EUROCHAM CAMBODIA

BUSINESS CONFIDENCE

MEMBERS SURVEY 2017

Programme co-funded by the EUROPEAN UNION

EXECUTIVE SUMMARY

The EuroCham Business Confidence Survey intends to provide current and prospective investors with an inclusive and reliable overview of Cambodia's business climate, while also informing decision-makers over businesses' perception of the business environment in the Kingdom. To get a better overview of how businesses experience year-to-year changes, we compared last year's results with the outcomes from this year's survey.

METHODOLOGY

The 2017 survey was conducted from the 27th of March 2017 to the 31st of May, and essentially reflects the respondents' perception of the business climate for the year 2016. In addition, it invites them to share their expectations for the current calendar year.

This year's edition of the EuroCham Business Confidence Survey addresses the state of the business confidence in a period of uncertainty, preceding both communal elections and parliamentary elections. While Cambodia's economic growth remains stable, past experiences have shown that pre-election times have always proved challenging for the Kingdom's economic activity.

RESPONDENTS' PROFILE

The Business Confidence Survey was sent to all members of EuroCham Cambodia and we received 115 responses (60% more than the 2015 survey) across more than 20 sectors. A large majority are local companies with international ownership (58%). Half are SME's and two thirds have been present in Cambodia for at least 5 years.

Half of the respondents belongs to 4 sectors : Consumer Goods and Retail, Consultancy services, Tourism and Media, and Communication. It should be noted that the sample does not include some important sectors of the Cambodian economy such as the Garments or Agriculture Sectors.

Cambodia has seen some areas of improvements, though businesses expect slower growth over the coming year.

KEY FINDINGS & NEW TRENDS

Compared to 2015-2016, businesses feel that Cambodia's regional competitiveness has slightly improved during the last 12 months. The cost of human resources is still seen as Cambodia's biggest competitive advantage, however recent regulatory changes have had an adverse effect on how businesses perceive taxation, which is now seen more as a greater obstacle to doing business. Consequently, this has prompted businesses to voice more concerns over unfair competition as being one of the main areas that have not improved during the past year. Respondents have also expressed dissatisfaction over the area of non-transparent practices and unofficial fees, where they feel that reforms of the Royal Government are yet to yield the desired results. Emphasis is also put on the need to strengthen the legal framework (clarification on existing laws and needs for new laws and regulation).

On a more positive note, improvements have been noted on the education side, although staff retention and productivity remain significant challenges.

As for future projections, respondents remain cautious. The aforementioned uncertainty during the pre-election period has a considerable influence upon their expansion plans and keeps perceptions on the ease of doing business relatively low, nevertheless a large majority (75%) still expect further growth albeit at a slower pace. In the future, the respondents intend to increase their focus on consolidating existing activities through investments in marketing or in human resources so as to take better advantage of the growing market and the rising middle-class.

AT A GLANCE

CAMBODIA'S COMPETITIVENESS

Regional Competitiveness

43% of respondents feel that Cambodia's competitive advantages are "average", compared to 39% in 2015

Main Competitive Advantage

Low Cost of Human Resources (79%) - No change.

Main Obstacle

Non -transparent practices and unofficial fees (59 %) - Further focus needed in ensuring greater transparency (49.6%) – No change.

Key Changes

Reduced competitiveness regarding Taxation (-9%).

Improved results for infrastructure and electricity (only 14% mentioned them as obstacles in doing business instead of 33% and 25% last year).

Increased need to strenghthen the legal and regulatory framework - clarification of laws (36%) and establishment of new laws (27%).

IMPACT OF REFORMS

Impact of reforms

Perception has declined: only 10% see a real impact from reforms and improved support from the government for FDI (-5% compared to 2015).

Changes in Ease of Doing Business

No change seen for 70% of respondents like last year.

Profitability

63% of respondents expect to achieve their target, which is a net decrease from last year (71%) but still largely positive.

IMPACT OF AEC

The Asean Economic Community is largely seen as not having any impact on respondents' business (56% of respondents in comparison with 37% in 2015). However, few expect a negative impact.

CHANGES IN THE BUSINESS ENVIRONMENT

Major Improvement

Infrastructure (43.5%) – Same as 2015.

Area of least improvement is transparency (54%) – Same as 2015.

