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Conference on Assessment of Corruption in Cambodia's Private Sector

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Why this study?

- Private sector is an engine for economic growth
- Corruption is one of the major constraints to the private sector
- No clear study yet about corruption in the private sector (MSMEs in particular)
- Need for a study about corruption in the private sector to tackle the problems of corruption

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Methodology

Methodology

- Literature review
- Quantitative survey
- Qualitative interviews: public officials, business associations, etc.
- Focus group discussions (FGD): four FGDs in Phnom Penh and two FGDs in each other province
- An advisory committee

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Sample

- Field locations: Phnom Penh, Kandal, Battambang, Siem Reap, Sihanouk Ville, Kampong Cham, Banteay Meanchey, Prey Veng and Kampot.
- Sample: 1,200 of which 1,107 were reliable (micro-enterprises: 818; SME: 244; large enterprises: 45)
- Micro-enterprises: employees<10; SMEs: employees between 10 and 100; Large Enterprises: employees>100

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Sample Structure by Provinces

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	Micro		SME		Large		Total	
Location	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%
Total	818	100%	244	100%	45	100%	1107	100%
%	74%		22%		4%			

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Nature of Corruption

Honesty and Integrity of Officials

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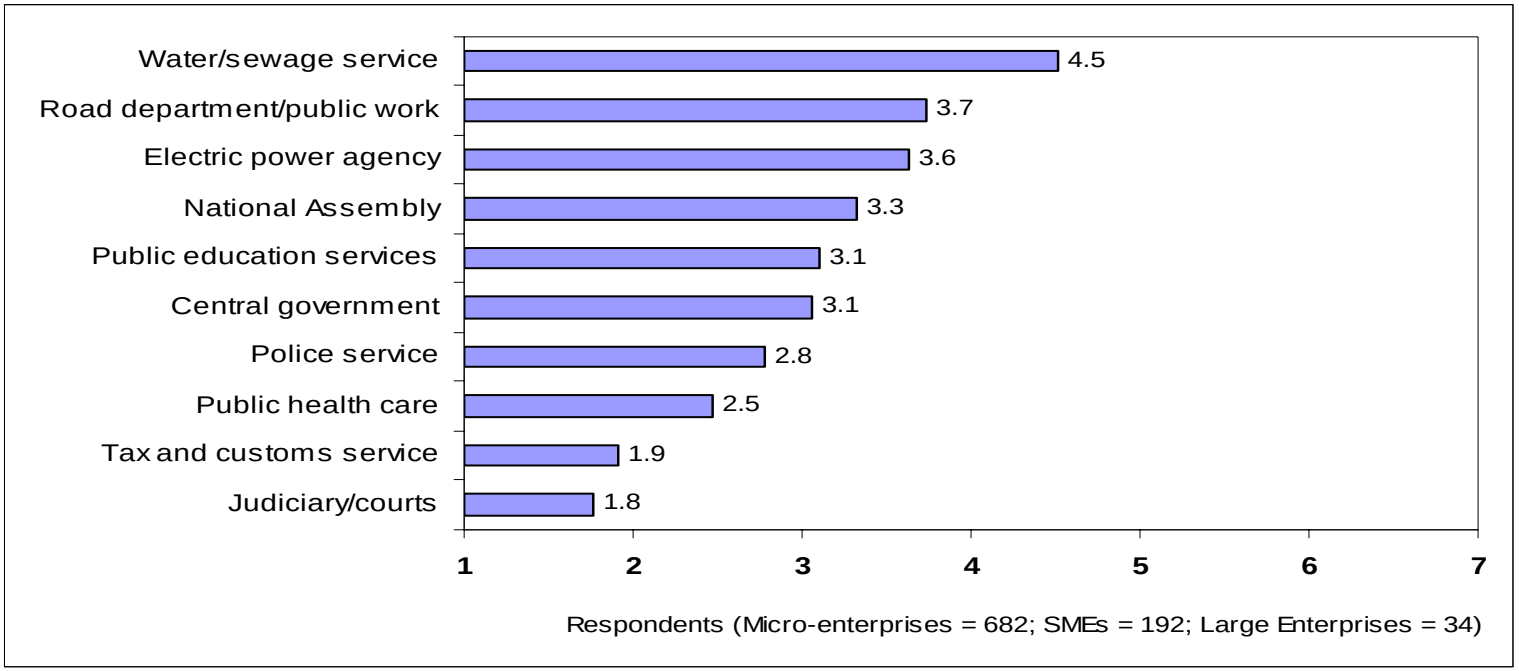
1 = not honest at all, 7 = very honest



- The private sector perceived that the most corrupt institution was the judiciary, followed by tax and custom services, public health care and police.

