presentation and formatted so that the further from the centre a data point is, the better the country's performance in that regard. The original indicator values are included in the chapters.

- ▶ Cambodia's economy is based on the garment, tourism and construction sectors, which have recently driven economic growth and job creation. On the other hand, the agricultural sector yields limited formal exports, due to its low productivity, but accounts for more than two-thirds of total employment.
- ▶ Despite a consistently high annual GDP growth rate until 2008 and a notable recovery after 2009, Cambodia still exhibits a very high poverty rate. Nevertheless, the government has undertaken a number of measures to reduce it, and significant results have already been achieved.

- ▶ The 2008-09 global economic downturn has shown Cambodia's vulnerability to market changes and price fluctuations. As a consequence, the government is trying to diversify the country's economic base, for example fostering rice exports and establishing Special Economic Zones in order to attract FDI.
- ▶ Cambodia's gross domestic savings are rather low, indicating that the financial sector is in relatively bad conditions. Moreover, also its gross capital formation, a measure of investment, underperforms the values of the countries used for comparison as well as the world and East Asia and Pacific means.

- ▶ The current account balance as a percentage of GDP went below zero between 2008 and 2012, indicating Cambodia's high reliance on imports coupled with a low diversification of exports.
- ▶ Total trade as a percentage of GDP has increased at an annual average rate of 17 per cent between 1995 and 2009. This highlights how Cambodia is a highly liberal and outward-looking economy. However, exports are concentrated towards the U.S., EU and Hong Kong and composed mostly by textiles and apparel. The consequent riskiness clearly emerged in 2009, when garment exports dropped by 31 per cent, causing a large job loss in the sector. Also agriculture can become a relevant source of exports, but many agricultural products do not meet the technical standards of buyers, thus they are informally exported.
- ▶ Cambodia is also trying to substitute imports of raw materials for the garment industry with locally produced commodities.
- ▶ The FDI inflow is relatively high, especially since Special Economic Zones have been established. Cambodia is also making efforts to increase its integration in regional markets, although it has not yet fully benefited from this. China has become its major partner, mainly owing to the financing of significant infrastructure projects.
- ▶ With regard to the legal and regulatory framework, Cambodia does not perform well. Although considerable improvements have been achieved according to the



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- ▶ The ICT sector in Cambodia has been growing very fast in recent years. Nevertheless, a number of issues still hamper its full development, such as the absence of a clear legal framework, high operating costs and the low number of qualified ICT workers. As a result, the personal computer penetration rate is less than Cambodia's potential, affecting disproportionately SMEs' competitiveness. Especially in the tourism sector, e-business is essential, whilst Internet access and use of emails remain limited.

- ▶ "Ease of Doing Business Index", setting up a new business as well as acquiring permits and licences is still a cumbersome process.
- ▶ In spite of recent progress, the judicial system is hardly accessible, affecting disproportionately poor women, whilst protection of property rights and intellectual property rights is weak and not enforced.
- ▶ The promotion of competition in Cambodia is moving forward, with a draft Law on Competition introduced in 2012 and other numerous laws currently in progress. Likewise, anti-monopoly policies have revealed to be effective. Nonetheless, anti-competitive practices are still a challenge to doing business, and employers mostly perceive unfair competition as a major constraint.
- ▶ The Cambodian financial system is still underdeveloped and the depth of financing limited. Due to the extensive presence of informal and foreign-owned firms, access to credit is not considered a major challenge; however, it is reasonable to think that it limits private sector diversification into higher value-added sectors.
- ▶ The lack of credit infrastructure and formal services negatively impacts farmers and SMEs in particular. For this reason, the role played by microfinance institutions is fundamental, serving more than three-quarters of the total national amount of credit. However, the creation of the first private credit bureau in 2012 is expected to progressively ease SMEs' access to finance.