New Interesting Trends

Availability of legal information has improved (24%).

Unfair competition (34%) is now the 2nd largest area of concern, together with the availability of HR.

BUSINESS OUTLOOK

General Forecast

Still 75% of respondents expect growth in their business, but they have lower expectations: only 38% expects more than 10% growth, in comparison with 58% in 2015.

Sector Forecast

Sector-wise, respondents are more neutral than before: only 36% of them are positive regarding the future compared to 52% in 2015.

Expansion Plans

Growing uncertainty towards the future is clearly reflected: while 60% still confirmed their plan to expand their activities in Cambodia (instead of 81% in 2015), 22% of respondents are now unsure if they will expand or not (compared to 8% only in 2015).

Areas of Investment

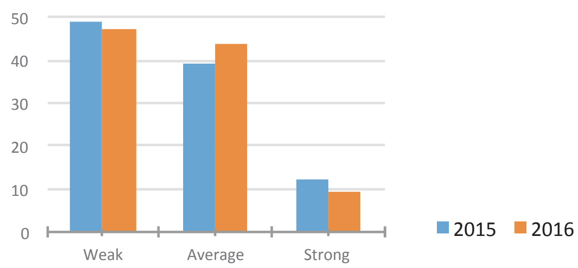
For the ones who planned to invest, there is greater emphasis on consolidating activities with budgets being allocated to Marketing and Communication (47% in 2017 instead of 39%) and Labor/HR spending (40% in 2017 instead of 34%).

BUSINESS ENVIRONMENT

The perception of Cambodia's competitiveness on a regional scale has not markedly changed, as the country remains economically attractive mainly due to its low costs of human resources. While this year businesses perceive taxation more as an obstacle than a competitive advantage, they also acknowledge progress being made by the government in its efforts to simplify bureaucratic procedures. However, they believe further action should be taken in improving Cambodia's regulatory framework, while at the same time clarifying some of the existing laws

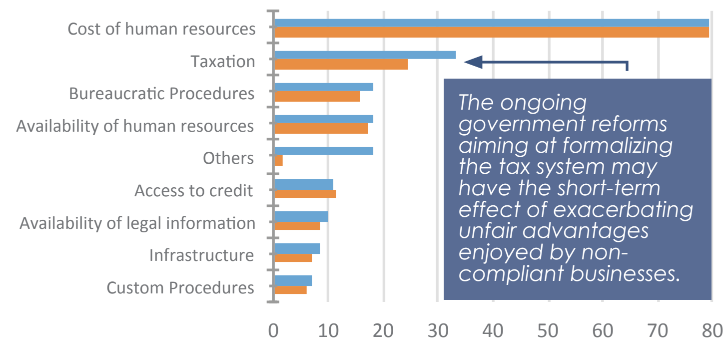
REGIONAL COMPETITIVENESS

How do you rate Cambodia's competitive advantages in comparison with other ASEAN countries (except Singapore & Malaysia)?



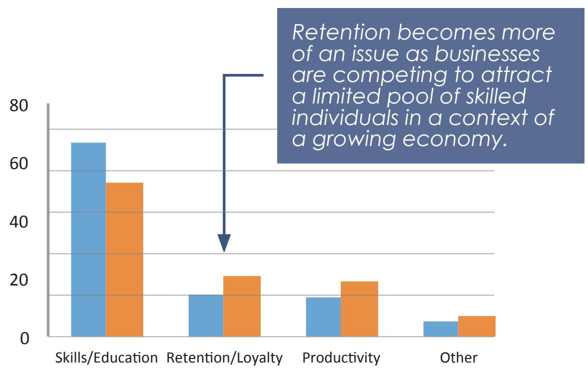
CAMBODIA'S COMPETITIVE ADVANTAGE

Which of the below do you feel are Cambodia's main competitive advantages over other ASEAN countries (except Singapore & Malaysia)?



