

# Assessment of Corruption in Cambodia's Private Sector



**Clean**

Working Together to Fight Corruption

**Assessment of Corruption  
in Cambodia's Private Sector**

**JULY 2006**

The Corruption Assessment in the Private Sector (CAPS) project is sponsored by the United States Agency for International Development (USAID), Pact and PADCO|AECOM, and implemented by the Economic Institute of Cambodia (EIC).

Research Director:	Sok Hach
Project Team Leaders:	Nuth Monyrath and Chan Vuthy
Managing Editor:	Neou Seiha
English Editor:	Jessica Frommer

# TABLE OF CONTENTS

List of Tables and Figures	iii
List of Abbreviations and Acronyms	iv
Foreword	v
Executive Summary	vii
Why this Study?	1
1. Nature of Corruption in the Private Sector	3
1.1. Frequency of Inspections	4
1.2. Predictability of Unofficial Fees	6
1.3. Efficiency of Public Services and Unofficial Fees	7
1.4. How the Informal Payments Occur?	7
2. Causes of Corruption in the Private Sector	11
2.1. Reasons to Pay Unofficial Fees	11
2.2. Reasons to Ask for Unofficial Fees	13
3. Extent of Corruption and Its Implications	17
3.1. Seriousness of Unofficial Payments	17
3.2. How Much Corruption is there in the Private Sector?	19
3.3. Impact of Corruption on the National Budget	21
3.4. Impacts of Corruption on the Economy	23
4. Some Recommendations to Curb Corruption	25
4.1. Establishing an Effective Anti-corruption Mechanism	26
4.2. Raising the Salaries of Civil Servants	29

4.3. Promoting Good Governance and Ethics	31
4.4. Participation of the Private Sector and Civil Society	34
Concluding Remarks	35
Bibliographic References	37
Appendix I: Overview of Corruption Environment in Cambodia	A1
Appendix II: Study Methodology	A9
Appendix III: Survey Questionnaires	A19

## LIST OF TABLES

Table 1.1: Proportion of Firms Being Inspected by Different Authorities

Table 3.1: Seriousness of Unofficial Payments

Table 3.2: Payments to Public officials (as Percentage of Turnover)

Table 3.3: Payments to Public Officials (Million US\$)

Table 3.4: Effective vs. Official Tax Rate and Potential Tax Evasion

## LIST OF BOXES

Box 3.1: How are Unofficial Fees Paid by the Private Sector Determined?

Box 3.2: Real Regime vs. Estimated Regime of Taxation

Box 4.1: How Corrupt Money is Spent by a Public Officials?

Box 4.2: Government Policy in Relation to Salary & Incentives of Civil Servants

Box 4.3: One-Window-Service Office in Battambang and Siem Reap District

Box 4.4: Transparency in Taxing System: Simplified Accounting System

## LIST OF FIGURES

Figure 1.1: Honesty & Integrity of Officials in Public Agencies or Services

Figure 1.2: Predictability of Unofficial Fees

Figure 1.3: Efficiency of Public Services and Unofficial Fees

Figure 1.4: How Informal Payments Occur for Micro-enterprises?

Figure 1.5: How Informal Payments Occur for SMEs?

Figure 1.6: How Informal Payments Occur for Large Enterprises?

Figure 2.1: Reasons for Micro-enterprises to Pay Unofficial Fees

Figure 2.2: Reasons for SMEs to Pay Unofficial Fees

Figure 2.3: Reasons for Large Enterprises to Pay Unofficial Fees

Figure 2.4: Perception of Micro-enterprises on Reasons for Unofficial Fees

Figure 2.5: Perception of SMEs on Reasons for Unofficial Fees

Figure 2.6: Perception of Large Enterprises on Reasons for Unofficial Fees

Figure 4.1: Government's Actions in the Fight against Corruption

Figure 4.2: Entrepreneurs' Awareness of Anti-corruption Draft Law

Figure 4.3: Enforcement of the Anti-corruption Law: Successful?

## LIST OF ABBREVIATIONS AND ACRONYMS

AAC	Artisan's Association of Cambodia
ADB	Asian Development Bank
AT	Advanced Team
CAPS	Corruption Assessment in the Private Sector
CGE	Cambodia's General Equilibrium Model
CPI	Corruption Perception Index
CR	Cambodian Riel
CSD	Center for Social Development
DFID	Department for International Development
EIC	Economic Institute of Cambodia
FGD	Focus Group Discussion
GDP	Gross Domestic Product
GMAC	Garment Manufacturers Association of Cambodia
ILO	International Labor Organization
IMF	International Monetary Funds
MIME	Ministry of Industry, Mines and Energy
MoC	Ministry of Commerce
MPDF	Mekong Private Sector Development Facility
MSME	Micro, Small and Medium Enterprise
NIS	National Institute of Statistics
PICS	Productivity and Investment Climate Survey
SME	Small and Medium Enterprise
TAF	The Asia Foundation
TI	Transparency International
UNDP	United Nations Development Program
UNIFEM	United Nations Development Fund for Women
USAID	United States Agency for International Development
WB	World Bank
WEF	World Economic Forum
WTO	World Trade Organization

## FOREWORD

As an independent *think tank*, the Economic Institute of Cambodia (EIC) focuses on a wide range of contemporary issues facing Cambodia. Its mission is to provide reliable information for the country's stakeholders and aims to generate awareness of development policies to contribute to good governance and sustainable economic development.

The *Assessment of Corruption in Cambodia's Private Sector* is EIC's first attempt to provide research based on the issues of corruption, which are part of EIC's 'Governance and decentralization' research program.

EIC would like to thank donors, USAID, Pact and PADCO/AECOM, for their generous and active support of EIC in its quest to research and gain insight into the country's private sector and the problems it faces with corruption.

EIC would equally like to express its gratitude to the private sector, MSMEs and large enterprises for their cooperation throughout the project, which without them would not have been possible. Their active participation provided accurate and informative knowledge of the current situation in the private sector. The advisory committee, made up of leading private sector and governance experts, must be thanked for its important consultative role.

Public officials from various departments were also instrumental in the report's findings. Special thanks to H.E. Cheam Yeab, Chairman of the Commission on Economy, Finance, Banking, and State Audit of the National Assembly, for orchestrating a significant meeting with members of parliament discussing preliminary fact findings. Special gratitude also to H.E. Keat Chhon, Senior Minister, Minister of Economy and Finance, and Mr Sim Eang, Director of the Tax Department, for their insightful comments concerning the fact findings and report.

Last but not least, special thanks to the whole of EIC staff for their hard work, enthusiasm and collective team effort in realizing this project.

*Sok Hach, Director  
Economic Institute of Cambodia*



## EXECUTIVE SUMMARY

The private sector is the engine for economic growth, and plays a major role in creating employment for new entrants into the labor force. To promote the private sector, a conducive and enabling environment is needed. Currently, the Cambodian private sector encounters various constraints. Corruption is one of the private sector's major constraints.

To promote the private sector, the problem of corruption needs to be successfully tackled. To contribute to curbing corruption in the private sector, the Economic Institute of Cambodia with the support of USAID, Pact, and PADCO/AECOM conducted a study on corruption assessment in the private sector (CAPS).

The study uses a wide range of methodologies that include: literature review, quantitative and qualitative surveys, modeling system to assess the impact of corruption on the private sector, and an advisory team. In April 2006, the study was conducted with a sample of about 1,200 enterprises in nine major municipalities and provinces of Cambodia. Furthermore, a total of 20 focus group discussions (FGDs) of micro, small and medium enterprises (MSMEs) as well as personal interviews with public officials were conducted.

With the aim to raise the private sector's awareness of corruption, this policy brief will shed light on the nature, causes and extent of corruption. It will also provide a set of practical recommendations on how to reduce corruption in the private sector.

### Nature of Corruption

Corruption may happen any where and at any time. In the private sector, corruption often arises during inspections by public officials. In Cambodia, there are no clear inspection policies regarding the number, time and purpose of inspections. In general, inspections are just pretexts to ask for money by different agencies. Small and medium size businesses face several kinds of inspections for their day-to-day operations.

The most frequent public institutions that inspect enterprises include tax authorities, police, local authorities, fire & building safety, environment, standard inspection, labor and social security, etc. Tax inspections appear to be the most frequent because it is part of the Tax Department's obligations to ensure that enterprises declare their tax obligations correctly. The proportion of enterprises inspected by other agencies increases with the size of the enterprise.

Inspections by public officials raise some gender issues as well. Normally, women-headed households who run businesses face more burdensome inspections by public officials. Therefore, they need to pay more unofficial fees to maintain good relations with the authorities. These women often lack education and information regarding business regulations and law, and end up paying more unofficial fees. In addition, women are at risk of being verbally and sexually harassed by public officials during the course of inspections.

Inspections and unofficial fees are a burden on the private sector. Yet, micro-enterprises tend to consider this a rather small problem, since they often know in advance the amount that they have to pay for inspections. This is because paying unofficial fees is part of the everyday life of micro-entrepreneurs. However, SMEs and large enterprises are less likely to know in advance the amount of unofficial payments. This is because SMEs and large enterprises have more complicated businesses. Therefore, the amount of unofficial fees for SMEs and large enterprises is on a case-by-case basis.

The process of acquiring unofficial fees varies according to the type of business. In general, public officials come to the enterprise's premises and demand bribes. But there are also cases where enterprises contact public officials directly or bribe public officials through middlemen. Contacting public officials and the use of middlemen is more frequent among more formal enterprises, particularly SMEs and large enterprises. When enterprises are more formal, they face more bureaucracy. To receive efficient and rapid public services, the use of middlemen and directly contacting public officials becomes a necessity. In general, once the unofficial fees are paid, enterprises receive efficient services from public officials.

### **Causes of Corruption**

Both the private sector and public officials have various views on why corruption occurs. Entrepreneurs offer diverse reasons why they pay unofficial fees to public officials. In general, micro-enterprises pay unofficial fees to maintain good relations. SMEs and large enterprises pay unofficial fees primarily to receive public services and secondly to maintain good relations with public officials.

The private sector believes that there are five main causes of corruption: 'Low salary of public officials', 'lack of an effective anti-corruption mechanism', 'culture of corruption', 'lack of an independent & effective judiciary', and 'poor law enforcement'.

Public officials also agree with the reasons raised by the private sector. However, public officials highlighted their 'small salaries' as the primary cause for them to solicit bribes.

### **Extent of Corruption**

Overall, unofficial payments in Cambodia's private sector are relatively high. This varies across provinces, depending on the local public administration with which businesses deal with and the specific economic activities of each area. For small individual firms, unofficial payments are not so serious because they can afford it. If an enterprise is more formal, then unofficial fees become more serious. Manufacturing enterprises seem to pay more unofficial fees since they need to deal with different public officials for different production stages.

On average, the private sector pays unofficial fees of about 2.8 percent of their total annual turnover, amounting to US\$330 million in 2005. This amount does not include

unofficial fees paid by import-export companies to custom officers, port and other public officials during goods clearance, nor by companies who have received government contracts.

More specifically, micro-enterprises, SMEs and large enterprises pay unofficial fees of about 1.8 percent, 2.5 percent, and 4.1 percent of their annual sale, respectively.

The figures above suggest that the extent of corruption in the private sector seems to have been significantly reduced compared to the World Bank survey undertaken in 2004, which put unofficial fees at about 5 to 7 percent of sale.

#### *Impact on the National Budget*

Even though the amount of corruption in the private sector is perceived to be reduced in percentage, compared to previous years, the total amount of money lost to corruption is still high. Unofficial fees paid by the private sector reach US\$330 million. This amount represented about 50 percent of the total Government budget revenue in 2005, or about 6 percent of GDP.

The high level of unofficial fees seems to have an impact on the effectiveness of tax collection. The official tax rate on the private sector is much higher than the effective rate actually paid. In spite of the significant progress in collecting domestic tax revenue made by the Tax Department, only about 25 percent of the potential tax was collected from the private sector in 2005. The potential loss in government revenue could reach US\$400 million. The private sector thus benefits from not fully paying tax, even though businesses have to pay different types of unofficial fees to various public officials. This is a likely consequence from the perceived complex and non-transparent tax system currently in place in Cambodia.

#### **How to Curb Corruption?**

Curbing corruption is difficult, but possible. According to the entrepreneurs and government officials interviewed, there is no absolute way to curb corruption. Different strategies and action plans should be enforced in tandem to reduce corruption as much as possible. This policy brief attempts to offer various useful recommendations provided by the private sector and public officials.

#### *Adopting a 'Good' Anti-corruption Legislation*

Presently, Cambodia still does not have an anti-corruption law. The enactment of an anti-corruption legislation is needed. The Government has failed in its commitment to adopt the anti-corruption law by the end of June 2006 as pledged during the 8th Consultative Group meeting between donors and the Government in March 2006.

There is also controversy over the draft law's compliance with international standards. These issues concern the operational independence and autonomous budget of

the anti-corruption secretariat and the adequate independence of an investigation authority. The draft law also fails to allow the Secretary General of the Anti-corruption Council to access asset declarations - including those of officials' spouses and children - during investigations. The draft law also lacks provisions regarding the confidentiality to protect victims and witnesses and special penalties for breaking confidentiality.

In order to fight corruption in the private sector, the very first step to take is to adopt a 'good' anti-corruption law. The Government has revealed its strong will in the fight against corruption through various government policies. To make this will a reality, efforts should be made to adopt a high standard anti-corruption law so that Cambodia has a strong and reliable legal basis to combat corruption.

#### *Effective Enforcement of Anti-corruption Legislation*

The adopted anti-corruption law should not only be on paper. In addition, the enforcement of the law should equally be applied regardless of who and what the person does. Anti-corruption campaigns should be top-down rather than bottom up.

#### *Raising Salaries of Civil Servants*

To effectively enforce the anti-corruption law the issues of the public officials' salaries must be considered. Without an adequate salary, civil servants cannot survive and are thus corrupt and solicit bribes from the private sector. If salaries were high enough to meet the basic needs of public officials, who are involved in petty corruption for survival, their corrupt behavior would be drastically curbed. Therefore, increasing the salaries of public officials can be an effective way to reduce corruption.

In order to increase salaries one must define how much is considered 'enough' for public officials. Ordinary public officials surveyed by EIC in the provinces believe that a salary between US\$100 to US\$150 per month is enough for them to survive and meet their basic family needs. The Government has pledged, in its Rectangular Strategy, to raise the salary of civil servants by 10 to 15 percent to improve their living standards to an appropriate and dignified level. The gradual raise of civil servants' salaries has been put into action, but there are still complaints that these increased salaries are inadequate.

It is important to note that research in other countries has shown that raising salaries alone without other reforms does not automatically reduce corruption.

#### *Promoting Good Governance and Ethics*

Good governance plays a very important role in curbing corruption. Having a 'One-window-service' also reduces corruption by speeding up the public administration process.

More importantly, regulations, procedures and information concerning business should be simple, easy for the private sector to comply with and accessible to entrepreneurs at a low cost. All official business fees should be published and disseminated.

An additional measure to strengthen good governance is the rotation of public officials. Doing this will prevent public officials from strengthening their network and creating channels of corruption.

Moreover, strict control and monitoring of subordinates by high ranking officials is necessary. Officials in high positions should have a clear policy, strong direction and control over their subordinates and should be held accountable.

It is equally important to promote efficiency of the public administration by ensuring the fair recruitment and promotion of public officials. The capacity of public officials should be strengthened to perform their duties effectively. Doing all this is important to dispense with networking and the patronage system.

Public administration needs to provide a system that allows citizens to report corruption. A complaint should be confidential and reporters should be protected. Citizens' complaints should be acted upon seriously. This would create an incentive for them to report corruption in the future.

Last but not least, ethics are an important tool for everybody to be honest. Ethics should be promoted and strengthened through education. The private sector and public officials should be taught honesty, to have patriotic wisdom, a nationalistic spirit and national conscience.

#### *Participating in the Fight against Corruption by the Private Sector*

The private sector could take part in the fight against corruption in two different ways. First, the private sector itself needs to be honest. Every single member of the private sector should refrain from bribing public officials.

Second, the private sector can form or participate in counter-corruption communities and associations. A business, acting as a single voice, does not have the required strength to effectively influence public authorities to consider either problems or interests. Associations are more effective in voicing concerns to policymakers.

These associations will be successful with the full support of the Government. A conducive environment is needed, where they can freely exercise their rights to bargain and associate without fear.

### **Concluding Remarks**

Corruption in Cambodia's private sector is complicated in nature. Both businesses and public officials are involved in corruption which is imbedded within the country due to the system of patronage and networking.

Although the extent of corruption in the private sector seems to be reduced, compared with the World Bank assessment in 2004, its extent actually remains high. To curb corruption, the reasons behind corruption must be addressed.

If corruption in the private sector were to be dispensed with, the amount lost to unofficial fees could be used in a more productive way. This amount (US\$330 million in 2005) could be more than enough to raise the salaries of civil servants to a decent level of US\$100 to US\$150 per month. Corruption in the private sector can be reduced in tandem with efficient public administration.

More interestingly, partly due to corruption, the Government collects only about 25 percent of the total estimated potential tax revenue. The Government's efforts to collect more tax revenue should concentrate on simplifying the tax system and improving transparency in tax collection.

## Why this Study?

The private sector is the engine for economic growth, and plays a major role in creating employment for new entrants into the labor force. To promote the private sector, a conducive and enabling environment is needed. Currently, the Cambodian private sector's environment encounters various constraints to its development.

