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YOUNG ENTREPRENEURS ASSOCIATION OF CAMBODIA

COVID-19: Briefing Note

Early impacts on Cambodian MSMEs

This document is based on YEAC's COVID-19 Business Impact survey conducted from 20 – 25 March 2020. The survey was adopted from ACCA Global COVID-19 Impact Assessment

31 March 2020

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COVID-19: Briefing Note

Early impacts on Cambodian MSMEs

The COVID-19 pandemic has disrupted both the Cambodian and the global economy. Its evolution is highly uncertain and makes it difficult to quantify the impact it will have on our economy, particularly on MSMEs.

To assess the extent of the COVID-19 impact on Cambodian MSMEs, YEAC has conducted a survey on 20 - 25 March 2020. The survey also aims at identifying and flagging out MSMEs challenges to the Cambodian government and development agencies for them to be better informed when providing policy support.

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01

The situation now

02

The surveys findings
and analysis

03

Recommended
Policy Responses

04

Recommendations for
Development Agencies
working with MSMEs

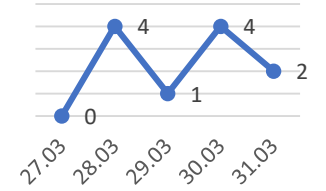
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The Situation Now

At the time of writing (31 March), the confirmed COVID-19 cases have reached 109 in Cambodia and keep increasing quickly worldwide.

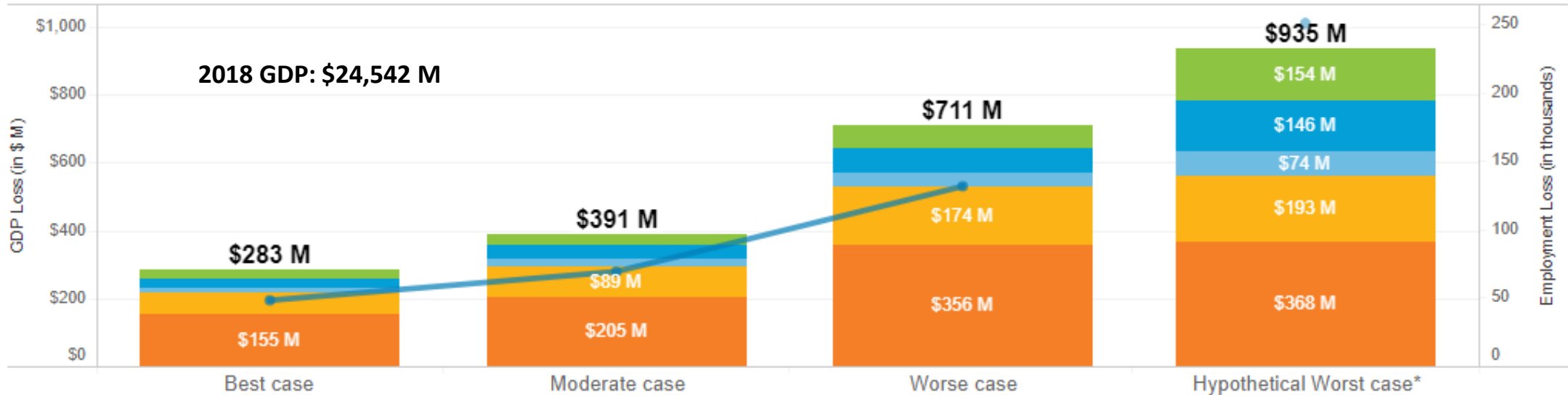
The key indicators

Date of first case: **27 Jan**
 Total number of cases: **109**
 Total recovered cases: **21**
 5-day new case trend



<https://covid19-map.cdcmoh.gov.kh/>

ADB Analysis of Cambodian GDP and Employment Losses from COVID-19 (by scenario)



Source: Asian Development Bank. ADB Briefs. The Economic Impact of the COVID-19 Outbreak on Developing Asia (March 2020)

These are “what-if” scenarios, meant to guide policymakers in determining how costly an outbreak could be.