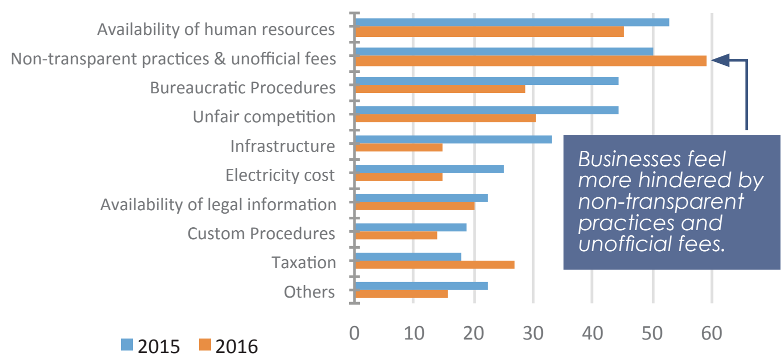
HUMAN RESOURCES CHALLENGES

What is the main challenge that your company faces in regards to human resources?



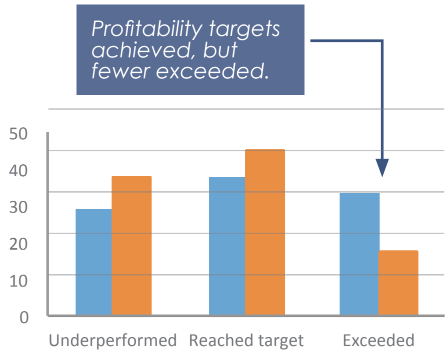
OBSTACLES TO DOING BUSINESS

What have been the main obstacles which your company has encountered in general in general during the past 12 months while doing business in Cambodia?



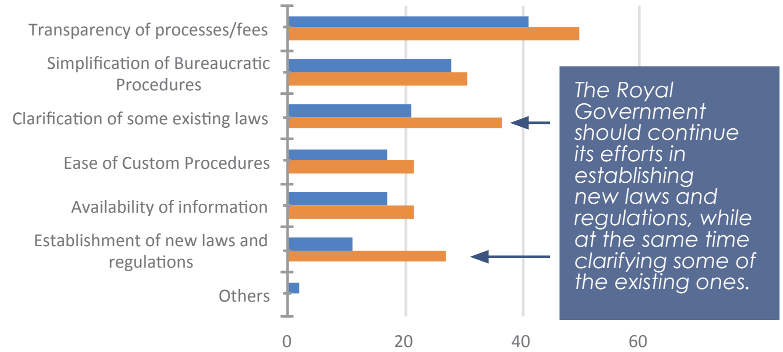
PROFITABILITY ACHIEVEMENTS

How does your company's overall profitability over the past 12 months compare to your profitability targets?



NEEDS FROM THE ROYAL GOVERNMENT

In your main sector, what do you need the most from the Government?

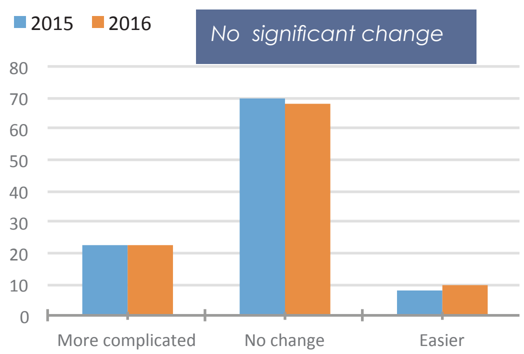


REFORM **INITIATIVES**

The Royal Government's ongoing reform agenda has not yet brought about the anticipated improvements to the business environment – respondents remain relatively unenthusiastic about its implementation. Accordingly, this year's results point to no significant improvements in how businesses perceive the ease of doing business in Cambodia. They do, however, point out a few areas where experiences have improved over the past 12 months, in particular regarding the availability of legal information. Issues related to non-transparency of processes and unofficial fees are still amongst those which have deteriorated the most, followed by the availability of human resources and unfair competition. The latter can be understood in the context of the aforementioned tax formalization process.