One of the private sector's major constraints, highlighted in the World Bank report on "*Investment climate assessment and reform strategy*", is corruption. The estimated magnitude of payments to public officials exceeds 5 percent of annual sales revenue. A recent study by the Economic Institute of Cambodia (EIC) and the World Economic Forum (WEF) indicates that corruption is the most problematic factor for doing business in Cambodia.

For the Cambodian private sector to compete with other exporting countries in the global markets, the problem of corruption needs to be successfully tackled.

While studies on corruption have been conducted by various institutions, there is a lack of clear scientific information about corruption in Cambodia's private sector. Due to this lack of information, this study on corruption assessment in the private sector (CAPS) was initiated by EIC with the sponsorship of USAID, Pact and PADCO | AECOM.

The primary objective of this study is to raise the awareness of the private sector, particularly micro, small and medium enterprises (MSMEs) about the causes, nature and extent of corruption in the country with the publication and dissemination of research findings through seminars or conferences. The study also intends to strengthen the capacity of the private sector through the elaboration of a set of practical recommendations on how the private sector can take part in fighting corruption, along with public administration, and other stakeholders.

The study used a wide range of methodologies which included: literature review, quantitative and qualitative surveys, modeling system to assess the impact of corruption on the private sector and the economy and an advisory team. In April 2006, the study was conducted with a sample of 1,107 enterprises (818 micro-enterprises, 244 small and medium enterprises (SMEs) and 45 large enterprises)<sup>1</sup> in nine major municipalities and provinces of Cambodia. Furthermore, a total of 20 focus group discussions (FGDs) with micro-enterprises and SMEs as well as

---

<sup>1</sup> **Note:** *Micro-enterprises* ( $emps < 10$ ); *SMEs* ( $10 \leq emps < 100$ ); *Large enterprises* ( $emps \geq 100$ )

personal interviews with public officials in the nine provinces and municipalities were conducted (see more detailed methodology in appendix).

To have a fair understanding about corruption in the private sector, fundamental knowledge about the causes, nature, extent and how to successfully curb corruption is important<sup>2</sup>. This USAID, Pact and PADCO|AECOM funded report will provide insightful findings about the nature and causes of corruption in the private sector in Chapter 1 and Chapter 2. The report also offers insights into the extent of corruption in the private sector and the impacts of corruption on the economy in the Chapter 3. The final chapter discusses various recommendations and strategies to reduce corruption in the private sector and how the private sector can take part in the fight against corruption.

---

<sup>2</sup> United Nations Office on Drugs and Crime, Regional Office for Southern Africa, Country Corruption Assessment Report, South Africa, 2003, p. 93

# Chapter 1

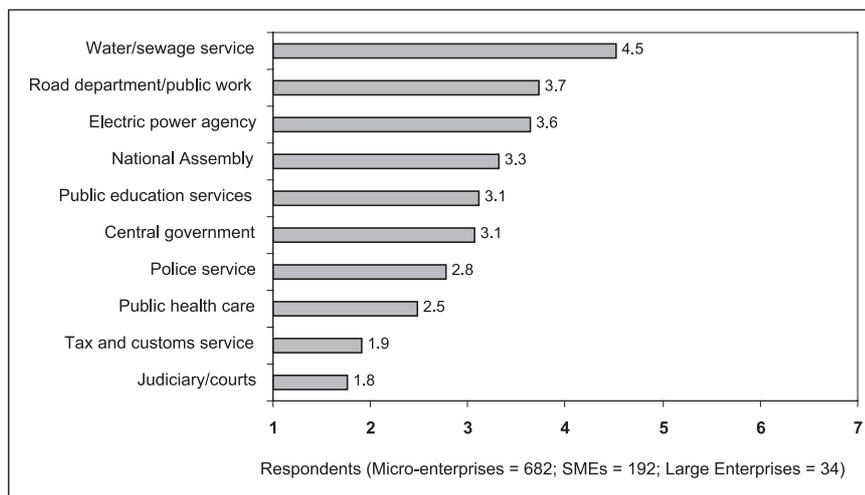
## Nature of Corruption in the Private Sector

Before detailing the nature and causes of corruption in the private sector, it is important to have an understanding of the overall picture of corruption in Cambodia.

In general, corruption in Cambodia has been perceived to be pervasive and widespread. Many public institutions are viewed to be dishonest and involved in corruption. The surveys conducted by CSD and the World Bank confirm this evidence. The World Bank report “*Cambodia Governance and Corruption Diagnostic*” pointed out that public organizations perceived by citizens to be the most dishonest by enterprises and public officials, were the judiciary, revenue-related authorities and agencies involved in the management of public assets<sup>3</sup>. The CSD report “*Corruption and Cambodian Households*” also indicated that courts, tax & customs and the police were perceived as the most dishonest institutions by households<sup>4</sup>.

Likewise, the Corruption Assessment in the Private sector (CAPS) survey conducted by EIC also indicates that most of the country's public institutions are perceived not to be honest. This is corroborated by the perception of all enterprises concerning the honesty and integrity of 10 public institutions. Almost all named institutions, except the water/sewage services, were considered dishonest and lacking in integrity, and rated to be under average (figure 1.1).

**Figure 1.1: Honesty & Integrity of Officials in Public Agencies or Services**  
(1 = Not honest at all, 7 = Very honest)



Source: EIC, CAPS survey, April 2006

<sup>3</sup> See also World Bank, *Cambodia Governance and Corruption Diagnostic: Evidence from citizen, enterprise and public official surveys*, 2000, p. 13

<sup>4</sup> CSD, *Corruption and Cambodian Households*, 2005, p. 45

While enterprises believed that the most honest institution was the water/sewage service, the most corrupt institutions were perceived to be judiciary/courts, followed by tax and custom services, public health care and police.

Taking the above into consideration, relevant public institutions that often deal with the private sector need to be explored. Due to this, this section provides findings concerning inspections in the private sector made by public officials. The section also considers the private sector's perceptions of unofficial fees; if the entrepreneurs are aware of how much they should pay for informal fees in advance, how the informal payments are made, and the efficiency of public services after the unofficial fees are paid.

### 1.1. Frequency of Inspections

Inspection practices remain a burden for the business community. Inspection policies are not clear enough for entrepreneurs to identify how many times a year they should expect inspections by all agencies. MSMEs face several kinds of inspections for their day-to-day operations, depending on the nature, location and type of business. To some extent, inspections are necessary to encourage social as well as regulatory compliance, but in practice, it is difficult to ensure that inspections are not just pretexts to ask for money by different agencies. According to the survey, many enterprises need to pay officials to facilitate the inspection process.

**Table 1.1: Proportion of Firms Being Inspected by Different Authorities**

	Micro-enterprises	SMEs	Large Enterprises
Tax authorities	93%	95%	100%
Police	37%	50%	60%
Local authorities	29%	55%	62%
Fire & building safety	28%	58%	84%
Environment <sup>5</sup>	15%	52%	58%
Standard inspection	3%	20%	16%
Labor and social security	2%	31%	82%

Source: CAPS Survey, April 2006

Respondents (Micro-enterprises = 818; SMEs = 244; Large enterprise = 45)

<sup>5</sup> Environment inspections are normally made by officials from the Ministry of Environment to ensure that enterprises are clean and do not pollute the environment.

Tax inspections appear to be the most frequent kind of inspection for all types of enterprises. Over 90 percent of MSMEs and all large enterprises are inspected by tax authorities either formally or informally. Tax inspections are to ensure that tax obligations declared by enterprises are correct.<sup>6</sup>

In general, the proportion of enterprises inspected by agencies other than the tax department proportionately increases with the size of the enterprise. Once enterprises become more formal, they have more obligations to comply with. Moreover, large enterprises need to forge closer relations with relevant agencies to secure their business.

It is worth highlighting that only 2 percent of micro-enterprises are inspected for labor and social security, while 31 percent of SMEs and 82 percent of large enterprises are inspected for the same purpose. The difference reflects the fact that micro-enterprises are usually operated informally and therefore not much attention is placed on micro-enterprises for labor and social security compliance. For standard inspections<sup>7</sup>, the proportion of firms being inspected varies from 3 percent of micro-enterprises to 20 percent of SMEs and 16 percent of large enterprises. Other relevant agencies such as the departments of tourism, department of commerce, department of agriculture, forestry and fisheries, sanitation authorities, etc. also conduct inspections.

Another issue concerning inspections is how individuals deal with officials. The problem about unofficial fees is that if someone protests or bargains well against the public officials soliciting bribes, it is likely that officials will stop coming to ask for bribes. According to a Phnom Penh vendor, *“If we keep paying them, they will come and ask us for money any time. Who pays them will keep paying. For me, I don't pay them, I do nothing wrong with them. My business is legal. I have licenses from the local authority and the municipality and I regularly pay tax. When I talk strongly to them, they don't dare to come here anymore and normally I don't really face this problem”*.

Likewise, a male micro-entrepreneur in Banteay Meanchey province also shares the same view about this unfair practice, saying: *“If we keep silent and act like the weak, they will keep coming to ask us for money, but if we dare to complain and talk to them seriously with some legal arguments, they don't dare to come anymore”*.

The inspections and unofficial fees demanded by public officials raise some important gender issues as well. Women entrepreneur-headed households face more burdensome inspections by public officials and therefore they need to pay more unofficial fees to maintain good relations with the authorities. The main reason for this is because women who are heads of households and run businesses generally lack education and lack information regarding business regulations and

---

<sup>6</sup> Informed by the Tax Department, July 6, 2006

<sup>7</sup> In general, standard inspections are made by MIME to ensure that manufacturing enterprises comply with standard regulations issued by the ministry.

laws. A woman entrepreneur in Kandal province mentioned: “When I was alone as a widow, many different public officials regularly came to my place to solicit me for bribes, but after I got married to my current husband, they don't dare to ask me for money anymore”. This is because after her marriage, her husband was the one who took care of the business and deals with officials soliciting bribes.

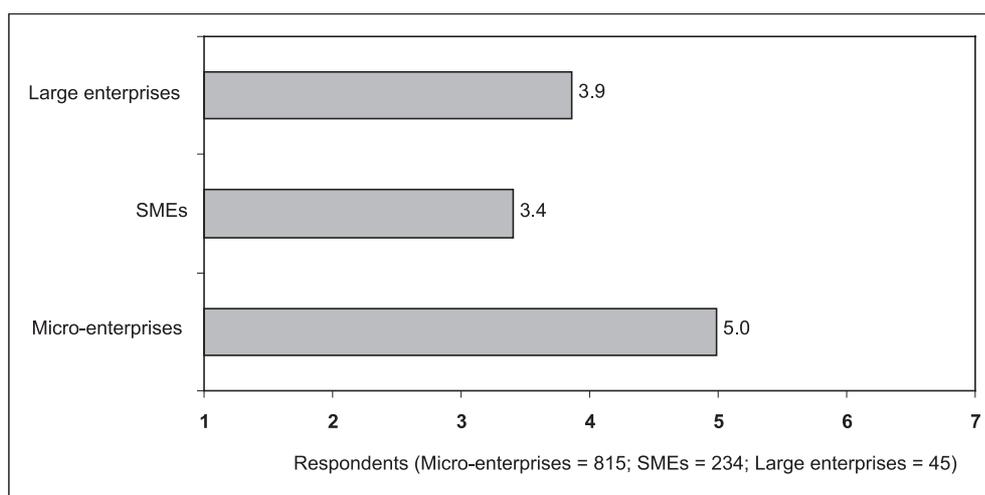
Having good bargaining skills helps reduce the chances of public officials asking for bribes. In this context, women, particularly women entrepreneur-headed households, who lack education, entrepreneurship, bargaining and negotiation skills compared to men, face more troublesome inspections and unofficial fees.

Another crucial gender issue concerning inspections is that women are at risk of being verbally and sexually harassed. The large majority of officials are male (according to Council for Administrative Reforms (CAR), only 31 percent of civil servants are women<sup>8</sup>). This opinion was equally suggested by FGD participants in Kampot, stating: “Sometimes, when dealing with officials, the male officials flirt with women for fun. Sometimes the officials slightly touch their backs.”

## 1.2. Predictability of Unofficial Fees

Micro-enterprises are in the best position to know in advance the amount they need to pay in unofficial fees, compared to SMEs and large enterprises. This is because paying unofficial fees to public officials is part of everyday life of micro-entrepreneurs. There seems little difference between Phnom Penh and other provinces (figure 1.2).

**Figure 1.2: Predictability of Unofficial Fees**  
(1 = Never know, 7 = Always know)



Source: EIC, CAPS survey, April 2006

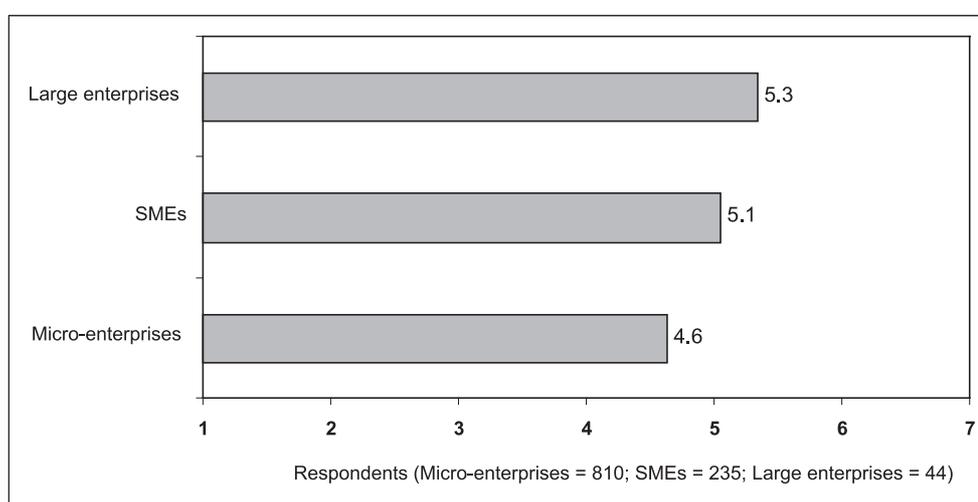
<sup>8</sup> UNIFEM, WB, ADB, UNDP and DFID/UK: A fair share for women: Cambodia gender assessment, 2004, p. 130

The situation is quite different for larger enterprises in terms of size. SMEs and large enterprises normally do not know in advance how much they should pay to public officials; this maybe because of the complexity of their business. This leads to a difference in unofficial fees on a case-by-case basis.

### 1.3. Efficiency of Public Services and Unofficial Fees

All enterprises were questioned if they were satisfied with the services provided by public officials once unofficial payments had been made. They raised no problem with the efficiency of services after they paid unofficial fees. Many enterprises agree that they get efficient services from public officials once unofficial fees are paid (figure 1.3).

**Figure 1.3: Efficiency of Public Services and Unofficial Fees**  
(1 = Never know, 7 = Always know)



Source: EIC, CAPS survey, April 2006

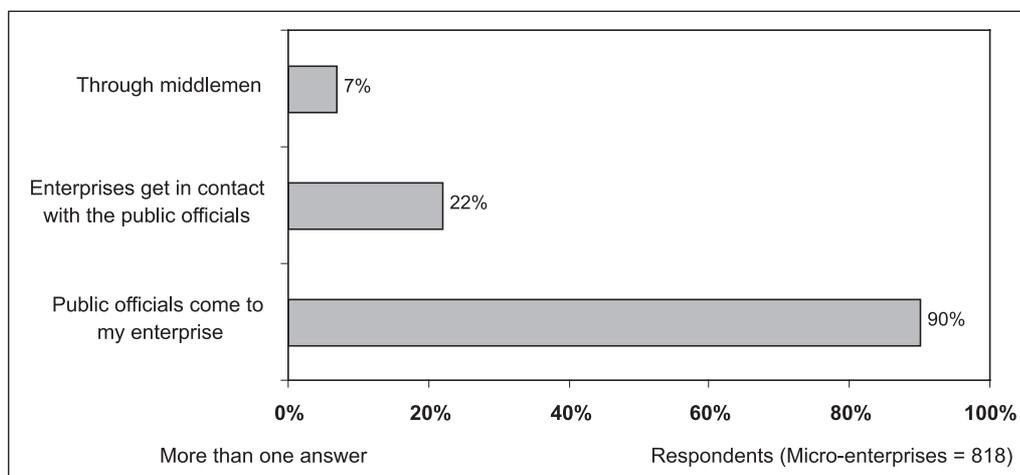
This result seems to comply with an opinion expressed by a micro-entrepreneur who says, “In Cambodia, if you have money, you can do or get anything”. Responses from micro-enterprises seem to be less positive than SMEs and large enterprises. This is because micro-enterprises normally do not require many services from public officials as seen in figure 2.1, revealing that it is public officials who come to ask them for unofficial fees.

### 1.4. How the Informal Payments Occur

Enterprises were asked about how unofficial payments occur. In general, public officials come to their enterprises and demand bribes. About 90 percent of micro-enterprises responded that public officials came to their enterprise directly for unofficial fees. It is rare for micro-enterprises to contact public officers for

bribes, and to use middlemen<sup>9</sup> to approach or facilitate contact with public officials (figure 1.4).