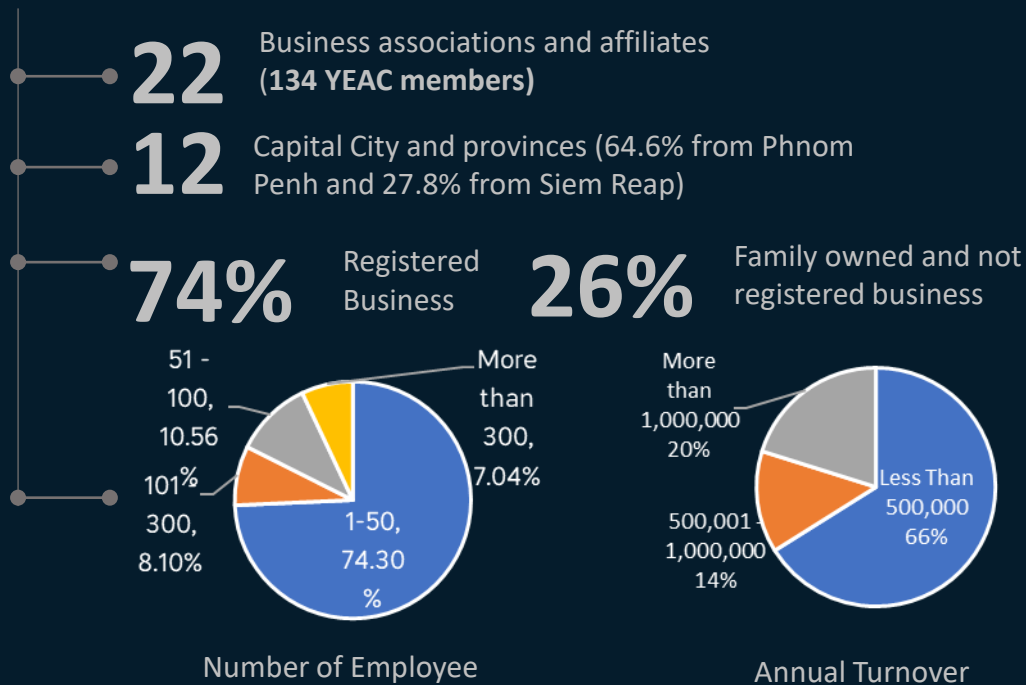
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The surveys findings

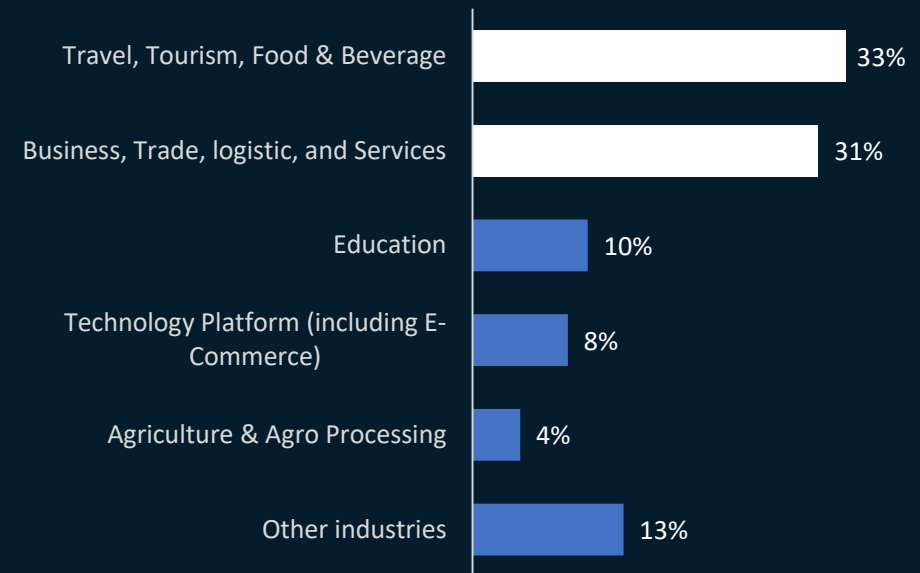
The survey, conducted between the 20th and 25th of March, consisted of 19 online questions using Google Forms. Its structure and questions are an adaptation of the ACCA Global COVID-19 Impact Assessment