Frequency of Inspections

	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	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)*

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- Institutions that frequently visit enterprises include: tax authorities, police, local authorities, fire and building safety and environment.

Gender and Inspections

- Women entrepreneur-headed households face more burdensome inspections by public officials and thus pay more bribes
- This is because women headed households lack education and information regarding business regulations and laws as well as bargaining and negotiation skills
- Women are sometimes at risk of being sexually and verbally harassed

"When I was alone, 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."

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Predictability of Unofficial Fees

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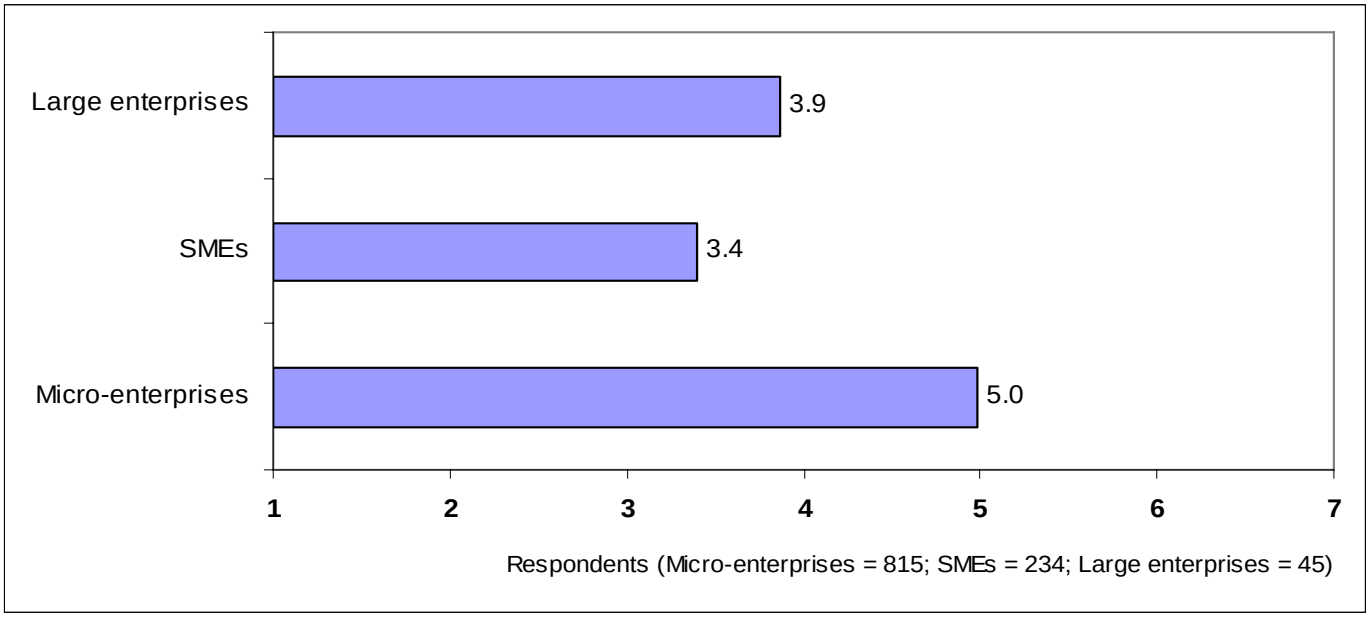
1 = never know, 7 = always know



➢ Micro-enterprises often know in advance how much unofficial fees they need to pay to public officials