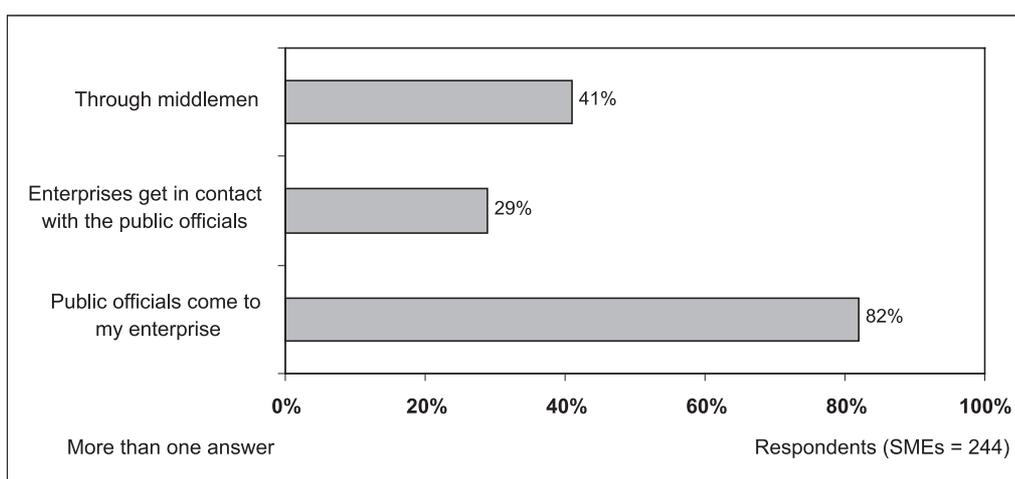
**Figure 1.4: How Informal Payments Occur for Micro-enterprises?**



Source: EIC, CAPS survey, April 2006

Similar to micro-enterprises, SMEs often pay unofficial fees to public officials when they come to their enterprises. Seventy-three percent of SMEs acknowledged that public officials came directly to their enterprise for unofficial fees. However, there were many recorded cases of the use of middlemen (41 percent) by SMEs for public officials to do things for them. Also, there were many cases (29 percent) where SMEs contacted officials directly to get things done (figure 1.5).

**Figure 1.5: How Informal Payments Occur for SMEs?**

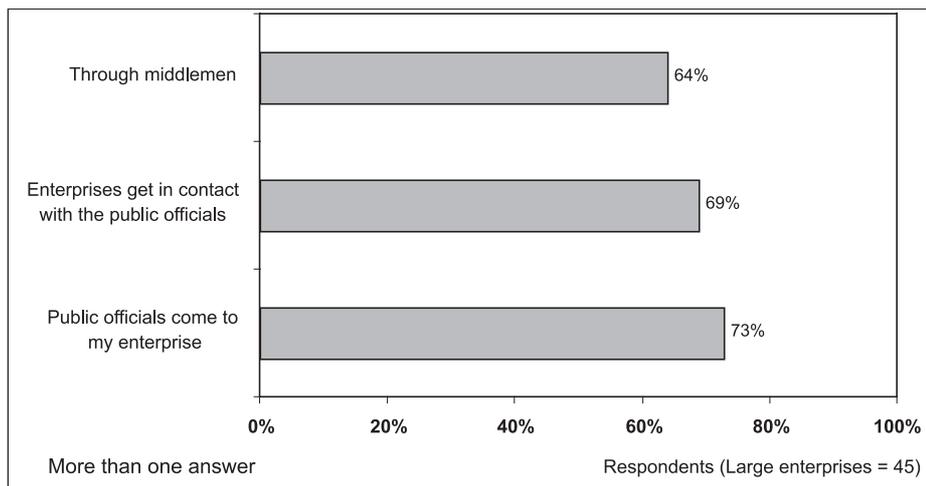


Source: EIC, CAPS survey, April 2006

<sup>9</sup> The term 'middlemen' used in this paper refers to agents hired to complete a task for the hiring enterprises. A middleman could be a lawyer, a private entity or a public official, etc., who ensures the proper authorizations are received, or approvals are obtained for various processes, or provides other professional services.

Like micro-enterprises and SMEs, many public officials visit the premises of large enterprises for unofficial fees, as about 73 percent of large enterprises responded. It is interesting to note that large enterprises use a lot of middlemen (64 percent of respondents) to receive public services. Many large enterprises (69 percent) also contact public officials directly to receive public services, such as approvals for business licensing, etc. (figure 1.6).

**Figure 1.6: How Informal Payments Occur for Large Enterprises?**



**Source:** EIC, CAPS survey, April 2006

Due to the complicated nature of SMEs and large enterprises compared to that of micro-enterprises, the use of middlemen and the direct contact with public officials by these two types of enterprises is more frequent. Large enterprises are the most frequent users of middlemen to facilitate their work due to the complicated bureaucracy they have to fulfill as formal enterprises.

A conclusion can be made that the more formal the enterprise, the more frequent the use of middlemen since formal enterprises face a lot of bureaucracy. Due to the extensive bureaucracy for larger enterprises, the more frequent the need for middlemen to facilitate bureaucratic procedures. Equally, more formal enterprises are likely to directly contact public officials to do things for them.



## Chapter 2

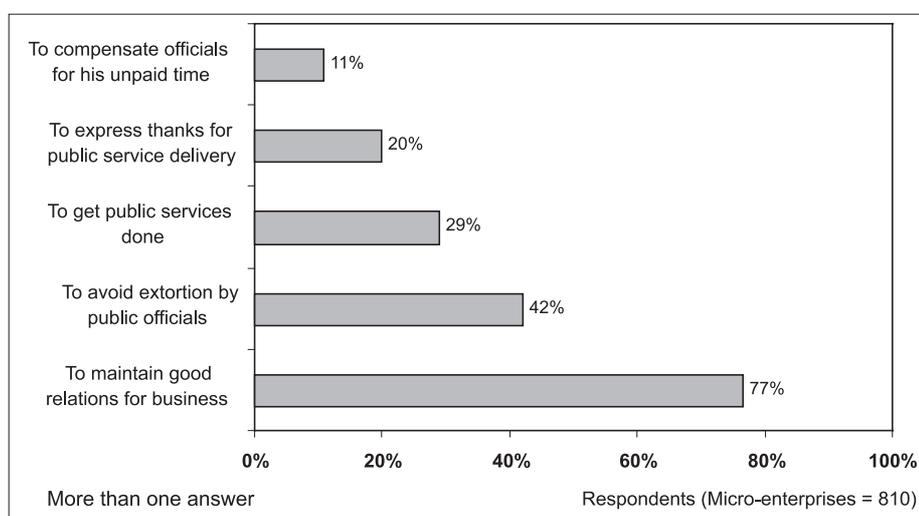
### Causes of Corruption in the Private Sector

To have a fair understanding of the causes of corruption in the private sector, the survey refers to the perceptions of two groups of actors - both bribe-givers and bribe-takers. First, the survey depicts the perception of the private sector that basically provides unofficial fees to public officers. Second, the survey considers perceptions of public officers who are involved with soliciting money from the private sector.

#### 2.1. Reasons to Pay Unofficial Fees

Answering why they need to pay unofficial fees to public officials, a vast majority of micro-enterprises (77 percent) acknowledged that they paid unofficial fees to maintain good relations for their business. A micro-entrepreneur mentioned: 'If we don't pay them, when we ask them to do us a favor, they will ignore us. It is a mutual understanding'. Only 54 percent of SMEs and 47 percent of large enterprises believe they pay unofficial fees for the same reason (figure 2.1).

**Figure 2.1: Reasons for Micro-enterprises to Pay Unofficial Fees**

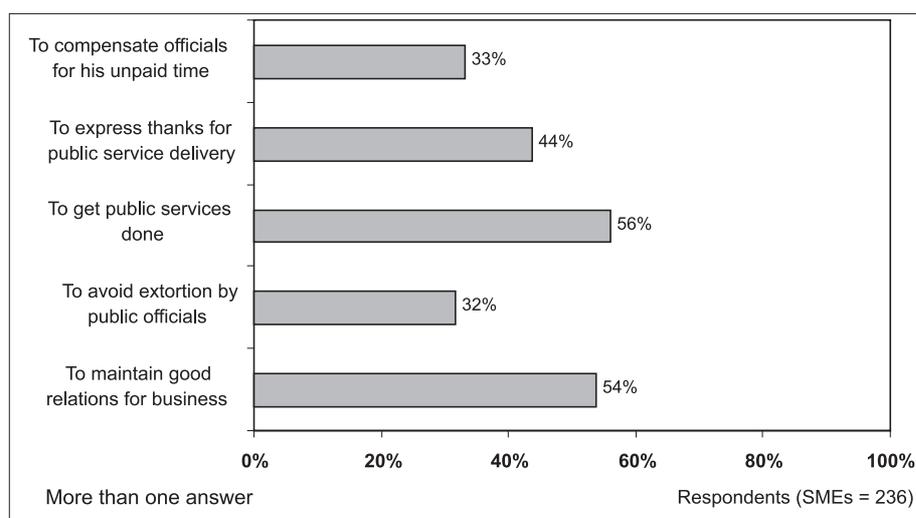


Source: EIC, CAPS survey, April 2006

In fact, in contrast to micro-enterprises, the major reason SMEs pay unofficial fees to public officials is to receive public services<sup>10</sup> (56 percent) and to maintain good relations with those officials (54 percent) (figure 2.2).

<sup>10</sup> These public services include services of licensing, inspection and registration provided by public officials.

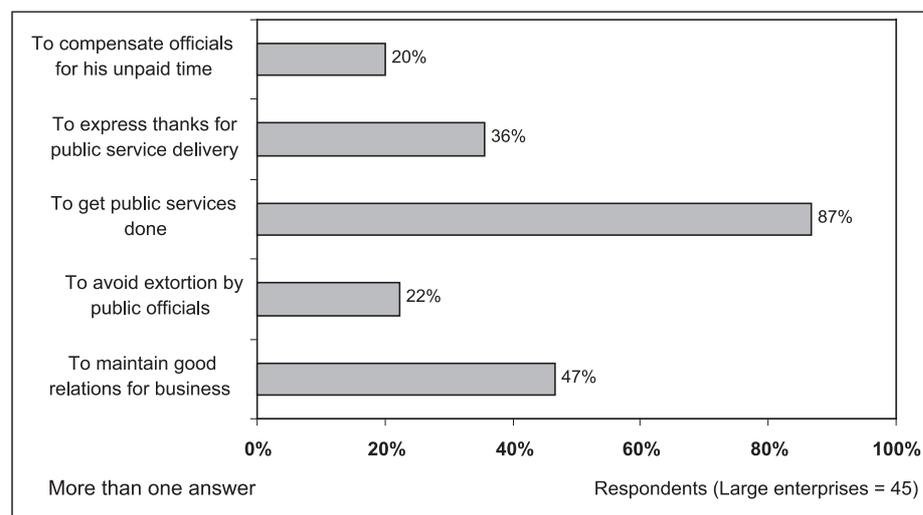
**Figure 2.2: Reasons for SMEs to Pay Unofficial Fees**



Source: EIC, CAPS survey, April 2006

Large enterprises are more concerned about the results achieved by public officials than their gratitude, or good relations or extortion by public officials since they are dependent on their services because of the formality of their enterprise. This is shown by the fact that a majority of large enterprises (87 percent) make unofficial payments to public officials to receive public services. However, ‘maintaining good relations for business’ was termed by large enterprise as the second reason for unofficial payments (figure 2.3).

**Figure 2.3: Reasons for Large Enterprises to Pay Unofficial Fees**



Source: EIC, CAPS survey, April 2006

It can be concluded that in paying unofficial fees to public officials, large enterprises are likely to focus more on receiving the required public service.

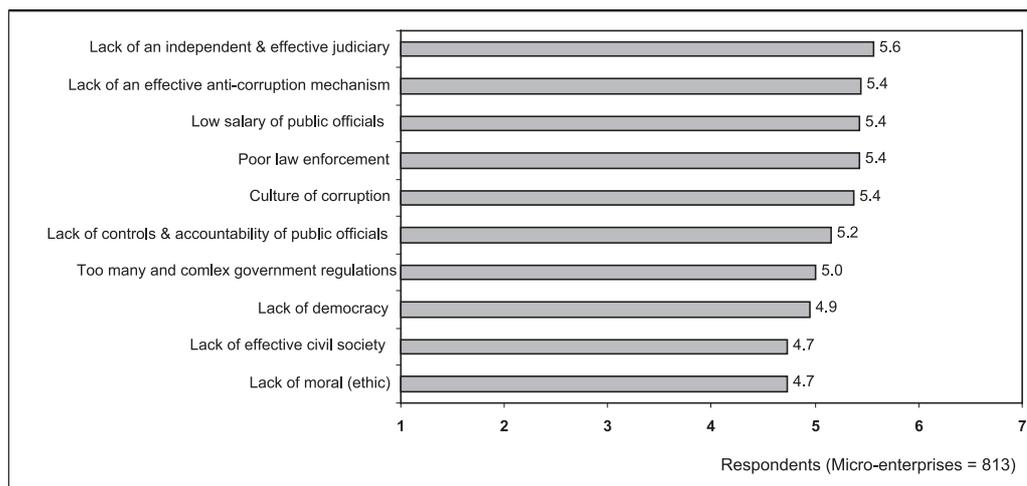
However, maintaining good relations with public officials is very important for all enterprises to do business in Cambodia. In particular, micro-enterprises that often need to deal with public officials need to keep good relations with public officials by paying unofficial fees.

## 2.2. Reasons to Ask for Unofficial Fees

All enterprises were also asked to rate the causes of corruption in the private sector. Almost all the answers offered in the questionnaire were acknowledged as causes of corruption in the private sector. However, some causes in particular were considered to be the most significant.

Micro-enterprises believe that a ‘lack of an independent and effective judiciary’ was the most prevalent cause of corruption, followed by ‘lack of effective anti-corruption mechanism’, ‘low salary of public officials’ and ‘poor law enforcement’ (figure 2.4).

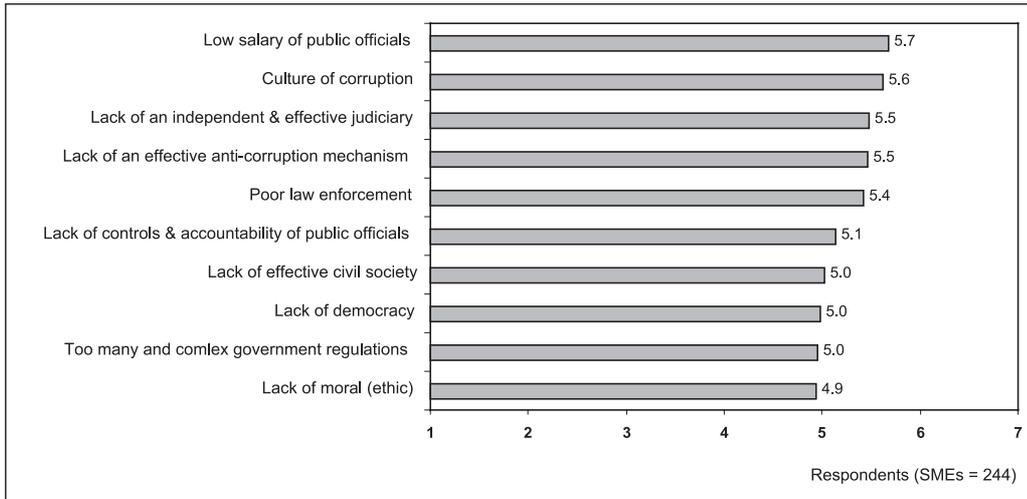
**Figure 2.4: Perception of Micro-enterprises on Reasons for Unofficial Fees**  
(1 = Not the reason, 7 = The most likely reason)



Source: EIC, CAPS survey, April 2006

SMEs viewed that ‘low salary of public officials’, and then ‘culture of corruption’, ‘lack of an independent & effective judiciary’ and ‘lack of an effective corruption mechanism’ were the primary causes of corruption (figure 2.5).

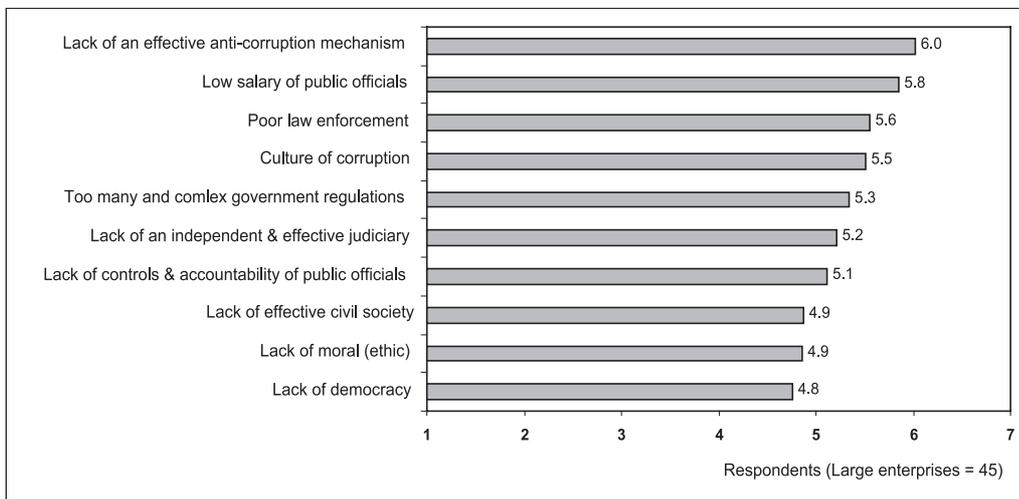
**Figure 2.5: Perception of SMEs on Reasons for Unofficial Fees**  
(1 = Not the reason, 7 = The most likely reason)



Source: EIC, CAPS survey, April 2006

Large enterprises tend to believe that the main causes of corruption came in this particular order: 'lack of an effective corruption mechanism', 'low salary of public officials', 'poor law enforcement' and 'culture of corruption' (Figure 2.6).