284

Survey Responses

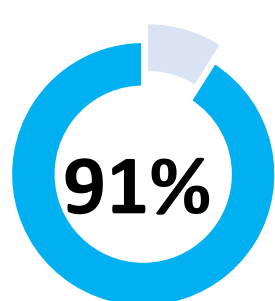


Industries participated in the survey

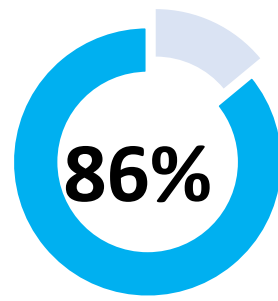


2.1 BUSINESS IMPACT

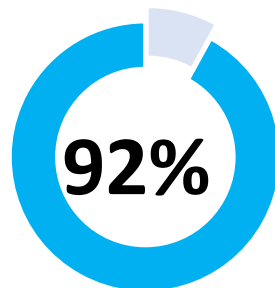
There are the four main areas of business that have been adversely impacted by COVID-19 so far.



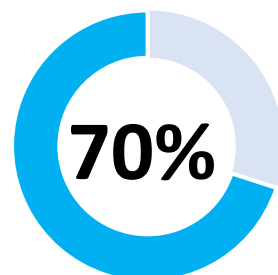
1. **Financial Impact** (cash flow problems, inability to repay or renegotiate debt financing obligation)



3. **Inventory price and quality, supply chain issues** (logistics networks - inbound and/or outbound)



2. **Employee productivity** negatively affected



4. **Decrease in consumer confidence, reduced consumption**, inability to fulfill customer's order, breach of contracts, delay in the launch of new products or services

Business impact by company size	Less than USD 500,000	USD 500,001 - 1,000,000	More than USD 1,000,000
1. Financial impact (cash flow problems, inability to repay or renegotiate debt financing obligation)	89%	95%	84%
2. Employee productivity negatively affected	89%	95%	89%
3. Inventory price and quality, supply chain issues (logistics networks - inbound and/or outbound)	84%	94%	80%
4. Decrease in consumer confidence, reduced consumption, inability to fulfill customer's order, breach of contracts, delay in the launch of new products or services	82%	94%	81%

Business impact by sector	Travel, Tourism, & Beverage	Business, Food Trade, logistic, & Services	Education	Technology Platform	Agriculture & Agro-Processing
1. Financial Impact (cash flow problems, inability to repay or renegotiate debt financing obligation)	95%	93%	69%	83%	88%
2. Employee productivity negatively affected	93%	90%	78%	88%	100%
3. Inventory price and quality, supply chain issues (logistics networks - inbound and/or outbound)	89%	87%	66%	80%	88%
4. Decrease in consumer confidence, reduced consumption, inability to fulfill customer's order, breach of contract, delay in the launch of new products or services	90%	86%	67%	77%	82%