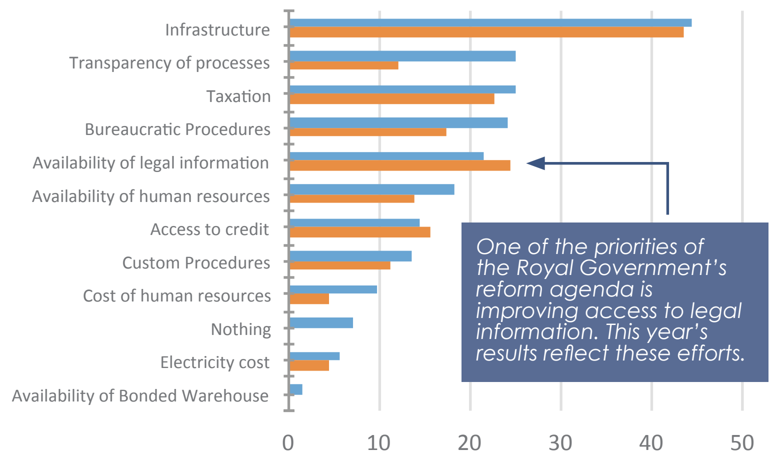
CHANGES IN DOING BUSINESS

How would you rate the changes regarding the ease to do business in Cambodia in the past 12 months?



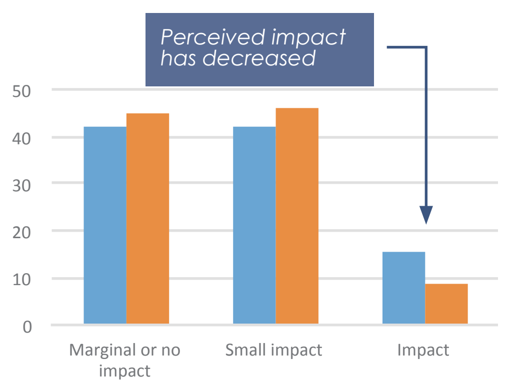
IMPROVEMENTS IN THE BUSINESS ENVIRONMENT

Which of the below areas would you consider to have improved the most in the past 12 months?



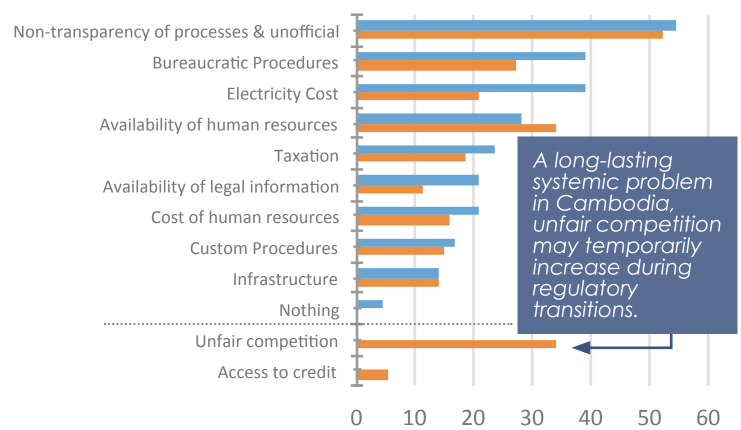
IMPACT OF REFORMS

What is the impact on the business environment of the reforms made in the past 12 months?



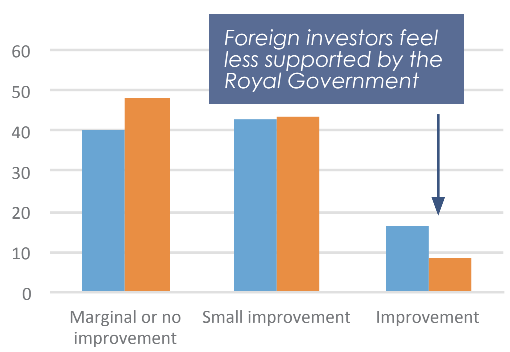
PROBLEMS IN THE BUSINESS ENVIRONMENT

Which of the below areas do you think has deteriorated or not improved in the past 12 months?



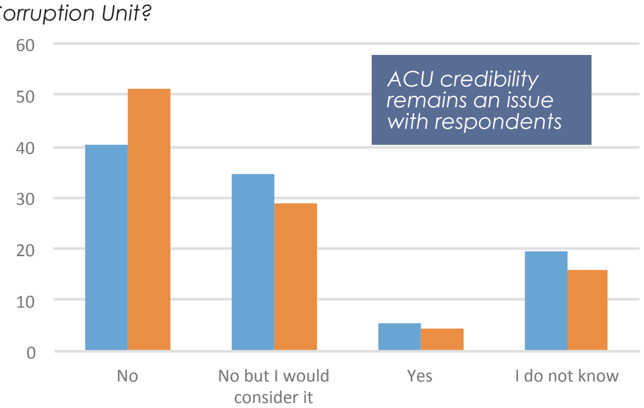
IMPROVEMENT IN GOVERNMENT INITIATIVES TO SUPPORT FDI

Have you seen an improvement regarding the Government's initiatives to support foreign direct investment (FDI) in the past 12 months?