**Figure 2.6: Perception of Large Enterprises on Reasons for Unofficial Fees**  
(1 = Not the reason, 7 = The most likely reason)



Source: EIC, CAPS survey, April 2006

In spite of differences in ranges of the primary causes of corruption perceived by different categories of enterprises, there was no statistical significant difference among the answers. One can conclude that even though all the given answers were considered causes of corruption in the private sector (rated more than

4), the main causes of corruption in the private sector are: 'low salary of public officials', 'lack of an independent & effective judiciary', 'lack of an effective corruption mechanism', 'culture of corruption', and 'poor law enforcement'.

Parallel to the above answers, the most common answer provided by participants in FGDs of both micro-enterprises and SMEs was primarily the low salary of civil servants. According to a micro-entrepreneur in Kampong Cham: "*They have a low salary, so they have to demand unofficial fees to support their living.*" MSMEs were of the same opinion that given the current situation, public officials lack the means to support their living costs, so they have no choice but to be corrupt.

Apart from the living wage of public officials, the other most commonly identified causes of corruption in the private sector include: Culture of corruption where paying unofficial fees has become a societal bad habit, weak law enforcement, nepotism and a patronage system where lower ranking officials are required to give money to their superior in order to maintain their position. Respondents compared the corrupt situation to a Khmer proverb, '*a big wild ox eats grass in the big forest and a small wild ox eats grass in the small forest,*' which refers to the patronage system.

Almost all interviewed public officials agreed with all the causes mentioned above. Yet, public officials primarily blamed their 'salary' as the major cause for them turning to corruption. A public official said, "*When we get thirsty while walking, we must drink water, whether the water quality is good or bad. But if we are not thirsty we will not drink.*"

While accepting their mistakes in taking bribes from entrepreneurs, civil servants highlighted the issue of collusion between the private sector and civil servants, saying: "*Clapping one hand does not make noise.*" Collusion may frequently happen when an enterprise is in the wrong or is linked to illegal or informal activities or does not fully comply with the imposed regulations or law, tax evasion, etc. In these cases, businessmen need to pay unofficial fees to public officials to avoid extortion, if any.

In addition, complicated rules and regulations were also considered by public officials as grounds for unofficial fees. Normally, businessmen do not have enough time for the complicated bureaucracy, and some of them wish to avoid the time constraints imposed by following the formal procedures, such as acquiring a business license. They, therefore, seek assistance from public officials. Many public officials accept assisting the businessmen in return for money (usually for gasoline, tea, breakfast, etc.).



## Chapter 3

### Extent of Corruption and Its Implications

There have been many complaints about nationwide corruption and particularly corruption in the private sector. This chapter will illustrate the seriousness of the unofficial payments, and provide further knowledge of how much corruption there is in the private sector, based on the EIC modeling system.

#### 3.1. Seriousness of Unofficial Payments

All enterprises were asked to rate the seriousness of unofficial payments in Cambodia.<sup>11</sup> The seriousness of unofficial payments was defined as the high degree of unofficial fees that the public need to pay to civil servants. Each respondent mainly determined 'seriousness' based on their affordability and revenues. The three types of enterprises had different perceptions on this matter. While micro and large enterprises viewed that unofficial payments in Cambodia were relatively high, the answers provided by SMEs were less negative (table 3.1).

**Table 3.1: Seriousness of Unofficial Payments**  
(1 = not serious, 7 = very serious)

	Micro-enterprises	SME	Large enterprises
Prey Veng	4.08	4.33	-
Sihanoukville	4.10	4.50	-
Kampong Cham	4.27	3.52	-
Kandal	4.35	4.34	-
Phnom Penh	4.53	4.22	4.98
Banteay Meanchey	4.61	3.73	-
Battambang	4.65	3.57	-
Siem Reap	4.88	3.21	-
Kampot	5.29	4.11	-
<b>Average</b>	<b>4.53</b>	<b>3.95</b>	<b>4.98</b>

**Source:** EIC, CAPS survey, April 2006

**Respondents** (Micro-enterprises = 810; SMEs = 236; Large enterprises = 44)

<sup>11</sup> When asked this question, respondents tend to express their opinion about overall corruption in Cambodia rather than in the private sector. Thus, this perception is about overall corruption in Cambodia rather than their individual firms.

The perceived degree of seriousness of the unofficial payments varied across the provinces. Micro-enterprises that viewed unofficial payments as the most serious were those located in Kampot, followed by Siem Reap, Battambang, Banteay Meanchey and Phnom Penh. Micro-enterprises in Prey Veng and Sihanoukville perceived unofficial payments to be the least serious. Conversely, SMEs in Sihanoukville perceived the unofficial payments as the most serious, followed by those in Kandal, Prey Veng and Phnom Penh. The differences in degree of seriousness of unofficial payments from province to province are strongly linked to the public administration in each province that enterprises deal with, and the economic activities of those provinces and municipalities.

However, unofficial payments for individual firms that participated in the FGDs were reportedly not that serious. This answer is different from the quantitative survey result, because when answering the quantitative question, they refer to overall corruption in Cambodia rather than their individual firm. An overwhelming majority of participants in the FGDs in nearly all provinces and municipalities confirmed that payments of unofficial fees do not seriously affect their business because they can afford it. *“Unofficial fees are not so serious for small companies but are serious for large companies,”* explained an entrepreneur from a small enterprise. Small businesses pay less than large ones due to their scale and activities. A minority of respondents complained about the seriousness of unofficial fees.

In fact, the seriousness of unofficial fees depends on types, location of business, revenues of enterprises as well as the public authorities that the business deals with. A rice miller in Neak Loeng, Prey Veng province, complained: *“Public officials think we are rich and earn a lot of money, so they demand unofficial fees higher than other businesses”*.

If business types are illegal, such as trading in fine woods from banned forests, unofficial fees are increasingly high. The informality or formality of an enterprise is another pre-condition related to the seriousness of unofficial fees. Participants also pointed out that manufacturing enterprises pay more bribes than other types of enterprises as they need to deal with different public officials for different production stages.

A vast majority of participants in the FGDs agreed that even though unofficial fees do not pose a serious threat to them, they feel bored and nervous by frequent inspections by public officials. Many entrepreneurs need to spend time with these public officials, with some entrepreneurs complaining about this time spent being a disturbance to their business.

Another critical point concerning unequal treatment and payment, was also raised by participants in the FGDs. Due to networking, the amounts of unofficial fees are diverse depending on individual enterprises regardless of business similarities. Enterprises that pay more in unofficial fees cannot compete. This provokes an unjust and unfair situation among competitors.

Enterprises acknowledged, nonetheless, that corruption has improved over the last three to four years. This improvement is due to a better business environment; many enterprises agreed that there has been a reduction in both the number public institutions and public officials who visit their enterprises for unofficial fees. An SME entrepreneur mentioned, “*Since 2000, unofficial payments have been reduced. It is not as serious as before, but I still feel fed up with them.*”

### 3.2. How Much Corruption is there in the Private Sector?

The private sector pays on average 3.9 percent of their annual turnover<sup>12</sup> in official and unofficial fees. About 28 percent of the amount (or 1.1 percent of turnover) is in the form of official fees<sup>13</sup>, while another 72 percent is unofficial fees paid by the private sector to various government officials. According to the entrepreneurs interviewed, these officials include tax agents, police, local authorities, fire and building safety officials, environment officials, etc.

Unarguably, the larger the firm, the more payments are required by government officials. Results from the survey suggest that large enterprises pay an average of 5 percent of their annual turnover, whilst micro-enterprises and SMEs pay only 3.1 percent and 3.6 percent respectively (Table 3.2).

**Table 3.2: Payments to Public Officials  
(as Percentage of Turnover)**

	Micro	SME	Large	Average
<b>Total Payment</b>	<b>3.1%</b>	<b>3.6%</b>	<b>5.0%</b>	<b>3.9%</b>
Official Payment	1.3%	1.1%	0.9%	1.1%
Unofficial Payment	1.8%	2.5%	4.1%	2.8%

Source: EIC’s Projection based on the CAPS Survey, April 2006

Interestingly, the official fees payment or effective tax payment seems to place more burden on micro-enterprises than on SMEs and large enterprises. The effective tax rate is reduced from 1.3 percent for micro-enterprises to 1.1 percent for SMEs and 0.9 percent for large enterprises. One possible explanation for this

<sup>12</sup> The term ‘annual turnover’ refers to the total amount of goods or services sold by an enterprise during 12 months

<sup>13</sup> Official fees constitute almost only effective tax paid by the private sector. Generally, tax receipts are provided.

phenomenon is that SMEs or large enterprises have more bargaining power to negotiate for a lower rate with public officials. In addition, many large enterprises in particular benefit from tax exemptions, the result of Government policies to attract foreign investment.

Noticeably, small gaps in effective tax rates paid by different enterprises mean there is a strong correlation between total payment and unofficial payment. The low official fees paid by large enterprises are compensated by the high rate of unofficial payments which represent almost 4.1 percent of their annual turnover. The unofficial fees paid by micro-enterprises and SMEs account for only 1.8 percent and 2.5 percent of sales, respectively. On average, unofficial payments represent about 2.8 percent of turnover.

It is interesting to note, that the extent of corruption in the private sector seems to be significantly reduced if compared to the actual survey results undertaken by the World Bank in 2004 (about 5 to 7 percent of turnover)<sup>14</sup>.

### **Box 3.1: How are Unofficial Fees Paid by the Private Sector Determined?**

Determining unofficial fees in the private sector is quite a difficult task because usually entrepreneurs do not know how much they are supposed to pay in official fees. It could be inferred from the literature review of various documents that tax is the only payment obligation that private enterprises have to meet for their yearly operations. Other official fees, rather than tax, may also be required by Government agencies but the amount due is however very little and negligible. It is therefore not that relevant to spend time distinguishing whether they are official or unofficial. Therefore, all non-tax payments to government officials are considered here as unofficial fees paid by the private sector.

To evaluate the extent of payment by the private sector to all public officials, two different methods have been used. The first, called the calculation method, divides the total payment by annual turnover. The second method seeks an estimation of total payment as a percentage of annual turnover. The two methods provide different results, making it hard to choose the appropriate method to apply. However, following the ad-hoc advisory meeting in May 2005, the second method is preferred, assuming that entrepreneurs interviewed may not list all items of their payment, especially the unofficial payment.

Furthermore, for data consistency and reliability, only part of the sample is used to evaluate the extent of corruption. The sample selected for this purpose is based on the reliability of three main items declared by the enterprises. These are the annual turnover, the total payment to public officials and finally the estimation of total payment to public officials as a percentage of annual turnover. The enterprises which did not provide any of the above three pieces of information were not considered for the calculation of the extent of corruption.

**Source:** *EIC, CAPS Survey, April 2006*

<sup>14</sup> It is important to note that the surveys conducted by EIC and the World Bank use different methodologies. EIC's survey concentrated more on the provinces, where corruption is perceived to be lower than in Phnom Penh.

Based on the amount of turnovers estimated by EIC,<sup>15</sup> the unofficial fees paid by the private sector reach US\$330 million, representing an amount 2.5 times higher than that of official payment. This amount represented also about 50 percent of the total government budget revenue in 2005. One must note that this amount does not include unofficial fees paid by import-export companies to custom officers or other public officials during goods clearance, nor by companies who have received government contracts.

**Table 3.3: Payments to Public Officials (Million US\$)**

	Micro	SME	Large	Total
<b>Total Payment</b>	<b>120</b>	<b>150</b>	<b>190</b>	<b>460</b>
Official payment	50	46	34	130
Unofficial Payment	70	104	156	330
<i>Memorandum Items</i>				
<b>Turnovers(*)</b>	<b>3,885</b>	<b>4,154</b>	<b>3,805</b>	<b>11,844</b>

**Source:** EIC's Projection based on the CAPS Survey, April 2006

(\*) Excluding the agriculture and public administration that do not pay tax

### 3.3. Impact of Corruption on the National Budget

The high level of unofficial fees also seems to have an impact on the effectiveness of government revenue collection. Results from the survey highlight that the official tax rate<sup>16</sup> on private enterprises is much higher than the effective tax rate actually paid. The calculation shows that the potential tax rate should be as high as 3.7 percent of turnover for micro-enterprises, 5.8 percent for SMEs, and 3.8 percent for large enterprises (Table 3.4).

It should be noted that large enterprises have paid official tax rates that are broadly the same as that of micro-enterprises, and significantly lower than that of SMEs. One possible explanation is that many large enterprises, including garment factories, benefit from tax exemptions, which are the result of Government policies to attract foreign investment.<sup>17</sup>

<sup>15</sup> There are no official statistics on the turnover of micro, small and medium, and large enterprises in Cambodia. However, commissioned by the International Labor Organization (ILO), estimations on the labor force and value added of formal and informal enterprises have been made in 2005 by EIC and the National Institute of Statistics (NIS). Based on this experience, EIC compiled the turnovers of micro, small and medium, and large enterprises from the newly-released NIS national accounts by using its CGE and I/O (Input-Output) models.

<sup>16</sup> Official tax refers to the amount of tax an enterprise should have paid according to the official rates.

<sup>17</sup> Without tax exemptions, potential tax rate for the large enterprises should reach 6.4 percent of turnover.

During the last ten years, the Tax Department made significant progress in collecting domestic tax revenue.<sup>18</sup> Nevertheless, the efficiency of the current tax system still seems to be relatively weak. Only about 25 percent of the potential tax was collected from the private sector in 2005, which means that the Government might lose about 75 percent of its potential income.<sup>19</sup> The Government's potential loss in tax evasion represented thus about US\$400 million in 2005.

**Table 3.4: Effective vs. Official Tax Rate and Potential Tax Evasion**

	Micro	SME	Large	Average
(As Percentage of Turnover)				
Effective Tax Rate	1.3%	1.1%	0.9%	1.1%
Official Tax Rate	3.7%	5.8%	3.8%	4.4%
Potential Tax Evasion	2.4%	4.7%	2.9%	3.3%
(Million US\$)				
Effective Tax Paid	50	46	34	130
Official Tax Amount	144	240	146	530
Potential Tax Evasion	94	194	112	400
<i>Memorandum Items</i>				
<b>Turnovers</b>	<b>3,885</b>	<b>4,154</b>	<b>3,805</b>	<b>11,844</b>

**Source:** EIC's projection based on the CAPS Survey, April 2006

Although the Government has made significant efforts to improve the tax collection system, entrepreneurs interviewed still perceived that the tax collection problem is partly linked to the complexity and lack of transparency of the current tax system. A more simple and transparent taxation of the private sector should be set up so that entrepreneurs could easily understand their obligation to pay tax. Basic ideas for entrepreneurs on how to calculate tax obligations for their individual enterprise should also be provided. Furthermore, the current official tax rate, especially for SMEs, should be reduced to a more realistic level so that they could be able to pay the required amount.

<sup>18</sup> In 2005, total tax revenue collected by the Tax Department reached CR644 billion, against CR270 billion in 2000, and CR47 billion in 1995.

<sup>19</sup> The problem of tax evasion is worldwide. Nevertheless, in a country where the tax system is simple and transparent, and the tax administration is strong, the amount of tax effectively collected should reach 70 to 80 percent of the potential tax to be paid.

### **Box 3.2: Real Regime vs. Estimated Regime of Taxation**

At present, two tax regimes, the real regime and estimated regime, are applied in Cambodia. Whether an enterprise falls under the real tax regime or not depends on (a) the legal form of the enterprise, or (b) the level of turnover, or (c) the type of business activity. In general a sole proprietorship is taxable under the estimated regime if its annual turnover is less than CR 500 million (about US\$125,000) in the case of the supply of goods or mixed supply, or less than CR 250 million (about US\$62,500) in the case of the supply of service, or less than CR 125 million (about US\$31,250) in the case of the government contract. In this exercise, it was estimated that tax regime is applied for MSMEs, while large enterprises come under the real tax regime.

In the estimated tax regime, where the accounting system is not compulsory, not many entrepreneurs understand the base for tax calculation. MSMEs entrepreneurs usually pay tax according to the tax officer and their bargaining power to ask for a smaller tax payment. Indeed, three main tax components, including patent tax, estimated tax on turnover and tax on estimated profit, should be paid by enterprises in the estimated regime. The patent tax is determined based on business activity and the level of turnover, while tax on turnover is fixed at 2 percent of the enterprise's estimated turnover. As for tax on estimated profit, the calculation varies from enterprise to enterprise and different rates are applied according to the business activity and the level of profit estimated by tax officers.

**Source:** *Law on Taxation 1997, Prakas on the Profit Tax 2004 and Interview with tax officer*

### **3.4. Impacts of Corruption on the Economy**

Although unofficial fees sustained by Cambodia's private sector seem to have been significantly reduced (from 5-7 percent in 2004 to 2-4 percent of sale in 2006), its amount, US\$330 million, remains considerably high in comparison to the size of the Cambodian economy. The amount of unofficial fees represents about 6 percent of the country's GDP, or about 50 percent of government domestic revenue (excluding foreign aid).

This amount could be used for a more productive and transparent development. This could include strengthening the current dilapidated public administration by raising the salaries of civil servants, developing an adequate irrigation system to drastically reduce poverty in rural areas, or putting in place a relevant education system so that Cambodian workers become more competitive in today's knowledge-based global economic system.