Efficiency of Public Services and Unofficial Fees

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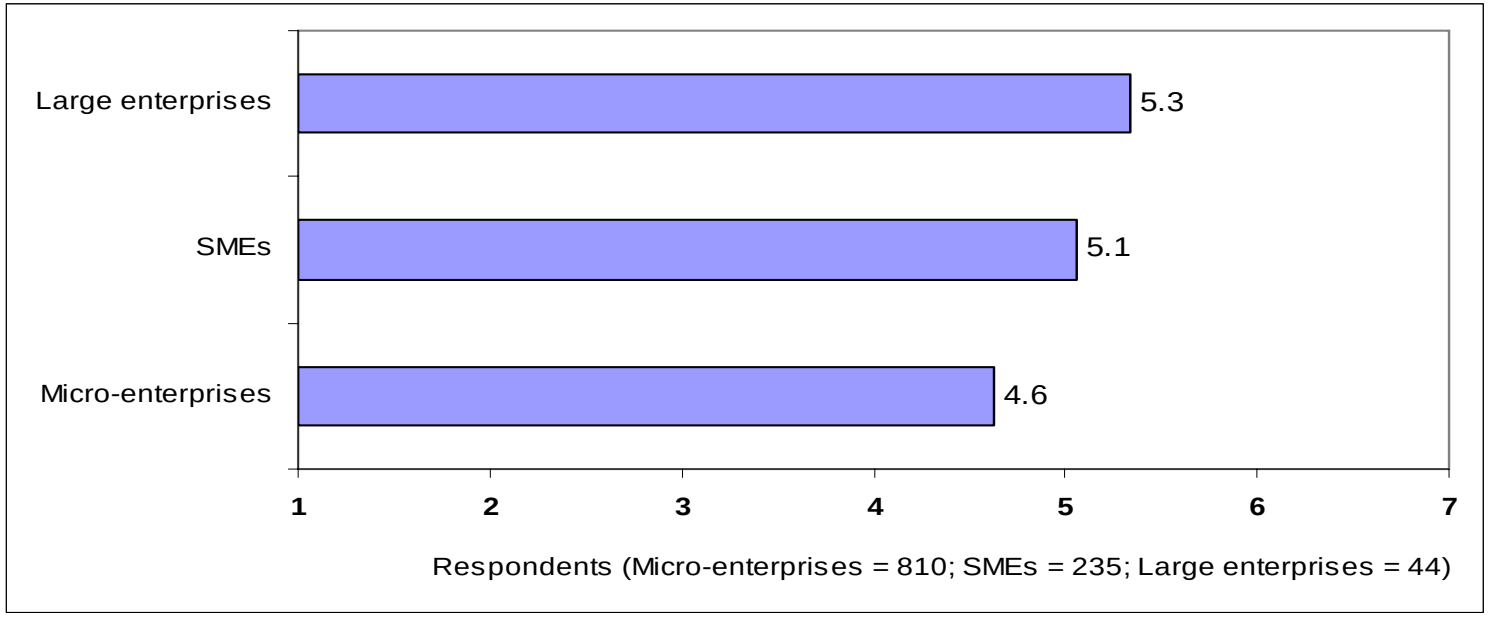
1 = not efficient at all, 7 = very efficient



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➢ The private sector perceived that once unofficial fees were paid, public services were efficient.