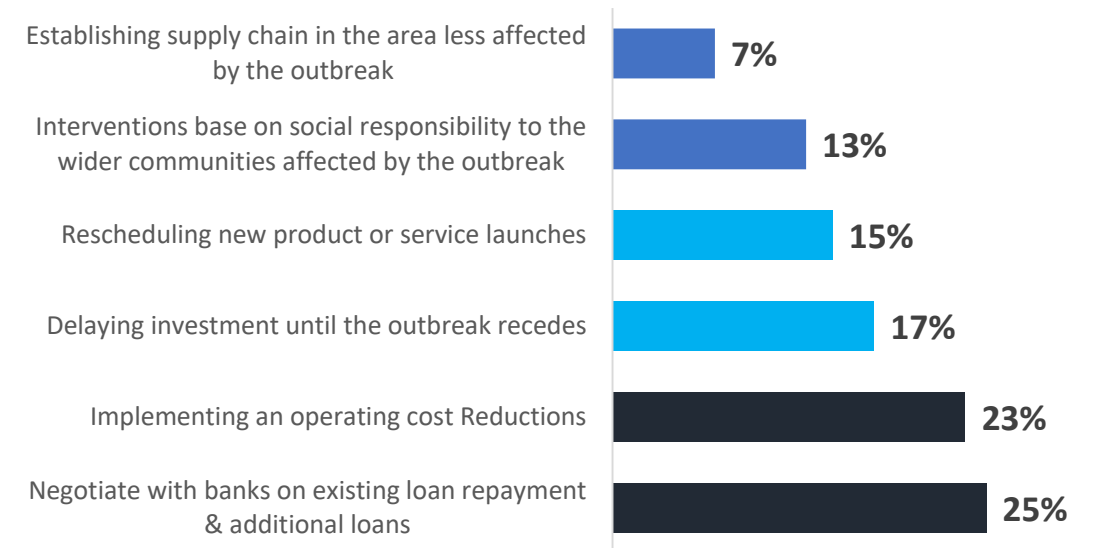
2.2 PRIORITIZED MEASURES

Due to the outbreak of COVID-19, MSMEs have taken various measures to mitigate the risk of contagion and the economic damage. In general, the prioritized measures by the MSMEs address the financial impact, staff remuneration and employments models. They focus especially on the health and safety of employees, suppliers, and customers. The following chart indicates the top three of measures that MSMEs have already put in place, are currently being actively considered or to be considered:

	Already put in place	Currently being actively considered	To be considered
1	Heightening healthy and safety practices of employees	Mitigating cashflow impact from operational activities by engaging with customers and suppliers, including tenancy agreements	Establishing supply chains in areas less affected by the outbreak
2	Enforcing increased health and safety practices on suppliers and customer delivery mechanisms	Adjustments to remuneration and employment models	Negotiating with banks and debt providers on debt service repayment obligations
3	Establishing communication mechanisms for employees, customers and partners related to COVID-19 measures	Evaluating our social responsibility to the wider communities affected by the outbreak	Rescheduling new product or service launches

If the COVID-19 outbreak continues to deteriorate for 3 to 4 months, the prioritized measures would be:

More than 65% would focus on dealing with financial impacts by (1) reducing the burden of external financing obligations and increasing liquidity with new loan, (2) looking inward for cost reduction opportunities and (3) delaying investments as these new activities require cash that is very much needed in the current situation.



2.3 PRIORITIZED MEASURES FOR EMPLOYEES

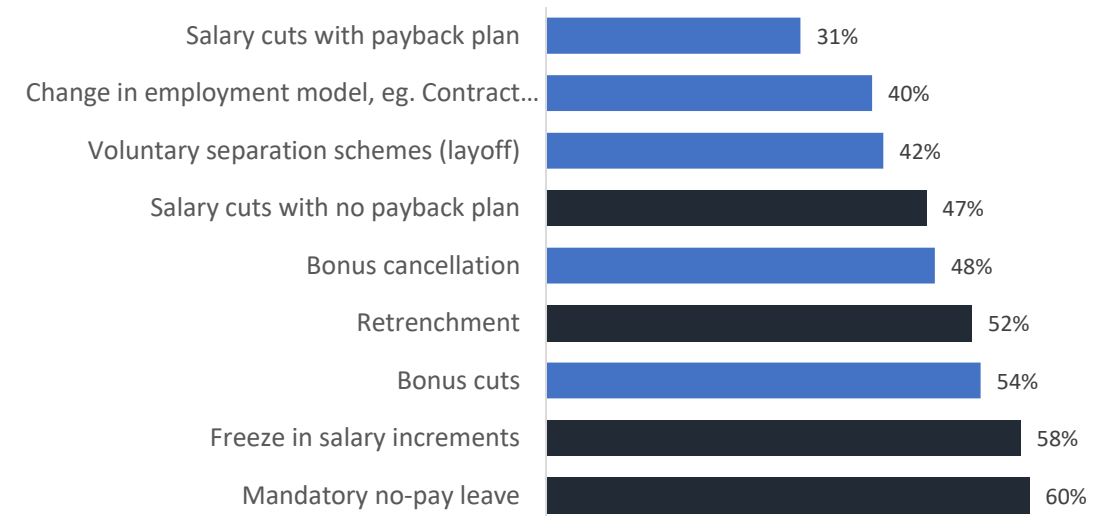
In response to the COVID-19 outbreak, the following TOP FIVE actions have been taken or are actively considered in dealing with employees:

	Already put in place	Currently being considered	To be considered
1	Recruitment freeze	Salary cuts with payback plan	Voluntary separation schemes
2	Freeze in salary increments	Salary cuts with no payback plan	Mandatory no-pay leave
3	Voluntary no-pay leave	Bonus cuts	Retrenchment
4	Salary cuts with no payback plan	Bonus cancellation	Salary cuts with no payback plan
5	Bonus cuts	Mandatory no-pay leave	Change in employment model (Contract base, part-time model)

If the COVID-19 outbreak continues to deteriorate over the next 3-4 months

~ 18,000 employees are at risk of losing their job or facing pay cut.