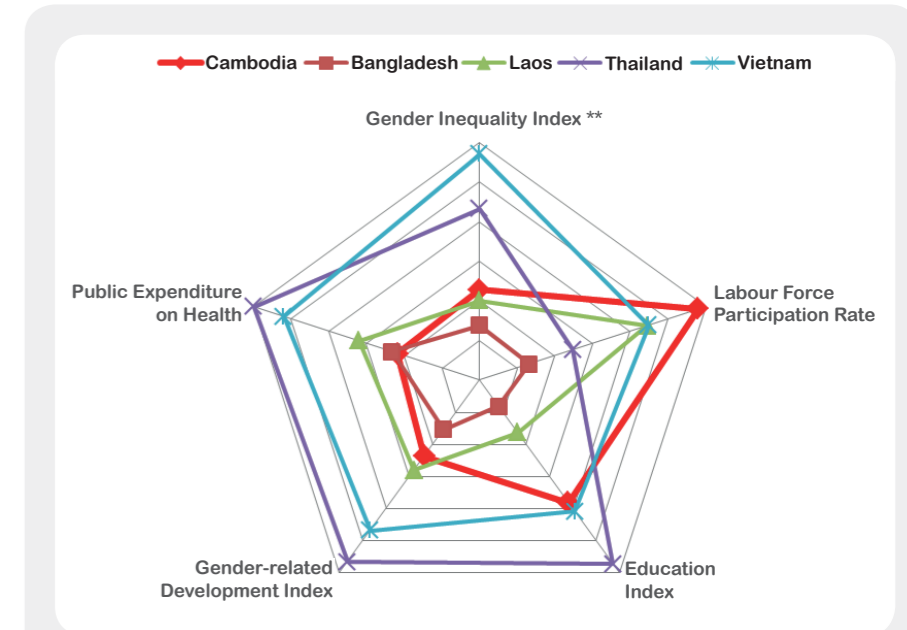
- ▶ With regard to ICT usage, improvements are evident, in particular in the area of mobile cellular subscriptions. However, the number of fixed-line, Internet and broadband subscriptions remains substantially low.
- ▶ Transportation infrastructures are an issue for concern, since ports and airports remain inadequate despite recent upgrades, whilst road and rail networks continue to suffer from a lack of investment.

- ▶ Access to electricity is mainly limited to urban areas and, even there power shortage causes risks to business operations. In addition, electricity prices are comparatively high and place a burden on firms.
- ▶ Significant improvements need to be achieved regarding access to potable water, as more than a third of the population did not have access in 2010.

2. Social elements

Indicators assessing social elements of an enabling environment for sustainable enterprises for 2009*

- ▶ As of 2009, enterprises in Cambodia with one or two persons engaged accounted for 70 per cent of the total, whilst enterprises with five or more employees only for 12.3 per cent. Despite these figures, the proportion of labour force employed by large-scale firms was still considerable.
- ▶ The majority of very small – and often informal – enterprises is owned by women, whilst, as the size of firms increases, men make up larger portions of the labour force. Moreover, agriculture and agribusiness SMEs represent the backbone of rural economy, showing also a high growth potential.
- ▶ In order to help SMEs to overcome their constraints and promote their development, the government has promoted financial support as well as implemented legislation to streamline SME registration, and import and export procedures.
- ▶ The labour force in Cambodia is characterised by low levels of education and skills, with 78 per cent of workforce not having completed lower secondary school. This puts both workers and employers at risk.
- ▶ One of the sources of skilled workers' shortage is the mismatch between the training provided in the education system and the requirements of new industries in the Cambodian private sector. In fact, according to findings from the EEE survey, competent university graduates cannot find jobs, whilst business and manufacturing sectors cannot find qualified high school graduates.
- ▶ The informal economy is the most affected by the lack of skilled labour, impacting negatively incomes of workers there employed. Hence, better skills training can help to reduce poverty by increasing incomes and moving labour out of the informal sector.
- ▶ Although progresses in poverty and inequality reduction have been made, further improvements need to be achieved. Specifically, investments in pro-poor sectors, such as healthcare, rural development and education, are needed as well as adequate strategies to increase agriculture productivity.



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** data for these indicators is for 2010, as data for 2009 was unavailable.

- ▶ Cambodia has registered rapid employment growth, but mostly in low-income low-productivity activities. Conversely, more quality jobs have to be generated.
- ▶ Concerning gender and women's empowerment, Cambodia has made improvements, and women are regarded as the backbone of the national economy and society. Nevertheless, discriminatory practices still persist and efforts need to be put to ensure gender equality and equity.
- ▶ In regards to healthcare, nutrition, education and social protection, Cambodia lags far behind many other countries in the region, without effective protection schemes currently provided by the government. One consequence is that poor people cannot afford to remain unemployed for long, ending up with an unsafe vulnerable job. Fortunately, civil society and microfinance institutions provide social support mechanisms and credit for increasing income earning opportunities.