How the Informal Payments Occur

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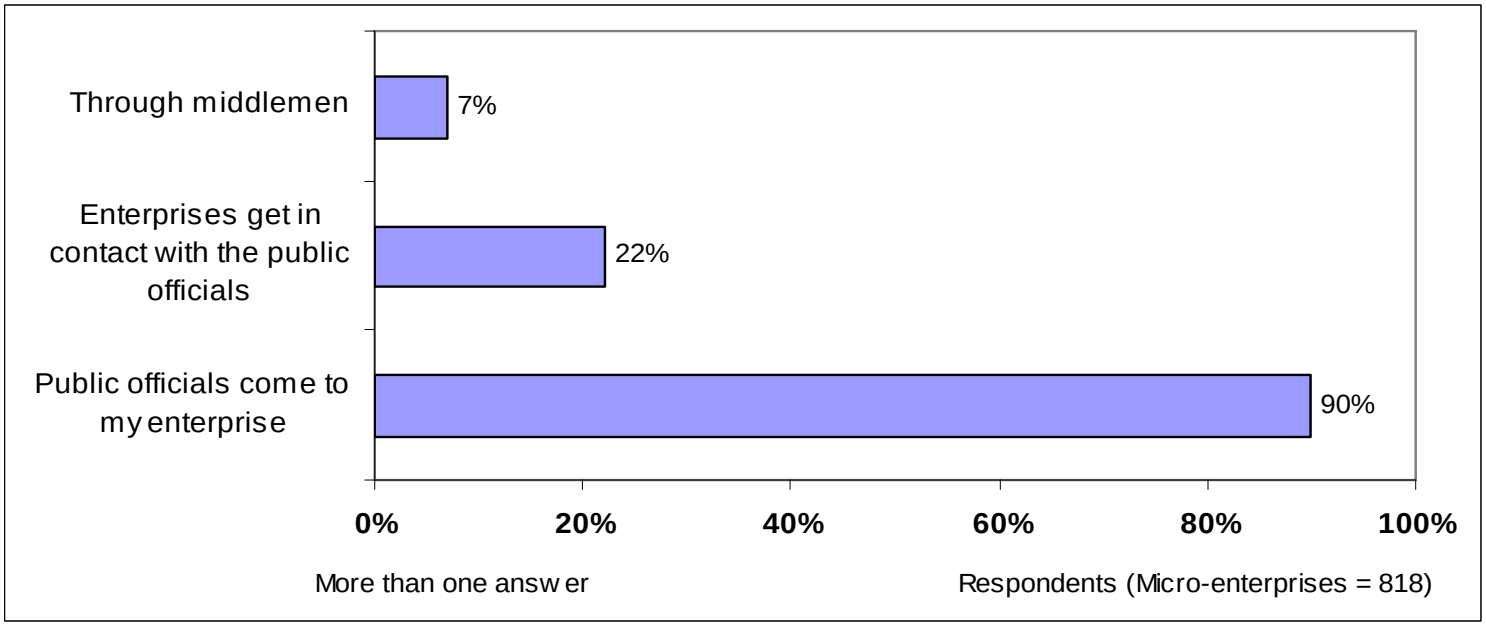

➢ Often public officials come to the premises of micro-enterprises for unofficial fees.

How the Informal Payments Occur

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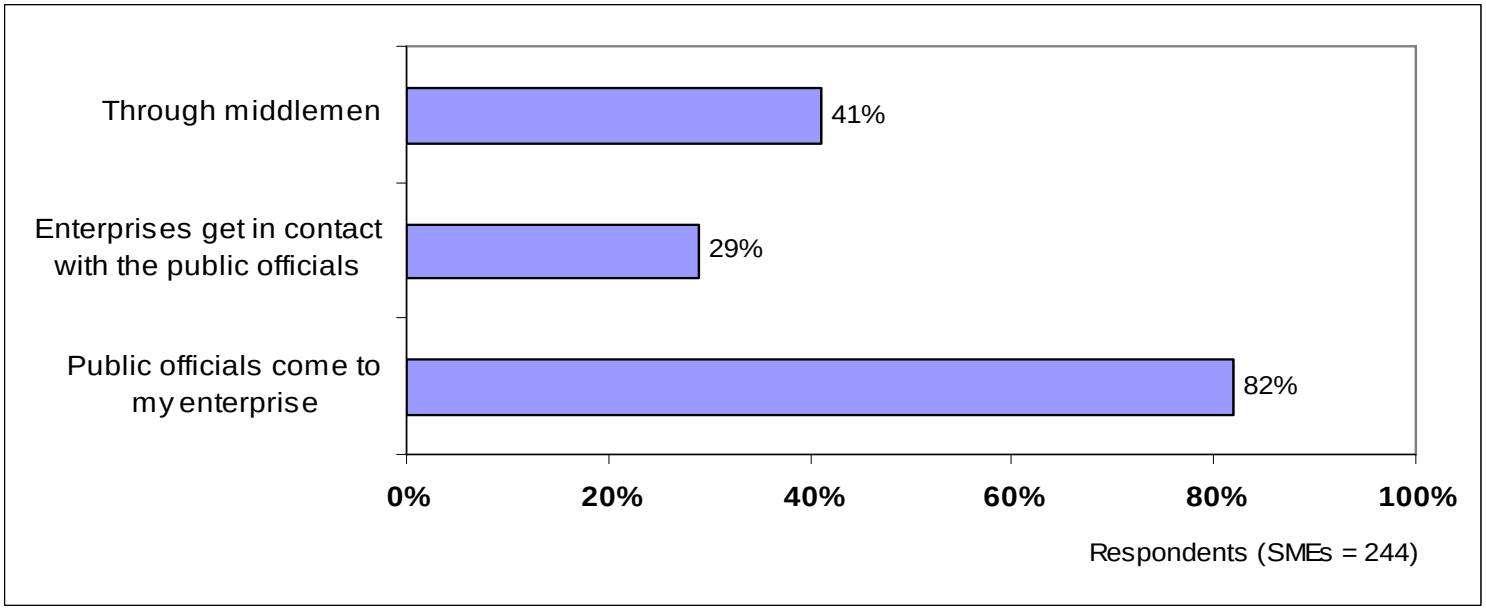
SMEs