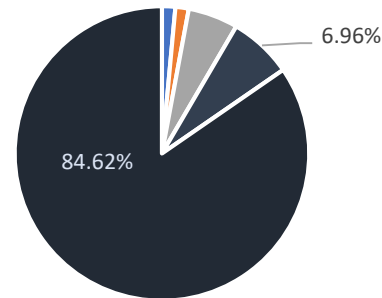
The impact would be bigger if all the business establishments in Cambodia were included. The estimate above is based on the intention of the surveyed businesses to implement mandatory no-pay leave, retrenchment, and/ or salary cut with no payback plan.



2.4 FINANCIAL IMPACT

Interestingly, **80.43%** of respondents have already re-forecast their 2020 budget by taking into account the impacts and uncertainty of this pandemic.

>85% of respondents expect to have negative growth of revenue and profit due to the impact of COVID-19 (92% expects the loss due to COVID-19). It is important to note that 58% of respondents expect more than 50% of negative growth of both revenue and profit.



COVID-19 is the reason of making loss

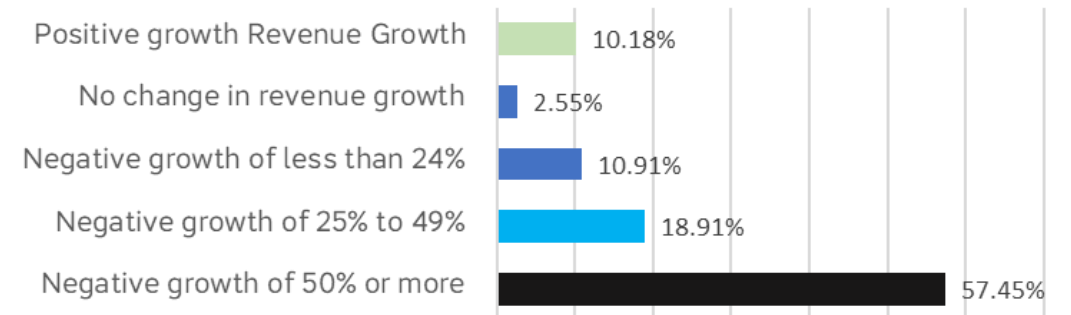
Based on this result, the potential loss of revenue for the 284 MSMEs is

~ USD 65 M

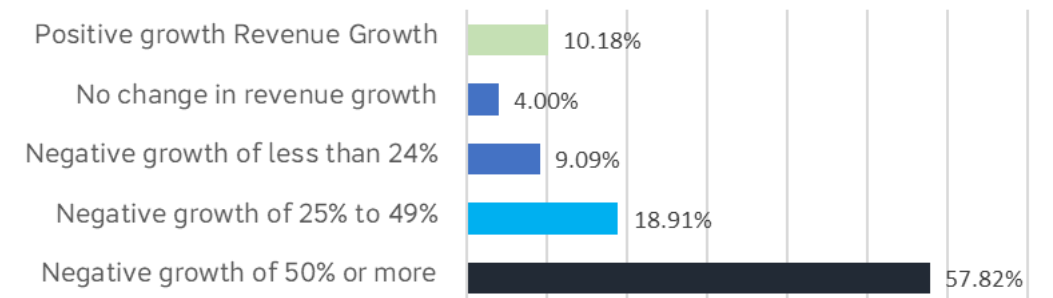
This estimate takes into account the size of the respondents' revenues and expected negative revenue growth.