To assess the impacts of unofficial fees on the economy, some exercises will be illustrated:

#### ***i- Raising the Salary of Civil Servants***

The amount of unofficial fees paid by the private sector is more than enough for the Government to raise the salaries of its civil 300,000 servants (including teachers, nurses, policemen, soldiers, etc.) to a decent level of US\$130 to US\$150 a month on average.

The surveyed private sector highlighted that the low salaries of civil servants is one of the most important causes of corruption. In addition, the World Economic Forum and EIC *Competitiveness Report for 2005-2006*<sup>20</sup> clearly showed that Cambodia is amongst the least competitive countries in the world, because of the high levels of corruption. Therefore, raising the salaries of civil servants to a decent level will help the Cambodian economy be more competitive, generate more employment, and thus reduce poverty more significantly.

### *ii- Developing an Irrigation System*

With the estimated amount of unofficial fees paid by Cambodia's private sector, the Government could develop an irrigation system that could supply about 500,000 ha of cultivated land. Over a few years, Cambodia's cultivated areas could become one of the most irrigated in the region. The country could thus become one of the main exporters of rice in the world as it was 40 years ago. The incomes of rural households could double or even triple. Again, poverty in rural areas will no longer be visible.

### *iii- Putting in Place a Suitable Education System*

The education system in Cambodia is known to be of a very low standard. In addition, the current education system is not compatible with the needs of the private sector. Consequently, investors always complain about a lack of human resources in Cambodia.

The 2005 national budget for education totaled around US\$85 million. Consequently, the amount of unofficial fees paid by the private sector represents about three times the national budget for education. With strong political will, the Government could improve the education system in Cambodia, by re-allocating the money from corruption to the education of Cambodia's youth. In doing so, the Cambodian economy will be more competitive, through the improvement of human resource capacity.

Finally, one must consider the fact that Cambodia is just as plentiful in resources as its neighboring countries. Nevertheless, they have been more successful in developing their economies due to the better management of available resources. By fighting corruption within their administration, they mobilized their available resources to ensure productive development, such as education and irrigation.

---

<sup>20</sup> Vuthy Chan and Klara Sok, *Cambodia Competitiveness Report 2005-2006, 2005, EIC*

## Chapter 4

### Some Recommendations to Curb Corruption

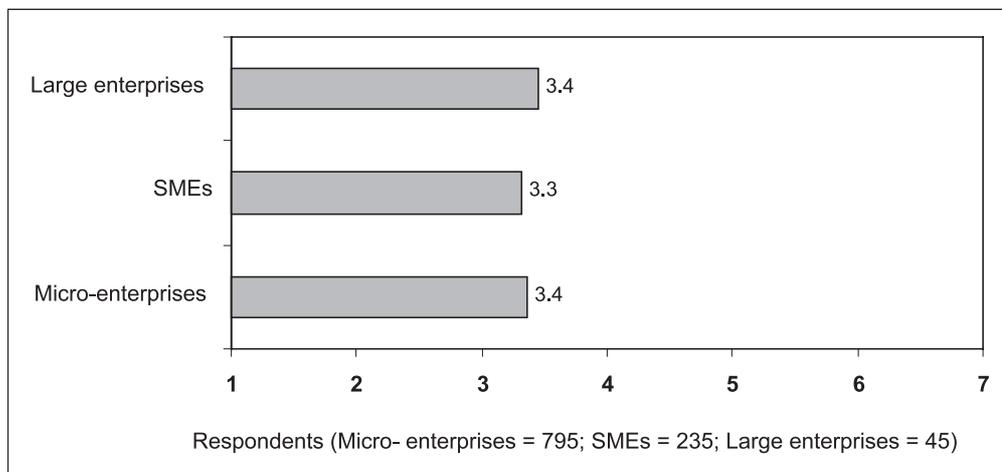
*“If we keep silent and act like the weak, they will keep coming to ask us for money, but if we dare to complain and talk to them seriously with some legal arguments, they don't dare to come anymore”.*

-A micro-entrepreneur in Banteay Meanchey

Notwithstanding the seriousness of unofficial payments and multifaceted problems of corruption in the private sector, little attention and action have been taken by the Government to curb corruption in the sector, according to views expressed by various enterprises. In answer to the question, has the Government taken action to resolve the problems of corruption in the private sector, all types of enterprises had a pessimistic outlook (figure 4.1).

**Figure 4.1: Government's Actions in the Fight against Corruption**

(1 = Not successful at all, 7 = Very successful)



Source: EIC, CAPS survey, April 2006

For the Government to successfully combat corruption in the private sector, ideas and recommendations by entrepreneurs of MSMEs and public officials need to be considered. Entrepreneurs also expressed their role, as participants in the private sector, in combating corruption. This chapter will look into their suggested recommendations, and the role of the private sector.

It is important to note that even though different recommendations set below have been put into separate categories, these recommendations should be enforced in

tandem. For instance, raising salaries of officials alone without the effective enforcement of the anti-corruption law will not effectively reduce corruption.

#### 4.1. Establishing an Effective Anti-corruption Mechanism

There is the need for legislation to be enacted. Almost all discussants viewed that it is crucial to first adopt the anti-corruption law. If there is a law people will be scared to be corrupt.

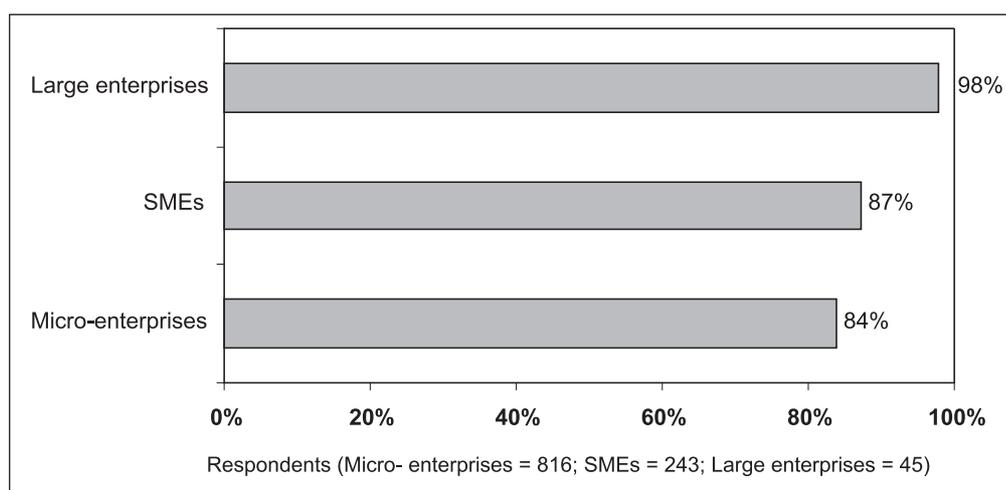
##### 4.1.1 Adopting a ‘Good’ Anti-corruption Law

To date, Cambodia does not have an anti-corruption law. During the 8th Consultative Group meeting between donors and the Government in March 2006, the Government committed itself to approve the draft law by the end of June 2006 and to prepare an implementation plan to enforce and manage the implementation of the anti-corruption law by October 2006<sup>21</sup>.

At the time of writing, the draft law is currently at the Council of Ministers to discuss the compliance of the draft law with the draft penal code and penal code procedures. Obviously, the anti-corruption draft law could not be adopted by the end of June 2006, as the Government had pledged.

It is important to note that the vast majority of enterprises of all categories were aware of the anti-corruption law being drafted by the Government even though they are not really aware of the contents of the legislation (Figure 4.2). This was not surprising, however, as all survey locations were in urban areas where access to the media is relatively easy.

**Figure 4.2: Entrepreneurs’ Awareness of Anti-corruption Draft Law**



Source: EIC, CAPS survey, April 2006

<sup>21</sup> EIC Economic Watch, Issue 4, p. 78

In spite of the possible fact that Parliament will adopt the law, there is still controversy over the compliance of the draft law with international standards. Critics have pointed to four key areas of the law which do not meet international standards<sup>22</sup>:

- The draft lacks operational independence and autonomous budget for the anti-corruption body.
- The draft does not provide adequate independence for an investigation authority to the anti-corruption body.
- With regard to asset declarations, the law should allow the Secretary General of the anti-corruption body to access asset declarations during investigations. Asset declarations must include those of officials' spouses and children and may be used as evidence for a criminal offence.
- Compatibility of the draft law with the criminal procedure code and penal code (e.g. confidentiality provisions to protect victims and witnesses, special punishment for breaking confidentiality).

MSMEs are of same opinion with the above critic. MSMEs believe that there should be an independent and autonomous authority or agency or council to inspect and investigate corruption. While the judiciary has been found to be the most corrupt institution and to lack independence, the anti-corruption body plays a very important role in curbing corruption.

Another SME entrepreneur also mentioned: *“Policies and legislations should be clear for the anti-corruption council to exercise their power independently; otherwise, it in turn will also be corrupt; worsening the problem of corruption”*. In addition, MSMEs viewed that the legislation should require that the assets of high ranking public authorities be declared so that the competent authority/council could monitor, and investigate if corruption does occur.

Therefore, in order for corruption in the private sector as well as in the country to be curbed, adoption of a proper anti-corruption legislation is the very first step for the Government to pursue. The Government has revealed its strong will in the fight against corruption through various government policies, particularly the Government Rectangular Strategy. To make this will a reality, efforts to adopt an anti-corruption law with internationally-recognized-standards is of crucial importance. Further Government efforts should be put forth to speed up the procedures of adopting appropriate anti-corruption legislation, so that Cambodia has strong and reliable legal documents to refer to when it comes to combat corruption in the private sector as well as in the country.

---

<sup>22</sup> Pact, International Standards and the Draft Law on Anti-corruption, slide presentation, 23 May 2006

#### 4.1.2. Enforcing Anti-corruption Legislation

The adopted anti-corruption law should not only be on paper. This law must be effectively enforced by punishing corrupt officials. Public officials will not be corrupt anymore, if there is effective enforcement of the anti-corruption legislation, for fear of losing their jobs and being punished.

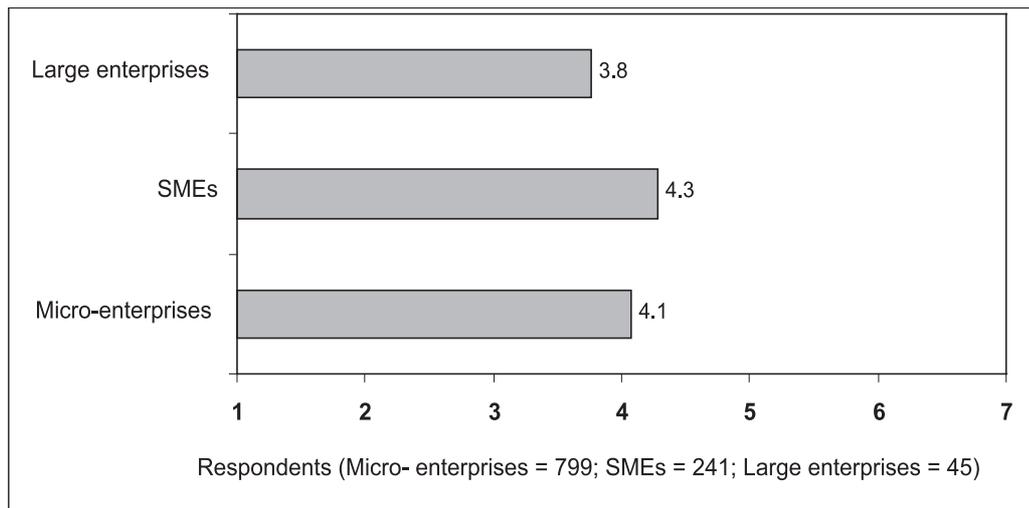
However, the enforcement of the law should be equally applied regardless of who and what the person does. However, anti-corruption campaigns should be top-down rather than bottom up. If higher ranking officials are punished because of corruption, lower ranking officials will feel afraid of doing the same. An official explains: *“The national level government leaders must respect the law first, and people follow.”*

Similarly, an entrepreneur mentioned: *“I think we should reform from top to bottom. Low-ranking officials will be afraid of abusing laws because they see their bosses are punished. If we start from the bottom, the top will try harder to take bribes because they know that they don’t have more chance.”*

Eventually, whatever the problems of corruption are, both the MSMEs and civil servants seem to have some confidence in the Government reform programs. They trust that the Government would fairly enforce the anti-corruption law, once the draft is adopted by the Parliament in the future. They believe that the Government would prioritize the enforcement of the law agendas. At least, the situation would be better when there is law, according to MSME entrepreneurs. Large enterprises, however, seem to feel less positive than MSMEs (figure 4.3).

**Figure 4.3: Enforcement of the Anti-corruption Law: Successful?**

(1 = Not successful at all, 7 = Very successful)



Source: EIC, CAPS survey, April 2006

A fairly moderate number of interviewed public officials were of the same opinion with MSME entrepreneurs. Public officials believed that the enforcement could not reach 100 percent success, but to some extent corruption would be gradually reduced. *“The enforcement of the anti-corruption law is not completely effective, if the salary of public officials is still low. However, it will help reduce corruption to some extent. I am happy if the anti-corruption law is adopted,”* announced a public official.

The confidence of the private sector and public officials in the Government reform programs are strong moral support for the Government and should be an encouragement for the Government to do more about corruption. The private sector, public officials, civil society, donors, other stakeholders and all Cambodians in particular are looking forward to the enforcement of the forthcoming anti-corruption legislation.

#### 4.2. Raising the Salaries of Civil Servants

Almost all entrepreneurs of MSMEs stressed the limitation of the enforcement of the anti-corruption legislation. MSME entrepreneurs believe that there is a strong link between raising civil servants’ salaries and the effectiveness of the anti-corruption law enforcement. Without sufficient salaries, the enforcement of the anti-corruption legislation is not effective as mentioned a micro-entrepreneur: *“Strict implementation of law is impossible because the salary is not enough.”*

Similarly, another entrepreneur said: *“Civil servants always complain about the inadequacy of their salary. Now, they have enough salary, so they can’t complain anymore and if they are corrupt, we can punish them by the law. Increasing the salary of public officials in tandem with enforcing the anti-corruption law will make law enforcement better. It could not reduce all corruption, but at least help curtail the corruption.”*

##### **Box 4.1: How Corrupt Money is Spent by a Public Officials?**

When we talk about how and why public officials use money from corruption, there is a distinction between normal and high ranking public officials. Normal civil servants take unofficial fees from the private sector only to survive and for their daily expenses. Their daily expenses include personal and family expenses and other basic needs such as food, clothing, gasoline and for some social activities such as weddings, social drinking, parties, etc.

Many officials, however, believe that higher ranking officials seem to take bribes to be well-off. Because of the patronage system, corrupt money is also used by officials to bribe further their seniors in order to maintain their position or to receive a promotion.

These officials also spend their corrupt money to show their prestige and to be materialistic as well as to please their leisure activities including entertainment, and gambling. Rarely mentioned, though, some officials also partially contribute corrupt money to their political parties.

**Source:** CAPS FGDs

The salary issue seems to be the core problem of corruption in Cambodia. According to the FGDs held in all provinces/municipalities, the most necessary action to combat corruption in the private sector is to increase the salary of civil servants. Without an adequate salary, civil servants cannot survive and will thus need to be corrupt by soliciting bribes from the private sector. According to MSME entrepreneurs, public officials demand unofficial fees because of their low salaries.

**Box 4.2: Government Policy in Relation to Salary & Incentives of Civil Servants**

The Government has pledged, in its Rectangular Strategy, to raise the salary of civil servants by 10 to 15 percent to improve their living standards to an appropriate and dignified level. The commitment to gradually raise the salary of civil servants has come into action. For instance, the cost of one salary index of civil servants was raised from CR 300 (in 2002) to CR 345 (in 2005) and to CR 400 (in 2006). In August 2005, the Government also increased functional allowances of staff in middle and senior administration and priority sectors (education and health).

Normally, the total remuneration of a civil servant consists of his/her basic salary plus other allowances (relating to functions, risks and family allowance). The basic salary of an official is equal to the number of index multiplied by the cost of one index. The number of index follows this range: civil servant of category D: has index from 100 to 175; civil servant of category C has index from 150 to 262; civil servant of category B has index from 220 to 385; civil servant of category A has index from 315 to 550.

In addition, in early 2002, the Council of Administrative Reform (CAR) planned to implement the Priority Mission Groups (PMGs) to provide incentive to 1,000 civil servants who perform their work in high-ranking level of super category 'A' (political level and high-ranking administration level). Another 500 civil servants were planned to be increased, each year up to 2005, to the PMGs. On average, the Super Category A and civil servant in Priority Group get a salary of about US\$200. However, in 2005, the total number of PMG members was only 1,205 while most ministries had not sent their staff lists to CAR. So far, unlike the plan, only 560 civil servants have benefited from the PMGs. This PMG program is yet to be implemented.

In spite of Government efforts to increase the salaries of civil servants, the salary of civil servants has been judged as insufficient. In June 2006, the Cambodian Independent Teachers' Association, claiming to have membership of about 78,000 workers, was ready to strike to demand a raise in teachers' salaries from an average of US\$25 per month to US\$100. In response to that demand, the Government claimed it had a limited budget and said that it could only increase salaries very slightly on a yearly basis.