COMPANIES HAVING SIGNED AN MOU WITH ACU

Have you signed an agreement with the Cambodian Anti-Corruption Unit?



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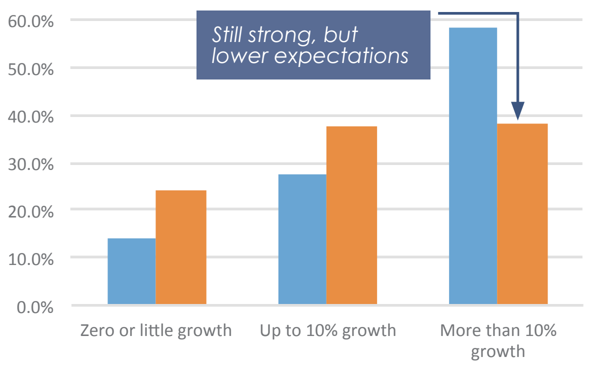
BUSINESS OUTLOOK

This year's respondents' expansion forecasts point to a general sense of caution as Cambodia approaches the 2018 national elections. Despite the expected slowdown of economic activity, businesses remain broadly optimistic, as the majority of them predict continued growth for their respective companies. Accordingly, a significant majority of respondents still plan further investments in Cambodia, although they have somewhat reassessed their areas of focus.

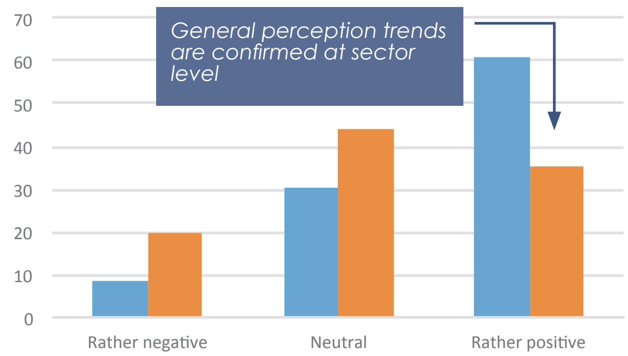
BUSINESS FORECAST

What is your forecast regarding the growth of your company for the next 12 months?



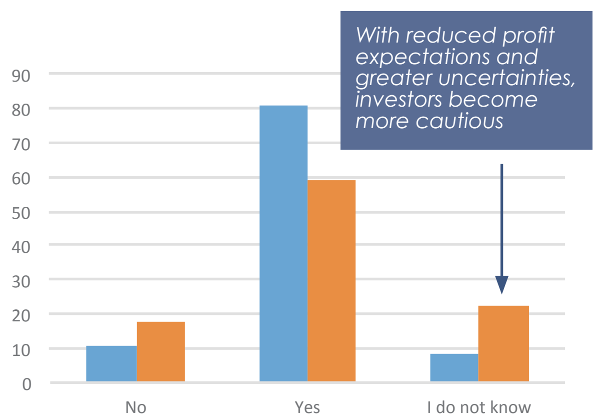
SECTOR FORECAST

What is your forecast regarding the evolution of your sector of activities in Cambodia?



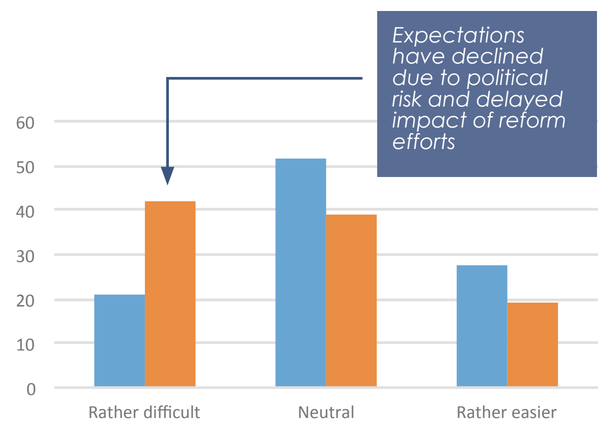
EXPANSION PLANS

Does your company plan to invest further in Cambodia in the coming 12 months?