Here are the respondents' budgeted revenue and profit growth

REVENUE GROWTH

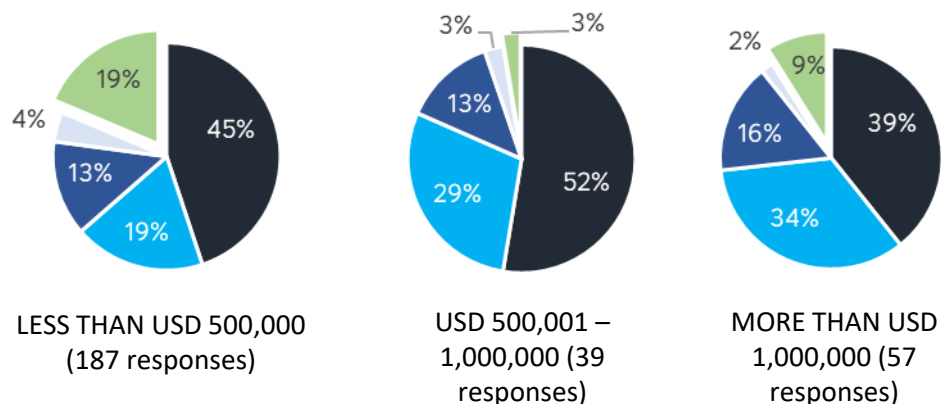
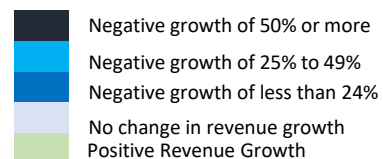


PROFIT GROWTH



Revenue impact by company size

2020 revenue comparing with 2019



Profit impact by sector	Travel, Tourism, Food & Beverage	Business, Trade, logistic, & Services	Education	Technology Platform	Agriculture & Agro Processing
Negative growth of 50% or more	70%	55%	45%	46%	58%
Negative growth of 25% to 49%	18%	19%	17%	29%	17%
Negative growth of less than 24%	1%	11%	17%	17%	8%
No change in revenue growth	5%	4%	7%	0%	0%
Positive growth Revenue Growth	5%	12%	14%	8%	17%

IMPERATIVE OF THIS TIME

Safeguarding life vs Safeguarding enterprise survival

Up to this reporting date, the safeguarding safety of employees and stakeholders has been the top of the response measures. However, if the pandemic continues to deteriorate over the next 3-4 months, safeguarding enterprise survival becomes the main priority.

Cash position, especially the ability to meet business viability obligations is expected to be negatively impacted. In addition, the results show that 58% of the companies expect a negative revenue and profit growth of more than 50%. Such a reduction would impact any business' financial position and survival.

	Does not have ability to pay	Donot know yet	Have Ability to pay
The ability to repay back loan to financial institution	65%	5%	14%
Accessing to emergency loan to keep business operation	71%	8%	12%
The ability to cover cost of electricity	57%	9%	6%
The ability to cover cost of rental	79%	12%	0%
The ability to cover the cost of staff salary and layoff	63%	0%	0%
The ability to pay 2019 annual tax as money is needed to survive during	39%	0%	0%

03

Recommended Policy Responses

The following are three main policy suggestions drawn from the findings that would be impactful for MSMEs survival.

1. RESOLVE

1.1 Temporary Tax Relief on Deferral of monthly tax payment

1.2 Banking Relief Program for Existing Loan

Managing immediate Liquidity Challenges

2. RESILIENCE

2.1 Working Capital loan program with Government risk-shared Scheme

Addressing near-term Cash Management Challenges

3. RETURN

3.1 Business Expansion loan/ investment program with Government risk-shared Scheme

Returning to Scale Quickly

Verifications were made to compare with existing practices in other ASEAN member states summarized by OECD as well <http://www.oecd.org/cfe/COVID-19-SME-Policy-Responses.pdf>

1. RESOLVE

With an expected extreme demand reduction resulting in a drop of revenue (more than 50% according to the survey) comes the raised need to protect immediate liquidity.

1.1 Temporary Tax Relief on deferral of monthly tax payment

The proposed postponement of monthly tax payment during the pandemic period are for (in the order of importance):

- a) **Salary & benefits related tax;**
- b) **Value Added Tax**
- c) **Withholding Tax**

Retention of this cash would provide much-needed cashflow to meet the most important obligations in paying their staff, utility and rental. The indebted tax payments can be reimbursed later on an agreed timeline (6 months would be an ideal situation).