**Source:** *Government Rectangular Strategy; Sub-decree No. 03 dated 15 January 2005; Sub-decree No. 140 dated 09 December 2005; Cambodia Daily, June 20, 2006, Volume 34, Issue 62, p. 12; EIC Economic Watch, Issue 3, p. 61; EIC Economic Watch, Issue 4, p. 7; and the website of Council of Administrative Reform: [http://www.car.gov.kh/document/report/achievement\\_CAR\\_brief\\_310506\\_kh.asp](http://www.car.gov.kh/document/report/achievement_CAR_brief_310506_kh.asp)*

Likewise, a fair majority of interviewed officials believe that increasing salaries would be an efficient way to reduce corruption. It is believed that many public officials still have their morals and ethics. *“Even though we could not stop corruption, when the salary of civil servants is increased, corruption will be reduced”*, said a public official. If salaries meet the basic needs of public officials, who are involved in petty corruption for survival, petty corruption by lower ranking officials will be drastically curbed.

A chief of commune describes: *“For low ranking officers, they feel ashamed to take unofficial fees but they have no choice, but to be corrupt to support their living. Enough*

*salary will encourage them not to take unofficial fees because they do not want to be looked down on by citizens". Another public official also said: "Enough salary would encourage the enhancement of regulations and discipline, thus the officer would not dare to act illegal because he would face losing his job."*

This leads to the question, how much is an adequate salary for public officials? A fairly moderate number of interviewed public officials believe that a salary of US\$100 per month is enough for ordinary public officials to survive and meet the basic needs of their family. A smaller proportion of public officials, however, view that the salary should range from US\$150 to US\$200 per month for them to live on.

Issues on how to increase the salary of public officials were raised in response to the suggestion of giving public officials a decent wage. Many entrepreneurs viewed that it was rather hard for the Government to increase the salary of public officials given the weakness of the Government in collecting revenue. They believe that to resolve the problem, tax collection should be enhanced to increase the state income.

### **4.3. Promoting Good Governance and Ethics**

Good governance plays a very important role in curbing corruption, according to MSME businessmen. Good governance can be established through a system where both businessmen and public officials work together. This could include a one-window-service for taxes, licenses and other related services. 'One-window-service' was also frequently mentioned by officials and MSMEs concerning the reduction in bureaucracy.

In the same context of good governance, many officials believe that regulations, legislations, procedures and information concerning business should be accessible to entrepreneurs at a low cost. In addition, business laws and regulations should not be complicated and be suitable to the business environment so that the private sector can easily comply with these regulations. The duplication of responsibilities of relevant ministries, for instance, should be reformed.

To promote good governance, both public officials and entrepreneurs of MSMEs stressed the importance of transparency, particularly with regard to government fees. Public officials and MSMEs strongly believe that it is important to publish and disseminate all official fees that businesses have to pay and to whom they have to be paid. Raising the awareness of businessmen of relevant regulations and encouraging them to respect these regulations is a necessity.

All these recommendations would benefit both public administration and entrepreneurs to accelerate the work process. Public administration would see an increase of government tax and non-tax revenues while businessmen could spend

less time dealing with public administration. In other words, complicated procedures, laws and regulations should be reduced. An SME entrepreneur said: *“I want the Government to create a system which requires us to pay everything at one place. I don't want to waste my time to move from one place to another.”*

#### **Box 4.3: One-Window-Service Office in Battambang and Siem Reap District**

With technical support from the project ‘EU/Asia Urbs.’ funded by the European Union through Konrad Adenauer, one-window-service offices in two districts (Battambang and Siem Reap) of Battambang and Siem Reap province as a pilot project were established in 2004 by the Prakas No. 790 of the Ministry of Interior.

These offices were set up to help promote good governance and administrative reform by extending dimensions of administrative services to the people. Under this one-window-service, administrative services are mobilized under the Battambang and Siem Reap district competency and delivered to citizens at one single window.

The structure of the one window office of the two districts is that the office is divided into a front office where all transactions are handled with citizens. There is a ‘back office’ is where competent experts in the different areas of activity work. The significance of this one-window-service is that all relevant fees are published in a transparent way. Services of the one window offices include:

- Culture and fine arts (licenses for photographers or video rent shops)
- Tourism (licenses for guesthouses up to five rooms and restaurants up to 50 chairs)
- Transport (registration of motorcycles and vehicles)
- Mines, industry and energy sector (licenses and registration of handicraft shops and business in the mining sectors)
- Commerce (registration of business)

According to the Director of the Siem Reap Department of Industry, Mines and Energy, people in Siem Reap district are thrilled to see the official fees published and the amount they paid for public services is less than what they had to pay previously. Citizen participation in the use of public services has also increased. For the Siem Reap Department of Industry alone, public services have increased up to 55 percent compared to when there was no one-window-service.

Recently, the draft sub-decree on one-window-service prepared by the Secretariat of the Council of Administrative Reform (CAR) of the Council of Ministers was verified and discussed by CAR after two inter-ministerial meetings. This draft sub-decree is expected to be adopted by the Council of Ministers in July 2006.

**Source:** *Interview with Mr. Sory Reasey, Deputy Head of Office, One Window Service Office (Car); Interview with Mr. Thlauk Sina, Director of the Siem Reap Department of Industry, Mines and Energy*

Another supplementary measure to strengthen good governance suggested by public officials was the rotation of public officials. Rotating officials from one place to another is another crucial way to achieve good governance and thereby reduce corruption. A public official in Kampong Cham province mentioned: *“An official should not be kept in the same position for a long time as he or she could strengthen their network and create channels of corruption.”*

In addition, strict control and monitoring of the subordinates by higher ranking officials is necessary. Officials in high positions should have a clear policy, strong direction and control over their subordinates. An entrepreneur mentioned: *“There should be an effective way to control the subordinates who are involved in corruption. High ranking officials should be accountable for the corruption done by their subordinates.”*

#### **Box 4.4: Transparency in Taxing System: Simplified Accounting System**

Currently, one of the obligations for all Cambodian enterprises is to meet the Cambodian Accounting Standard (CAS) and Auditing System required by Cambodian law. While Cambodia's private sector is made up of about 80 percent of SMEs, smaller sized enterprises cannot implement the required obligations with regard to accounting and auditing. In general, the estimated tax regime (Official Assessment System) applies to MSMEs. This system does not allow the MSMEs to know how much they should pay with regard to their tax obligation.

To promote MSMEs in terms of financial reporting as well as to promote transparency in the taxing system, a simplified accounting system will be introduced to SMEs from 2007 by the National Accounting Council. Not only less costly and doable, this simplified accounting system will let MSMEs know how much their turnover is and how much tax they should pay, with the use of a simple calculation.

In order for MSMEs to know better this simplified accounting system, the Council also raises the awareness of the MSMEs of this system through public disseminations, trainings and the media, etc.

**Source:** *Interview with H.E. Prof. Ngy Tayi, Under Secretary of State, Ministry of Economy and Finance, Chairman of the National Accounting Council*

MSMEs also mentioned good governance through promoting efficiency of the public administration, such as recruitment, evaluation and promotion of public officials. MSMEs believe that it is important to strengthen the capacity of public officials to perform their duties effectively and to ensure that the educated and talented officials are given appropriate positions. Doing this is important to dispense with networking and the patronage system. It is equally important to promote public officials who are honest, based on the performance of their public duties.

As part of good governance, public administration should provide a system that allows citizens to report any occurrence of corruption. This should be confidential and reporters should be protected. When citizens report corruption effective action should be taken, providing an incentive for corruption to be reported. An SME entrepreneur stated: *“What would really help in the struggle against corruption is a system where people could report corruption to competent authorities.”*

Last but not least, ethics are important to ensure that everyone is honest. MSMEs believe that ethics, which is a crucial way to prevent corruption, should be promoted and strengthened through education. Everybody, particularly the private sector and public officers should be taught to be honest, to have patriotic wisdom, a nationalistic spirit and national conscience. An entrepreneur mentioned: *“Education for good ethics plays a significant role in the fight against corruption. If pupils learn how to be corrupt since they are at school, they will do the same when they start working. Also, a low-educated person is usually more likely to suffer from exploitation.”*

#### 4.4. Participation of the Private Sector and Civil Society

MSMEs were also qualitatively questioned about their role in helping combating corruption in their sector of the country. Two main ideas were given. First, they believe that they can help reduce corruption by being honest citizens, starting at the individual level. So, if everyone is not corrupt, corruption will not occur. Every single member of the private sector should refrain from bribing public officials. To ensure this, education is necessary to teach children to hate corruption and to be a patriot with high morals and ethics.

Second, a majority of MSME respondents agreed that they could take part in the fight against corruption by being a part of a counter-corruption community and associations. They believe that their individual voices are not strong enough to make public authorities favor their problems and interests. Associations can effectively bring their concerns and voice closer to policymakers. Working via associations would give more weight on influencing public authorities to consider their problems, such as corruption, and resolve their concerns. Associations can also play a significant role as advocates, vis-à-vis public authorities, for their interests and in countering corruption.

However, these associations in order to remain sustainable, should be free from politics, neutral, well-organized, and protect the members' interests. There is a need for strong leadership, participation and the contribution of members.

In addition, a majority of MSMEs believe that there is a need for Government support and a conducive environment where they can freely exercise their rights to bargain and associate without fear. Some provincial participants highlighted that they were concerned in participating in any association, saying: *"We are reluctant to participate in the association. It is not easy to do so. Some people are afraid for their security. Many people don't want to do anything which requires them to have their finger print, for instance."*

## Concluding Remarks

Corruption in Cambodia's private sector is complicated in nature. Both businesses and public officials are involved in corruption, which is imbedded within the country due to the system of patronage and networking.

Public officials, who work with the private sector, often come to visit the premises of enterprises, under the pretext of inspection, to demand bribes. Complicated bureaucracy and lack of transparency in regulations and legislations contribute to widespread corruption.

Although the extent of corruption in the private sector seems to have been reduced, compared with the World Bank assessment in 2004, its extent remains actually high. In order to curb corruption, the reasons behind corruption must be addressed. The main motives for corruption in the private sector are the low salaries of public officials, lack of an independent and effective judiciary, poor law enforcement, culture of corruption and lack of an effective anti-corruption mechanism.

If corruption in the private sector is to be dispensed with, the amount lost to unofficial fees could be used in a more productive way. This amount (US\$330 million in 2005) would be more than enough to raise the salary of civil servants to a decent level of US\$100 per month. This money could also be used to implement the Government reform programs and for other prioritized development purposes. Dispensing with corruption in the private sector will benefit both the private sector and the Government. Corruption in the private sector can be reduced in tandem with efficient public administration.

More interestingly, partly due to corruption system, the Government collects only about 25 percent of the total estimated potential tax revenue. The Government's concerted efforts to collect more state revenue from taxes should concentrate more on simplifying the tax system and improving transparency in tax collection. Once the tax system is simple and transparent, the private sector would find it easier to understand the tax system and would avoid paying bribes. In addition, the level of taxes for MSMEs should also be considered so that there is more incentive to pay tax.



## Bibliographic References

**AAC & ILO.(2004):** *Study on legal requirements for micro and small businesses, NGOs, and associations and procedures and practices for exporting Cambodian handicrafts*

**CSD. (1998):** *National Survey on Public Attitude toward Corruption*

\_\_\_\_\_ (2005): *Corruption and Cambodian households*

\_\_\_\_\_ (2005): *Living under the rule of corruption, an analysis of everyday forms of corrupt practices in Cambodia*

**Economic Institute of Cambodia. (2006):** *Economic Watch*, Issue 4

\_\_\_\_\_ *Economic Watch*, Issue 3

**Monyrath Nuth. (2005):** *Informal economy profile and suggestions for policy development in Cambodia, draft final report, ILO & EIC*

**MPDF. (2000):** *The private manufacturing sector in Cambodia: a survey of 63 firms*

**Pact. (2006):** *International Standards and the Draft Law on Anti-corruption, slide presentation*

**Transparency International. (2006):** *Corruption Perception Index*

**UNDP. (2005):** *Pathway to justice, access to justice with a focus on poor women and indigenous peoples.*

**UNIFEM, WB, ADB, UNDP and DFID/UK (2004):** *A fair share for women: Cambodia gender assessment, 2004*

**United Nations Office on Drugs and Crime, Regional Office for Southern Africa. (2003):** *Country Corruption Assessment Report, South Africa*

**USAID. (2004):** *Cambodian Corruption Assessment*

\_\_\_\_\_ (2005): *Assessment of Corruption in Mongolia, final report*

**Vuthy Chan and Klara Sok. (2005):** *Cambodia Competitiveness Report 2005-2006, EIC*

**World Bank. (2000):** *Cambodia Governance and Corruption Diagnostic: Evidence from citizen, enterprise and public official surveys*

\_\_\_\_\_ (2004): *Cambodia Seizing the Global Opportunity: Investment Climate Assessment & Reform Strategy, 2004*

**World Economic Forum. (2005):** *Global Competitiveness Report 2005-2006*

### ***Newspapers:***

**Cambodia Daily**, October 21, 2005, Vol. 32, issue 88

\_\_\_\_\_ June 20, 2006, Volume 34, Issue 62, p. 12

\_\_\_\_\_ May 29, 2006, Vol. 34, issue 46

\_\_\_\_\_ June 20, 2006, Volume 34, Issue 62, p. 12

***Websites:***

**Council of Administrative Reform:**

[http://www.car.gov.kh/document/report/achievement\\_CAR\\_brief\\_310506\\_kh.asp](http://www.car.gov.kh/document/report/achievement_CAR_brief_310506_kh.asp)

**Transparency International:**

<http://ww1.transparency.org/cpi/2005/2005.10.18.cpi.en.html#cpi>

***Other sources:***

Government Rectangular Strategy

Law on Taxation 1997

Sub-decree No. 03, dated 15 January 2005;

Sub-decree No. 140 dated 09 December 2005;

Prakas on the Profit Tax 2004

**Appendix  
I**

**OVERVIEW OF CORRUPTION  
ENVIRONMENT IN  
CAMBODIA**



## 1.1. International Corruption Index

Cambodia was included for the first time in the Corruption Perception Index (CPI) in 2005 by the Transparency International (TI), the leading international anti-corruption NGO. Based on four surveys of the business environment conducted by the WEF in conjunction with EIC, by the World Markets Research Center, by the Economist Magazine and by the Merchant International Group<sup>1</sup>, Cambodia's CPI score was 2.3, placing Cambodia amongst many developing countries listed at the bottom of the index. TI ranked Cambodia at 130 out of 158 countries<sup>2</sup>, while neighboring countries were ranked higher, such as Thailand at 59, Lao at 77, China at 78 and Vietnam at 107.

However, the methodology used by the TI has led to some questioning the reliability of CPI. Critics often invoke the significant methodological shortcomings when the data was being used by the TI to rank the listed countries. These shortcomings include: multi-faceted set of behavior towards corruption in different countries that may lead to different definitions of 'corruption'; a wide variety of sources of data sets used for the CPI, depending on what was available for each country.<sup>3</sup>

## 1.2. Some Existing Data on Corruption in Cambodia

In general, corruption in Cambodia has become part of citizens' every day life. People view that in Cambodia corruption practices are at all levels ranging from the very simple public officials to high level public officials throughout the country's public institutions. There is no clear evidence about whether problems of corruption have increased or declined as there are no surveys on corruption that have been regularly conducted. However, certain conducted surveys on corruption, notwithstanding their inconsistency, would allow one to gain a general idea of corruption in Cambodia. The following is a summary of key findings of major previous studies on corruption:

### 1.2.1. Overall Picture of Corruption

A corruption assessment report by Casals & Associates, Inc. (C&A) commissioned by USAID/Cambodia provides a very comprehensive picture of corruption in Cambodia. The report explains how corruption takes place in Cambodia; normally, according to the authors, the environment of corruption in Cambodia encompasses a corruption of survival. This survival corruption is a way of life for the poor and the middle class. Large scale corruption is a ticket to wealth for the powerful public officials.

---

<sup>1</sup> Cambodia Daily, October 21, 2005, Vol. 32, issue 88, p. 13

<sup>2</sup> See the whole TI 2005 CPI at <http://ww1.transparency.org/cpi/2005/2005.10.18.cpi.en.html#cpi>, May 8, 2006

<sup>3</sup> See more at: USAID: Assessment of Corruption in Mongolia, final report, 2005, p. 8-9

Authors used many strong words, such as a ‘corruption-ridden state apparatus’, to describe the corrupt situation where corrupt practices occur from the start of the process of government generating revenues through taxation and donors’ assistance, managing resources, until the end of dispersing the public spending through the application of power and patronage system.

In spite of these facts, the report raises some critical challenges to counter the arguments about corruption made by civil society, the private sector, the media, political parties, other international organizations, especially WTO, and other various programs initiated by donor communities towards accountability and transparency of the public institutions. A large variety of recommendations were eventually offered to various donors.

### 1.2.2. Corruption and Households/Citizens

The Center for Social Development (CSD) has been active in researching social related issues, particularly corruption. The organization has carried out various studies on corruption.

The first CSD survey on *Public Attitude towards Corruption* was successfully conducted in 1998.<sup>4</sup> The survey’s findings can be summarized as follows:

- A large number of Cambodians believe that corruption is a normal way of doing things; corruption has been thus accepted as part of official transactions and everyday social relations.
- Although corruption is accepted as a custom, Cambodians agree that corruption should be stopped, with a large majority of people suggesting that ending corruption at the higher levels should be a priority. People also view corruption as hindering the national development of the country.
- The often-mentioned ways of ending corruption are: a living wage for civil servants and the adoption of counter-corruption legislation.

Another survey conducted by CSD in 2005, also demonstrates that in general people do not perceive corruption as a major threat to their lives. The high cost of living/poverty, followed by poor infrastructure, safety, cost and quality of health care were listed as serious concerns for households, especially remote rural households. In terms of how corruption occurs, the report reveals that in case of gift-giving and bribery, givers usually initiate it.