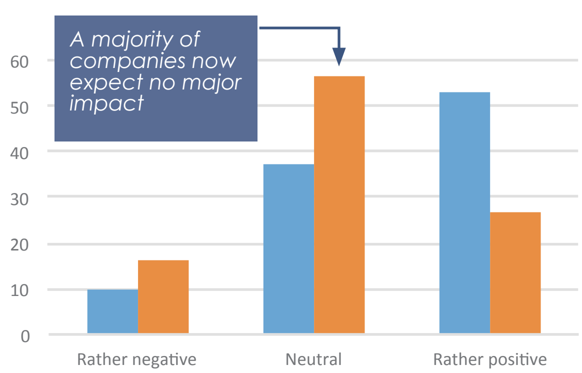
EXPECTATIONS ON EASE OF DOING BUSINESS

Do you think that doing business in Cambodia will become easier in the next 12 months?



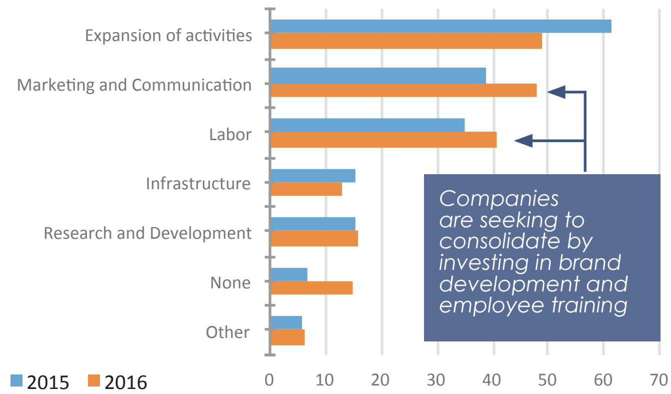
IMPACT OF AEC

What impact do you think the AEC (ASEAN Economic Community) will have on your business?



AREAS OF INVESTMENT

In which areas/activities does your company expect to invest in the coming 12 months?



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BUSINESS **CONFIDENCE** INDEX

2015

50.4

Business sentiment is marginally positive

2017

48.8

Overall business confidence has slightly decreased

In order to get a quantifiable measure of the overall business confidence during any given year, we have calculated a General Business Confidence Index by indexing individual responses on specific questions and then weighting and stabilizing the results. We apply a consistent methodology and ensure that questions are similar in content each year.

Alternatively, if we consider the first year of our confidence survey as the base year, results can be presented as follows
2015 Business Confidence Index = 100
2017 Business Confidence Index = 97

CONCLUSION

In comparison to last year's results, the overall picture portrayed by this year's EuroCham Business Confidence Survey may appear slightly negative. However, this must be understood within the context of the upcoming elections, alongside acknowledgment that businesses have historically taken a more cautious 'wait and see' approach in years prior to past elections. Moreover, the continuous reforms being implemented by the Royal Government appear to have short-term negative repercussions for certain businesses, particularly in the area of taxation, where the impact of unfair competition appears to be increasing. Nevertheless, a solid majority of respondents remain optimistic regarding Cambodia's economic prospects, demonstrating an underlying belief in the long-term benefits that the current reform agenda will bring. For this reason, a significant majority of respondents remain confident in their expansion plans and expect further growth for their businesses in Cambodia.

EuroCham remains strongly supportive of the current reform agenda and will continue to build upon the constructive relationship with the Royal Government that has been developed over the past few years. We are confident that this second edition of the Business Confidence Survey will prove informative to both the business community and Cambodia's decision makers. Furthermore, we believe that this year's survey should encourage an even greater number of companies not currently present in Cambodia to consider investing in the Kingdom's unsaturated market and take advantage of the opportunities it offers. Our second edition of the Business Confidence Survey reaffirms our commitment to continuously track the evolution of business sentiment within Cambodia over the coming years.

2017 BEST QUOTE

"Challenging but the potential is there. Election year ahead may impact the business."

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