➢ Public officials also come to SMEs for unofficial fees, but SMEs use more middlemen, compared to micro-enterprises.

How the Informal Payments Occur

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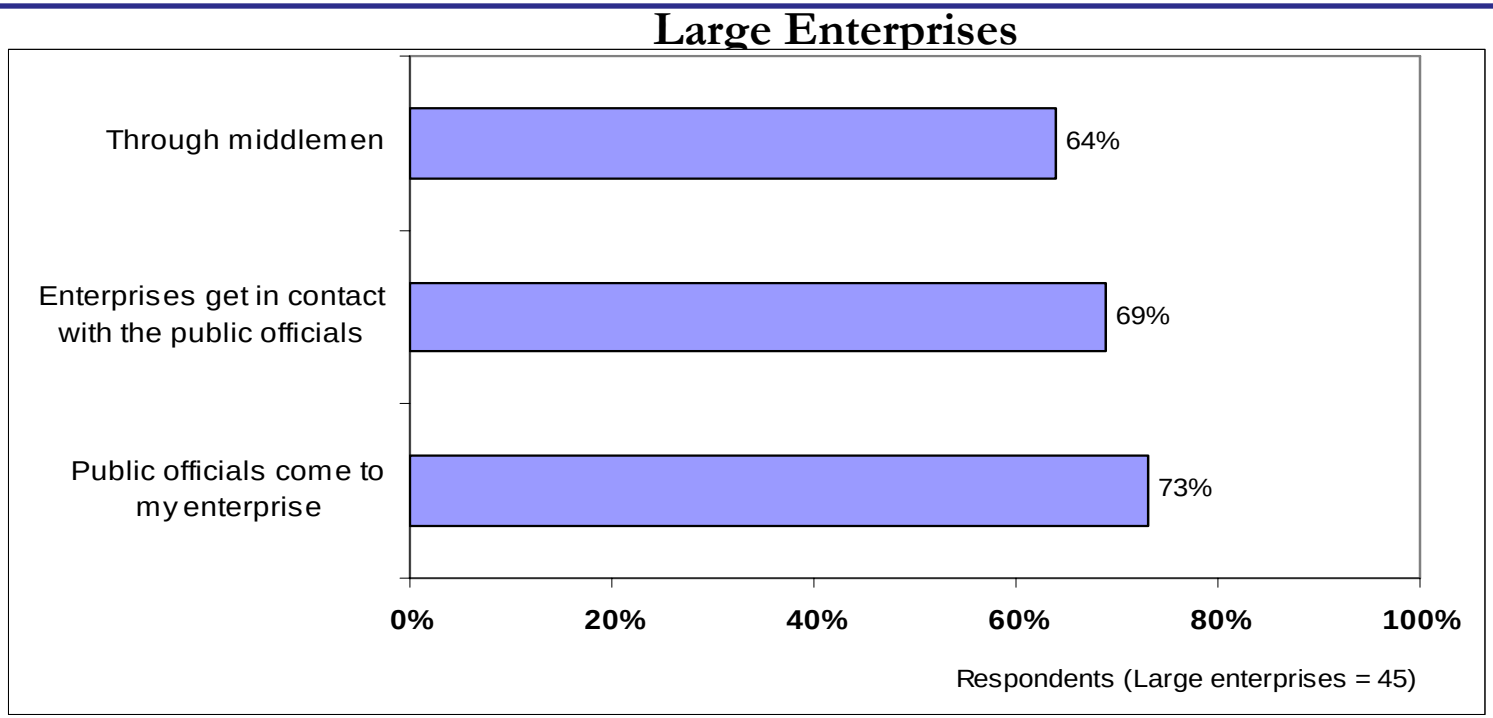