The report also finds that personal relationships help cushion against extortion. In spite of the fact that corruption is so widespread, corruption does not become acceptable morally and a small salary does not entitle a civil servant to ask for bribes. The most dishonest institutions are thought to be the courts, tax, custom

---

<sup>4</sup> CSD, National Survey on Public Attitude toward Corruption, 1998

departments, and the police, in contrast with NGOs, schools, and the pagoda. More importantly, about 1.4 percent of total household expenditure goes to corruption. The priority to fight corruption is to get rid of the administration of corrupt officials.

An additional qualitative survey conducted by CSD in 2005, also provides findings similar to the above study. The report shows that ordinary people - both corruption payers and takers - expressed their concern over corruption practices which are: accessibility of the poor to local bureaucracy and institutions due to their lack of affiliation to local network systems and patrons; unfair acts of bureaucracy due to a lack of transparency; patronage system of the corruption practices; hindrance of incentives to improve livelihoods because of low trust in public institutions.

Interestingly, women were found to be the main corruption payers due to their role in overseeing the household budget and caregivers in the family. Furthermore, residents often use ways of creating rumors and gossip to react to corrupt practices or avoiding bribes while civil servants use active resistance such as arguing or contacting higher ranking officers. This has limited the poor from accessing public services.

To resolve the problems, citizens want, according to the report, more transparency in both local and national bureaucracy, particularly the need for information and awareness on public procedures and education on organizing local participation in community development projects.

The United Nations Development Program study, *Pathway to justice, access to justice with a focus on poor women and indigenous peoples* in 2005, also captures an overview of corruption in Cambodia. The report highlights the main forms of corruption that affect the poor, women and indigenous peoples are: lack of transparency, corruption in the management of public resources such as land concessions, natural resources, business licensing, infrastructure assignments and other political decision on public resources, services and taxes. The report reveals that the reasons - for illegal fees charged by public servants and/or as condition for the provision of public services - were low salaries of public officials. Unofficial fees, that hinder children attending schools, the poor from accessing health services and victims of crimes from having forensic examinations, eventually lead to poverty.

### **1.2.3. Corruption and the Private Sector**

A World Bank survey with citizens, enterprises and public officials provides some insight of governance and corruption in Cambodia. Several public services, especially courts, customs, tax authorities, road services and police are relatively

poor. The leading problem of citizens and enterprises is public corruption. Priority reform efforts should particularly focus on specific institutions, such as the judiciary, revenue collection bodies and departments which poorly manage public assets.

There are links between weak government agency performance and its integrity. Moreover, weak government leads to loss of government revenue, tax and custom duty evasion; corruption deters investors from investing in Cambodia. Public officials view that to address the problem of corruption, some measures are helpful: a living wage for public officials, personal management system in the public sector (compensation and promotion based on performance), greater oversight of the Government's function by the public and civil society, regular declaration of assets of public officials.

Another World Bank study on investment climate <sup>5</sup> also provided information on corruption and governance. The report points out that a large majority of firms agree that payments to public officials are frequently, mostly, or always required to 'get things done'. The report affirms that unofficial payment in Cambodia is more than double that found in a parallel survey in Bangladesh, Pakistan or China. The top constraint for formal and informal firms in urban areas was corruption. In general, the magnitude of unofficial payments estimated by the private sector exceeds five percent of annual sales revenues, and may exceed six percent of total sales value for large firms, depending on firm size and formality.

**Table A1.1: Estimated Unofficial Payments as % Share of Sales**

Foreign	Large	SME	Micro	Urban Informal	Rural Non-Farm
6.90%	6.10%	5.50%	4.00%	2.30%	1.30%

*Source: World Bank, Cambodia Seizing the Global Opportunity: Investment Climate Assessment & Reform Strategy, 2004, p. 15 (Cambodia PICS 2003.)*

In addition, the World Economic Forum (WEF), a leading institution in assessing cross-national competitiveness, in cooperation with the Economic Institute of Cambodia, recently conducted a survey among leading business executives in Cambodia. The findings of the survey that ranked Cambodia's Business Competitive Index at 112 out of 117 countries<sup>6</sup> also indicate that the most problematic factors for doing business in Cambodia was primarily corruption<sup>7</sup>.

In contrast, in a survey of 63 firms in the manufacturing sector conducted by MPDF<sup>8</sup> in 2000, only few respondents listed corruption as one of the most

<sup>5</sup> World Bank, Cambodia Seizing the Global Opportunity: Investment Climate Assessment & Reform Strategy, 2004, p. 14-15

<sup>6</sup> World Economic Forum, Global Competitiveness Report 2005-2006, September 2005

<sup>7</sup> Vuthy Chan and Klara Sok, Cambodia Competitiveness Report 2005-2006, 2005, p. 20, EIC

<sup>8</sup> MPDF, the private manufacturing sector in Cambodia: a survey of 63 firms, 2000

important obstacles to their business, even though they viewed that corruption was generally a fact of life in the business environment. Nonetheless, the majority of respondents concurred that there were frequent visits of public officials ranging from low level-local polices, military, bureaucrats to national ministry level officials on a regular basis.

The MPDF survey found that bribes were used to avoid regulations. The private sector needs to pay bribes to public officials to perform their jobs, with regard to registration, inspection, documentations, etc., correctly.



**Appendix  
II**

**STUDY METHODOLOGY**



The problem of corruption in Cambodia is generally perceived by the public to be widespread and pervasive. As a civil servant mentioned: “corruption is at all levels. High ranking officers take large amounts, whereas low ranking officers take small amounts.”

Though the private sector acknowledges that corruption exists, once it comes to interviewing people who are engaged in corruption, both bribe taker and bribe giver, attempt to conceal their involvement. This makes corruption, if not impossible, difficult to measure.

Due to the delicate nature of the subject, in an attempt to ensure the credibility of the research findings, a wide variety of methodologies have been applied in this study. These methodologies include: Literature review, quantitative and qualitative surveys, modeling system to assess the impact of corruption on the private sector and the economy and an advisory team.

### 1.1. Literature Review

A review of existing relevant documents and research studies was made. These reviews and Research/studies were conducted by different institutions, such as the World Bank, IMF, ADB, CSD and EIC. Other relevant documents concerning other countries and organizations were also studied.

It is important to note that there is no official definition of the different types of enterprises in Cambodia. This paper, however, refers to the draft SME Development Framework by an ADB technical assistance project that proposes the Government adopts a definition based on full-time employees for statistical purposes as follows<sup>1</sup>:

**Table A2.1: Definition of Enterprises**

Micro-enterprise	Less than 10 employees
Small enterprise	Between 10-50 employees
Medium enterprise	Between 51-100 employees
Large enterprise	Over 100 employees

Source: ADB & MIME: *Draft SME Development Framework, 2004, p.25*

### 1.2. Field Surveys

#### 1.2.1. Field Locations

Two municipalities and seven provinces were chosen for the surveys. These municipalities/provinces are: Phnom Penh, Battambang, Siem Reap, Sihanouk Ville, Kampong Cham, Banteay Meanchey, Prey Veng and Kampot. These locations were

<sup>1</sup> Monyrath Nuth, *Informal economy profile and suggestions for policy development in Cambodia, draft final report, 2005, ILO & EIC, p. 13*

selected for field surveys given their significant contribution to the country's GDP (table A2.2) and the abundance of economic activities, particularly MSME.

**Table A2.2: Provinces for the CAPS Study**

	<b>Population (000s)</b>	<b>Nominal GDP (Mn US\$)</b>	<b>GDP/Capita (US\$)</b>
Banteay Meanchey	734	141	192
Battambang	991	259	262
Kampong Cham	1,880	465	247
Kampot	614	186	302
Kandal	1,258	462	367
<b>Phnom Penh</b>	<b>1,237</b>	<b>1,493</b>	<b>1,207</b>
Prey Veng	1,089	223	205
Siem Reap	834	250	300
Sihanoukville	196	159	809
<b>Total Selected Provinces</b>	<b>8,833</b>	<b>3,638</b>	<b>412</b>
<i>% of Total Cambodia</i>	<i>65%</i>	<i>74%</i>	
Other 15 Provinces	4,841	1,250	258
<i>% of Total Cambodia</i>	<i>35%</i>	<i>26%</i>	
<b>Total Cambodia</b>	<b>13,675</b>	<b>4,888</b>	<b>357</b>

*Source: EIC, compiled from primary Government data*

### 1.2.2. Quantitative Survey

#### Questionnaire Design

A research questionnaire was designed by EIC. This questionnaire was revised several times within different phases: internal comments; first pilot test conducted with about 40 enterprises in Phnom Penh and Kandal province; meeting with governance/corruption specialists; and second pilot test with 50 MSMEs in Phnom Penh and Kandal to finalize the questionnaire.

### 1.2.3. Survey Samples, Source and its Selection

The survey concentrates on MSMEs rather than large enterprises. Preference to smaller enterprises was given because many surveys on corruption by different institutions - including the World Bank and EIC in collaboration with the WEF in its Annual Competitiveness Report - have already focused on large enterprises.

It is important to note that there is no exact official number of enterprises in Cambodia. Because of this, the location for each survey was chosen on the basis of the abundance and significance of its economic activities and contribution to GDP. For instance, the sample size of micro-enterprises in Phnom Penh where economic activities are more diverse, was 18 percent compared to the sample size - ranging from nine to 12 percent - in other provinces/municipality where economic activities are less significant. One hundred percent of the sample size of large enterprises was given to Phnom Penh where the vast majority of large enterprises are concentrated (table A2.3).

**Table A2.3: Sample Structure by Provinces**

Location	Micro-enterprises		SMEs		Large enterprises		Total	
	Sample	%	Sample	%	Sample	%	Sample	%
Phnom Penh	149	18%	63	26%	45	100%	257	23%
Kandal	87	11%	35	14%	0	0%	122	11%
Siem Reap	85	10%	29	12%	0	0%	114	10%
Sihanoukville	100	12%	13	5%	0	0%	113	10%
Kampong Cham	87	11%	25	10%	0	0%	112	10%
Battambang	78	10%	23	9%	0	0%	101	9%
Banteay Meanchey	73	9%	16	7%	0	0%	89	8%
Prey Veng	77	9%	20	8%	0	0%	97	9%
Kampot	82	10%	20	8%	0	0%	102	9%
<b>Total</b>	<b>818</b>	<b>100%</b>	<b>244</b>	<b>100%</b>	<b>45</b>	<b>100%</b>	<b>1107</b>	<b>100%</b>
<b>%</b>	<b>74%</b>		<b>22%</b>		<b>4%</b>		<b>100%</b>	

**Note:** Micro-enterprises ( $emps < 10$ ) ; SMEs ( $10 \leq emps < 100$ ) ; Large enterprises ( $emps \geq 100$ )

The same logics were applied to the selection of different districts in the nine provinces/municipalities. To determine the abundance of economic activity in these districts, the industrial registration at the Ministry of Industry, Mines and Energy (MIME), that of the Ministry of Commerce (MoC) and other pertinent sources as well as the locations of enterprises were used as sources.

By sector, the sample concentrates more on services followed by manufacturing -handicraft and agriculture (Table A2.4).

**Table A2.4: Sample Structure by Sectors**

Sector	Micro-enterprises		SMEs		Large enterprises	
	Sample	%	Sample	%	Number	%
Agriculture	3	0%	2	1%	0	0%
Manufacturing/Handcraft	157	20%	146	60%	26	58%
Service	658	80%	96	39%	19	42%
<b>Total</b>	<b>818</b>	<b>100%</b>	<b>244</b>	<b>100%</b>	<b>45</b>	<b>100%</b>

**Note:** *Micro-enterprises (emps<10) ; SMEs (10<=emps<100) ; Large enterprises (emps>=100)*

The business activities of respondents are as follows: Micro-enterprise are mostly involved in trade, SMEs activities are mostly concerned in rice-milling, manufacturing brick kilns and trade, and garments for large enterprises (Table A2.5).

**Table A2.5: Sample Structure by Activity**

Location	Micro-enterprises		SMEs		Large enterprises	
	Sample	%	Sample	%	Sample	%
Rice mill	8	1%	35	14%	0	0%
Brick kiln	1	0%	34	14%	3	7%
Trade	422	52%	31	13%	2	4%
Garment	0	0%	0	0%	19	42%
Hotel/ Guesthouse	52	6%	21	9%	2	4%
Other <sup>2</sup>	335	41%	123	50%	19	42%
<b>Total</b>	<b>818</b>	<b>100%</b>	<b>244</b>	<b>100%</b>	<b>45</b>	<b>100%</b>

**Note:** *Micro-enterprises (emps<10) ; SMEs (10<=emps<100) ; Large enterprises (emps>=100)*

Research teams made concerted efforts to ensure a certain level of equality in respondents. More than 40 percent of respondents were women for micro-enterprises and about 30 percent for SMEs and only five percent for large enterprises (Table A2.6).

<sup>2</sup> Other includes many activities, such as: handicraft, animal raising, training and education services, food and beverage services, entertainment services, wood processing vehicle repair services, etc.

**Table A2.6: Sample Structure by Sex of Respondents**

Location	Micro-enterprises		SMEs		Large enterprises	
	Sample	%	Sample	%	Sample	%
Male	466	57%	175	72%	40	89%
Female	352	43%	69	28%	5	11%
<b>Total</b>	<b>818</b>	<b>100%</b>	<b>244</b>	<b>100%</b>	<b>45</b>	<b>100%</b>

*Note: Micro-enterprises (emps<10) ; SMEs (10<=emps<100) ; Large enterprises (emps>=100)*

EIC mapped in advance the enterprises of the provinces/municipalities, which are mainly formal enterprises having registered with the relevant ministries. The research teams also identified other informal enterprises (without any registration) once they were on the field.

Once the appropriate areas were identified, enterprises were randomly selected for quantitative surveys in each district of the province/municipality. For the questionnaire to be fully understood, respondents in positions of entrepreneurs/senior managers, who are more aware of the enterprise, were mainly considered.

#### 1.2.4. Qualitative Surveys

For the qualitative surveys two methods were used: focus group discussions (FGD) and personal interviews. While FGDs were used with MSMEs, personal interviews were conducted with public officials.

In general, officials who are found -after scanning through the results of the quantitative surveys with enterprises - frequently involved in the collecting of both official and unofficial fees<sup>3</sup> from the MSMEs were interviewed. Many of these include police, local authorities, and commerce, industry, environment and tax department officials.

Two FGDs in each province-municipality and four FGDs in Phnom Penh were conducted. In general, the number of participants in the FGDs ranged from seven to 10 people. The FGDs particularly focused on causes, extents and respondents' views on what would be the best way to fight corruption in Cambodia.

In total, 20 FGDs were conducted, of which half were FGDs of micro-enterprises and another half were FGDs conducted with SMEs. Some people from business associations were also invited to join the discussion.

<sup>3</sup> 'Official fees' are fees paid to a government agency that are accompanied with a receipt of payment for the full sum paid. 'Unofficial Fees' are fee paid to a government agency that are not accompanied with a receipt for payment, either in whole or in part of the full sum paid. Unofficial fees also referred to as corruption tax, tea money, incentive, or other euphemism. The definition is extracted from a study report of AAC & ILO entitled '*Study on legal requirements for micro and small businesses, NGOs, and associations and procedures and practices for exporting Cambodian handicrafts*', 2004

While interviewing enterprises quantitatively, participants were invited to join the FGDs. Interviewers cautiously screened the entrepreneurs based on their personal knowledge and observations. Prerequisite for interviewees to be able to join the FGD were: being the owner or manager of an enterprise; being located near where the FGD was to be conducted, and being cooperative, active and motivated<sup>4</sup>.

Qualitative data collected from FGDs and qualitative interviews was classified and inserted into a matrix by different topics of specific questions. Not all information provided by FGDs was admitted. Researchers verified the given facts with the reality and general field observations, especially when answers were contradictory. In case of inconsistency, suspicious information was disregarded.

### **1.2.5. The Survey's Limitations**

The survey covers mainly enterprises located in urban areas. Moreover, given the informal characteristics of many enterprises in Cambodia, there is no clear information about the exact percentage of enterprises in the survey sample compared to the number of enterprises in Cambodia. In addition, when answering the questions related to unofficial fees/payments, respondents had a hard time to make a clear distinction between unofficial and official fees. Many respondents are not aware of what fees and to whom they have to pay the official fees to.

### **1.3. Data Entry and Cleaning**

The data entry template and data entry were made by EIC research teams (researchers and research assistants). The data were cleaned many times: On the field and after the data entry. First, on the field, team supervisors and managers checked the interviewed samples and when the questionnaire was inaccurate and incomplete, the sample was rejected. After the field, the team double-checked the collected data. When there were gaps, team members were sent back to the field.

Second, while entering the data, research assistants checked again for inconsistency of responses from question to question. Third, the data was cleaned by researchers. Some specific questions were used as benchmarks to check if the answers were candid. For example, on the question of revenues, researchers checked if their responded revenues were reliable considering their value-added, number of workers, and business activities.

### **1.4. Advisory Committee**

A team consisting of anti-corruption professionals was established to provide practical recommendations on the research methodology and study process. These professionals who work in the areas of corruption, governance, private sector and gender were invited to join the advisory committee.

---

<sup>4</sup> This was determined based on the rapid understanding of respondents of the questions, including the consistency of their responses as well as their awareness of the problems of corruption.