1.2 Banking Relief Program for Existing Loan

Flexible repayment program for the existing loan with the financial institution based on the nature of the loan and the security provided to the respective loans.

This measure would free up cash for MSMEs to meet other urgent obligations.

2. RESILIENCE

Address near-term Cashflow Management Challenges

2.1 Working Capital Loan Program with Government risk-shared Scheme

Provide MSMEs access to Government risk-shared unsecured working capital loans with the following conditions (but not limited to):

- a) **Grace period for 4-6 months**
- b) **Flexible repayment schedule and terms**
- c) **Easy Loan approval requirements**
- d) **Possible consideration of digital lending platform to improve speed and reduce the cost of servicing MSMEs**

Access to this type of loan would provide MSMEs with sufficient funds to meet obligations, stabilize supply chains and launch the recovery process.

3. RETURN

3.1 Business Expansion loan/ Investment Program with Government risk-shared Scheme

Investment in growth will be needed for recovery.

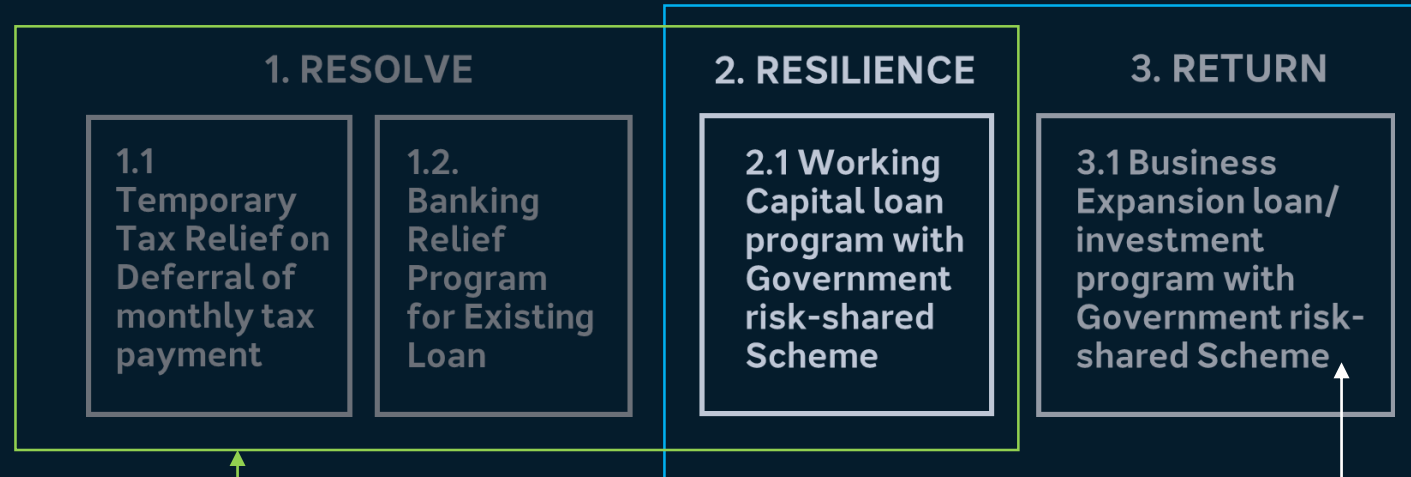
The business will need cash for the following activities (but not limited to):

1. Protect and reinstate employees from work-from-home
2. Reassure customers of a safe environment and the quality of service
3. Restore the supply chain
4. Reform the business process and model

04

Recommendations to Development Agencies working with MSMEs

Possible Government Policies



Possible Development Agencies' interventions

1. Cash & Liquidity Management support (in the form of Information, Education, or Advice)

2. Assisting in the compilation of financial statements and budget to access to unsecured financing based on data

3. Additional loan guarantee to commercial bank and MFI on top of the Government risk-shared scheme or in sectors that the scheme doesn't cover

4. Resilient Business Model and Financial Projection with scenario planning (in the form of information, education or advice)



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Addressing the immediate challenges of COVID-19 will be our top priority

However, it is also important to re-imagine and project the “next normal” after recovery - what will such a discontinued shift look like, how should a business remodel itself to increase its resilience and to be prepared for the next uncertainty.