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- Public officials often visit large enterprises, but large enterprises also need to use lots of middlemen and also frequently have direct contact with public officials, compared to MSMEs

Causes of Corruption

Why Enterprises Pay Unofficial Fees?

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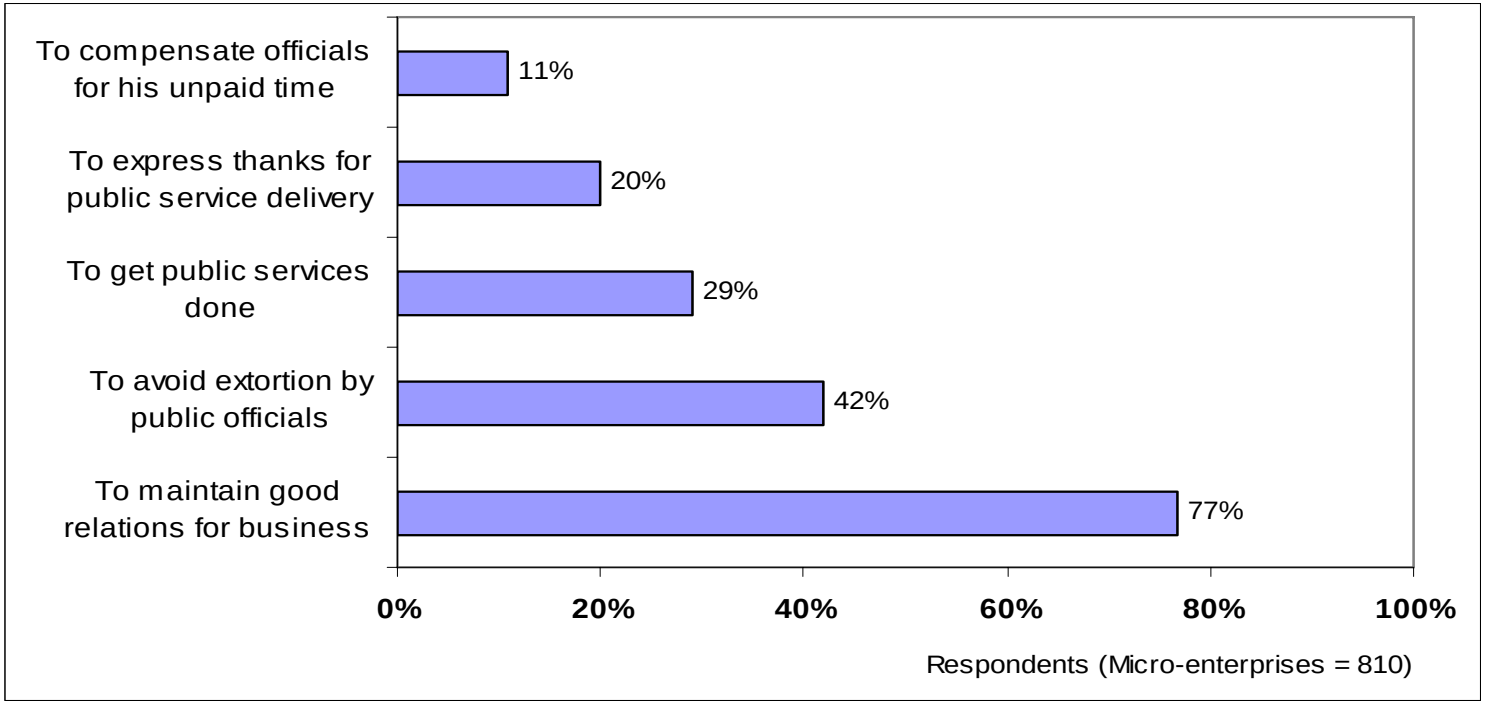

- Micro-enterprises pay unofficial fees mainly to maintain good business relations

Why Do Enterprises Pay Unofficial Fees?