### List of Advisory Team

N°	Name	Position	Organization
1	<b>Mr. Ouch Chamroen</b>	Program Officer (Governance)	ADB
2	<b>Mr. Sok Narin</b>	Program Manager	UNDP
3	<b>Ms. Sieng Leakhena</b>	National Consultant	UNDP (Partnership for Gender Equity)
4	<b>Mr. Hor Soneath</b>	Business Development Officer	MPDF
5	<b>Mr. Tia Savora</b>	Consultant	Consultant
6	<b>Mr. Sek Borisoth</b>	Director of Anti-Corruption Program	PACT
7	<b>Mr. Chhay Sarath</b>	Program Officer	PACT
8	<b>Mr. Sok Hach</b>	Director	EIC
9	<b>Mr. Nuth Monyrath</b>	Researcher	EIC
10	<b>Mr. Chan Vuthy</b>	Researcher	EIC
11	<b>Mr. Kov Phyrum</b>	Researcher	EIC
12	<b>Mr. Neou Seiha</b>	Researcher	EIC
13	<b>Mr. Khieng Sochivy</b>	Researcher	EIC
14	<b>Mr. Rin Seyha</b>	Executive Director	SME Cambodia
15	<b>Mr. Prum Visoth</b>	Legal Department Manager	ACLEDA



**Appendix  
III**

**SURVEY QUESTIONNAIRES**



## **Quantitative Questionnaire (Micro Enterprises)**

The Economic Institute of Cambodia (EIC) has been undertaking a study on Private Sector Development in Cambodia. Under the auspices of *USAID, Pact and PADCO/AECOM*, the EIC's research team will conduct interviews with about 1,200 enterprises of Micro, Small, Medium and Large size in nine municipalities/provinces, including Phnom Penh, Kandal, Kampong Cham, Prey Veng, Kampot, Sihanouk Ville, Battambang, Banteay Meanchey and Siem Reap.

The ultimate goal and long term perspective of this research is to promote the private sector for employment generation and economic growth.

**Information obtained here will be treated strictly  
anonymously and confidentially.**

**01. In general, how serious is the payment of unofficial fees in the private sector in Cambodia?**

Not serious

1	2	3	4	5	6	7
---	---	---	---	---	---	---

Very serious

**02. Has your firm been inspected by the following public authorities during the last 12 months? How much did you pay for each inspection?**

	Total Payment (*)	Frequency (How many times a year?)	Official Payment	Unofficial Payment
<input type="checkbox"/> Police				
<input type="checkbox"/> Tax authorities				
<input type="checkbox"/> Local authorities				
<input type="checkbox"/> Fire and building safety				
<input type="checkbox"/> Standard inspection				
<input type="checkbox"/> Environment				
<input type="checkbox"/> Labor and social security				
<input type="checkbox"/> Other: _____				
<input type="checkbox"/> Other: _____				
<b>Total</b>				
<b>Percentage (%)</b>				

(\*) Very important: please specify clearly the currency unit (Ex. Riel/R, Dollar/\$, Bath/B, etc.)

**03. On average, what percent of annual sales value does your enterprise pay in fees to all public officials?**

About: \_\_\_\_\_percent of total annual sales value

**04. Does your enterprise operate with a license (patent license or other form of license) from any particular authority?**

- Yes  
 No (Go to question 08)

**05. How much did you pay for each operating license registration process?**

	<b>Total Payment</b>	<b>Official Payment</b>	<b>Unofficial Payment</b>
<input type="checkbox"/> Business location registration (from local authority)			
<input type="checkbox"/> Operating license (from any ministry/department)			
<input type="checkbox"/> Other: _____			
<b>Total</b>			

**06. In general, how does the additional payment (informal fees) to the public official occur? (More than 1 answer)**

- Public officer comes to my enterprise
- My enterprise gets in contact with the public officer directly
- There is a middleman
- Other: \_\_\_\_\_

**07. In general, do you know in advance how much you have to make in additional payments to public servants to maintain the business?**

Never know      

1	2	3	4	5	6	7
---	---	---	---	---	---	---

      Always know

**08. When the additional payment is made, the public service will be delivered more efficiently?**

Strongly disagree      

1	2	3	4	5	6	7
---	---	---	---	---	---	---

      Strongly agree

**09. Why do you pay the informal fees to public officers? (More than 1 answers)**

- To get public services done
- To avoid extortion by public officers
- To maintain good relations for business
- To compensate official for his unpaid time
- To express thanks for public service delivery
- Other: \_\_\_\_\_



**15. According to you, how effective are the following tools/actions to successfully fight corruption in the private sector in Cambodia?**

**15-01. Raising the salaries of public officials**

Not effective at all 

1	2	3	4	5	6	7
---	---	---	---	---	---	---

 Very effective

**15-02. Compensation and promotion based on performance of public officials**

Not effective at all 

1	2	3	4	5	6	7
---	---	---	---	---	---	---

 Very effective

**15-03. Creation of an independent authority for fighting corruption**

Not effective at all 

1	2	3	4	5	6	7
---	---	---	---	---	---	---

 Very effective

**15-04. Creation of corruption reporting system/network**

Not effective at all 

1	2	3	4	5	6	7
---	---	---	---	---	---	---

 Very effective

**15-05. Declaration of assets of public officials**

Not effective at all 

1	2	3	4	5	6	7
---	---	---	---	---	---	---

 Very effective

**15-06. Publishing the official fees required by the public**

Not effective at all 

1	2	3	4	5	6	7
---	---	---	---	---	---	---

 Very effective

**15-07. One stop-window for businesses**

Not effective at all 

1	2	3	4	5	6	7
---	---	---	---	---	---	---

 Very effective

**15-08. Active business associations that can negotiate with the Government**

Not effective at all 

1	2	3	4	5	6	7
---	---	---	---	---	---	---

 Very effective

**16. If the unofficial fees are to be generalized and formalized, do you think it is a good way in successfully fighting corruption in Cambodia's private sector?**

Strongly disagree 

1	2	3	4	5	6	7
---	---	---	---	---	---	---

 Strongly agree

**About the Enterprise**

**17. Year of establishment:** \_\_\_\_\_

**18. Number of employees:**

Total: \_\_\_\_\_ Male: \_\_\_\_\_ Female: \_\_\_\_\_

**19. Your enterprise's estimated annual total revenue:**

	<b>Total Revenue</b>
Daily	
Monthly	
Seasonally (semester)	
Yearly	

(\* please specify clearly the currency unit (Ex. Riel/R, Dollar/\$, Bath/B, etc.)

<b>Name of enterprise:</b> _____		<b>Type of business:</b> _____	
<b>Name of interviewee:</b> _____		<b>Sex:</b>	<input type="checkbox"/> male <input type="checkbox"/> female
<b>Occupation/title:</b> _____		<b>Age:</b> _____	
<b>Address:</b> _____	<b>commune:</b> _____	<b>district:</b> _____	<b>province:</b> _____
<b>Contact (phone/email):</b> _____			
<b>Sector of Activities:</b>			
<input type="checkbox"/> Agriculture/Forestry/Aquaculture		<input type="checkbox"/> Service	
<input type="checkbox"/> Industry/Manufacturing/Handcraft		<input type="checkbox"/> Construction	

## **Quantitative Questionnaire (SME & Large Enterprises)**

The Economic Institute of Cambodia (EIC) has been undertaking a study on Private Sector Development in Cambodia. Under the auspices of *USAID, Pact and PADCO/AECOM*, the EIC's research team will conduct interviews with about 1,200 enterprises of Micro, Small, Medium and Large size in nine municipalities/provinces, including Phnom Penh, Kandal, Kampong Cham, Prey Veng, Kampot, Sihanouk Ville, Battambang, Banteay Meanchey and Siem Reap.

The ultimate goal and long term perspective of this research is to promote the private sector for employment generation and economic growth.

**Information obtained here will be treated strictly  
anonymously and confidentially.**

**01. In general, how serious is the payment of unofficial fees in the private sector in Cambodia?**

Not serious

1	2	3	4	5	6	7
---	---	---	---	---	---	---

Very serious

**02. On average, what percent of annual sales value does your enterprise pay in fees to all public officials?**

About: \_\_\_\_\_ percent of total annual sales value

**03. Has your firm been inspected by the following public authorities during the last 12 months? How much did you pay for each inspection?**

	Total Payment (*)	Frequency (How many times a year?)	Official Payment	Unofficial Payment
<input type="checkbox"/> Police				
<input type="checkbox"/> Tax authorities				
<input type="checkbox"/> Local authorities				
<input type="checkbox"/> Fire and building safety				
<input type="checkbox"/> Standard inspection				
<input type="checkbox"/> Environment				
<input type="checkbox"/> Labor and social security				
<input type="checkbox"/> Other: _____				
<input type="checkbox"/> Other: _____				
<b>Total</b>				
<b>Percentage (%)</b>				

(\*) Very important: please specify clearly the currency unit (Ex. Riel/R, Dollar/\$, Bath/B, etc.)

**04. Has your enterprise been registered or re-registered?**

Yes (Year of Registration: \_\_\_\_\_)

No (go to question 06)

**05. Where did you register for your enterprise? How much did you pay for each registration process?**

	<b>Total Payment</b>	<b>Official Payment</b>	<b>Unofficial Payment</b>
<input type="checkbox"/> Firm registration (MoC)			
<input type="checkbox"/> Tax registration (MEF)			
<input type="checkbox"/> VAT registration (MEF)			
<input type="checkbox"/> Labor registration (MLVT)			
<input type="checkbox"/> Land registration (MLMUPC)			
<input type="checkbox"/> Council for Development of Cambodia (CDC)			
<input type="checkbox"/> Other: _____			
<b>Total</b>			

**06. Does your enterprise operate with a license (patent license or other form of license) from any particular authority?**

- Yes  
 No (Go to question 08)

**07. How much did you pay for each operating license registration process?**

	<b>Total Payment</b>	<b>Official Payment</b>	<b>Unofficial Payment</b>
<input type="checkbox"/> Business location registration (from local authority)			
<input type="checkbox"/> Operating license (from any ministry/department)			
<input type="checkbox"/> Other: _____			
<b>Total</b>			

**08. Has your enterprise imported or exported (raw material/final products) last year?**

- Yes  
 No (Go to question 10)

**09. Which authorities did you contact for your enterprise's imports/ exports last year? How much did you pay to meet administrative requirements for last year's imports/exports?**

	Total Payment	Official Payment	Unofficial Payment
<input type="checkbox"/> Middle man			
<input type="checkbox"/> Border police			
<input type="checkbox"/> Customs clearance			
<input type="checkbox"/> CAM Control			
<input type="checkbox"/> Vet. & phyto-sanitary inspection			
<input type="checkbox"/> Others: _____			
<b>Total</b>			

**10. Has your enterprise done business with the Government?**

- Yes
- No (Go to question 12)

**11. When doing business with the government, how much (% fee) of the contract value is expected to be paid in "additional payments" for the bid to succeed?**

About: \_\_\_\_\_ percent of the contract value

**12. In general, how does the additional payment (informal fees) to the public official occur? (More than 1 answer)**

- Public officer comes to my enterprise
- My enterprise gets in contact with the public officer directly
- There is a middleman
- Other: \_\_\_\_\_

**13. In general, do you know in advance how much you have to make in additional payments to public servants to maintain the business?**

Never know      

1	2	3	4	5	6	7
---	---	---	---	---	---	---

      Always know

**14. When the additional payment is made, the public service will be delivered more efficiently?**

Strongly disagree      

1	2	3	4	5	6	7
---	---	---	---	---	---	---

      Strongly agree

**15. Why do you pay the informal fees to public officers? (More than 1 answers)**

- To get public services done
- To avoid extortion by public officers
- To maintain good relations for business
- To compensate official for his unpaid time
- To express thanks for public service delivery
- Other: \_\_\_\_\_

**16. According to you, what are the reasons for unofficial fees in the private sector in Cambodia?**

**Please tell by rating them from 1 (not the reason) to 7 (the most likely reason).**

	1	2	3	4	5	6	7
Low salary of public official							
Culture of corruption							
Too many and too complex government regulations							
Poor law enforcement							
Lack of an independent and effective judiciary							
Lack of controls and lack of accountability of public officials							
Lack of an effective corruption recording system							
Lack of moral (ethic)							
Lack of democracy							
Lack of effective civil society							
Others: _____							

**17. In general, who deals with the public official when they come for inspection?**

- Owner (male)
- Owner (female)
- Other: \_\_\_\_\_
- Administrative staff (male)
- Administrative staff (female)

**18. In your opinion, how successful have government actions been in fighting corruption?**

Not successful at all 

1	2	3	4	5	6	7
---	---	---	---	---	---	---

 Very successful

19. Have you ever heard about the anti-corruption law?

Yes

No

20. How effective do you think will the anti-corruption law be when adopted by the Parliament in the near future?

Not effective at all

1	2	3	4	5	6	7
---	---	---	---	---	---	---

Very effective

21. According to you, how effective are the following tools/actions to successfully fight corruption in the private sector in Cambodia?

21-01. Raising the salaries of public officials

Not effective at all

1	2	3	4	5	6	7
---	---	---	---	---	---	---

Very effective

21-02. Compensation and promotion based on performance of public officials

Not effective at all

1	2	3	4	5	6	7
---	---	---	---	---	---	---

Very effective

21-03. Creation of an independent authority for fighting corruption

Not effective at all

1	2	3	4	5	6	7
---	---	---	---	---	---	---

Very effective

21-04. Creation of corruption reporting system/network

Not effective at all

1	2	3	4	5	6	7
---	---	---	---	---	---	---

Very effective

21-05. Declaration of assets of public officials

Not effective at all

1	2	3	4	5	6	7
---	---	---	---	---	---	---

Very effective

21-06. Publishing the official fees required by the public

Not effective at all

1	2	3	4	5	6	7
---	---	---	---	---	---	---

Very effective

21-07. One stop-window for businesses

Not effective at all

1	2	3	4	5	6	7
---	---	---	---	---	---	---

Very effective

21-08. Active business associations that can negotiate with the Government

Not effective at all

1	2	3	4	5	6	7
---	---	---	---	---	---	---

Very effective

22. If the unofficial fees are to be generalized and formalized, do you think it is a good way in successfully fighting corruption in Cambodia's private sector?

Strongly disagree

1	2	3	4	5	6	7
---	---	---	---	---	---	---

Strongly agree

**About the Enterprise**

23. Year of establishment: \_\_\_\_\_

24. Number of employees:

Total: \_\_\_\_\_ Male: \_\_\_\_\_ Female: \_\_\_\_\_

25. What percentage of your firm is owned by:

Domestic (Cambodian): \_\_\_\_\_%

Foreign: \_\_\_\_\_%

26. Your enterprise's estimated annual total revenue:

	Total Revenue
Daily	
Monthly	
Seasonally (semester)	
Yearly	

(\*) please specify clearly the currency unit (Ex. Riel/R, Dollar/\$, Bath/B etc.)

Name of enterprise: _____		Type of business: _____	
Name of interviewee: _____		Sex: <input type="checkbox"/> male	<input type="checkbox"/> female
Occupation/title: _____		Age: _____	
Address: _____		commune: _____	district: _____ province: _____
Contact (phone/email): _____			
Sector of Activities:			
<input type="checkbox"/> Agriculture/Forestry/Aquaculture		<input type="checkbox"/> Service	
<input type="checkbox"/> Industry/Manufacturing/Handcraft		<input type="checkbox"/> Construction	

## Guiding Questions for Focus Group Discussions

1. Which are the authorities that frequently require you to pay unofficial fees? Why?
2. Do your enterprises register or receive licenses (patents) from the Government? Why and why not?
3. Why do enterprises need to pay unofficial fees to public officers?
4. Why do you think public officials require unofficial payments from the private sector?
5. Are unofficial payments in the private sector serious for your business? Why? Why not?
6. What are the impacts of unofficial payment and corruption to your business?
7. Who deals with these public officials? Are women or men more effective in dealing with the officials? Why? And why not?
8. In order to reduce corruption in the private sector, what do you think are the best ways?
9. What could be your roles in the fight against corruption in the private sector? How could these roles be successful? Who can assist you?
10. If the answer to the question above is associations, what initiatives are needed for associations to operate well? How? Who can assist? Are businesses willing to take part in these associations? (Role of women in the associations?)
11. What priority actions should the Government take to fight corruption? Should the Government tackle petty corruption or high-level corruption first? Why and why not?

## Guiding Questions for Interviews with Public Officials

1. Why do public servants in Cambodia take unofficial fees from businessmen?
2. How do public servants use the money they got from unofficial fees?
3. If salaries are enough, do you think that public servants will stop taking unofficial fees from businessmen? If not, why?
4. In other countries, salaries are sufficient. According to you, why do public servants still take unofficial fee from the private sector?
5. How much is enough for a public servant's salary?
6. Any recommendation which can help to reduce taking unofficial fees from the private sector?
7. The anti-corruption law will soon be approved by the National Assembly. Do you think that it will be effective?

**Supported By:**



This publication is made possible by the generous support of the American people through the United States Agency for International Development (USAID). The opinions expressed herein are those of the authors and do not necessarily reflect the views of USAID or the United States Government.

**Produced By:**



**ECONOMIC INSTITUTE *of* CAMBODIA**

Suite 234, Phnom Penh Center, Corner Streets 274 & 3, P.O. Box: 1008, Phnom Penh Cambodia.

Phone: (+855) 23 987 941 - Fax: (+855) 23 224 626

E-mail: [eic@eicambodia.org](mailto:eic@eicambodia.org) - Website: <http://www.eicambodia.org>

July 2006