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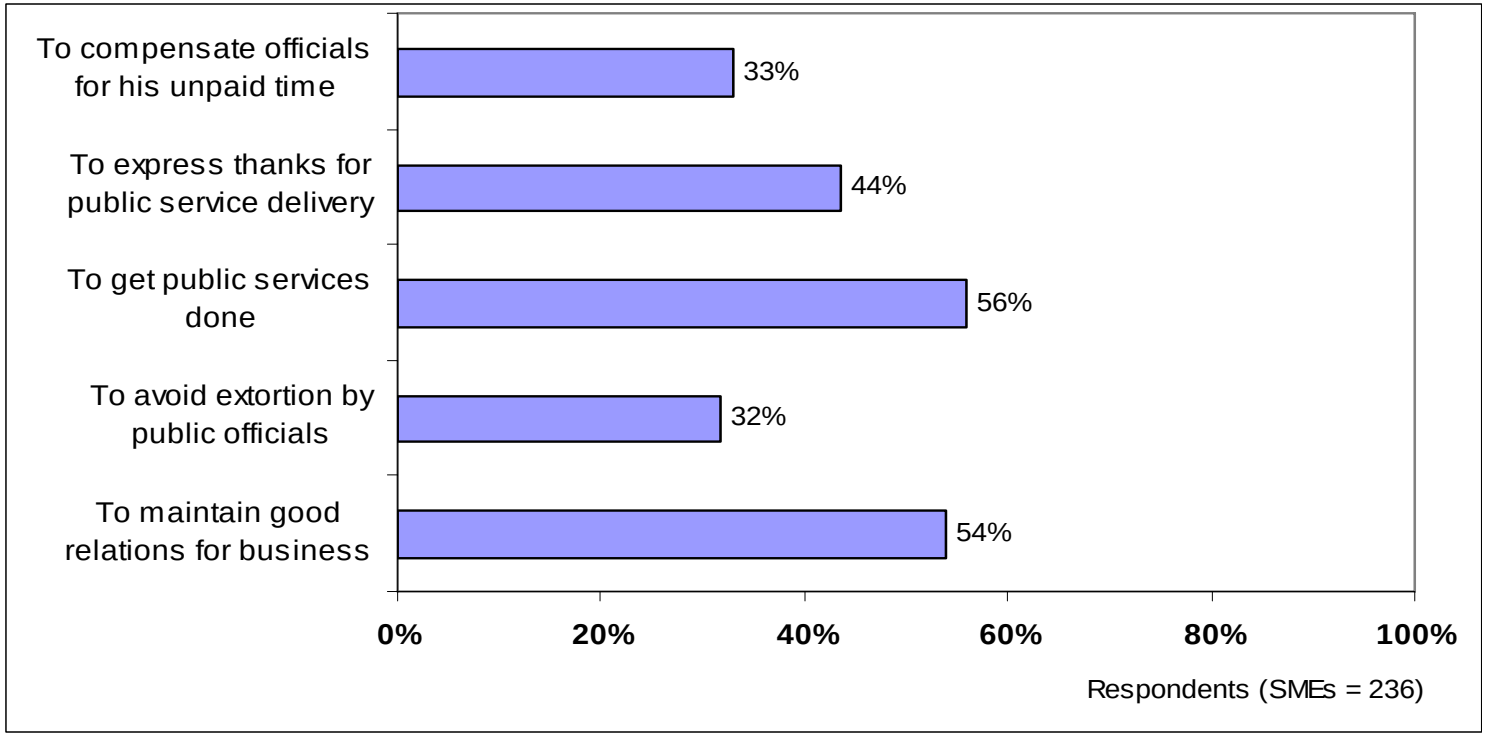

- SMEs pay unofficial fees to receive public services, and to maintain good business relations

Why Enterprises Pay Unofficial Fees?

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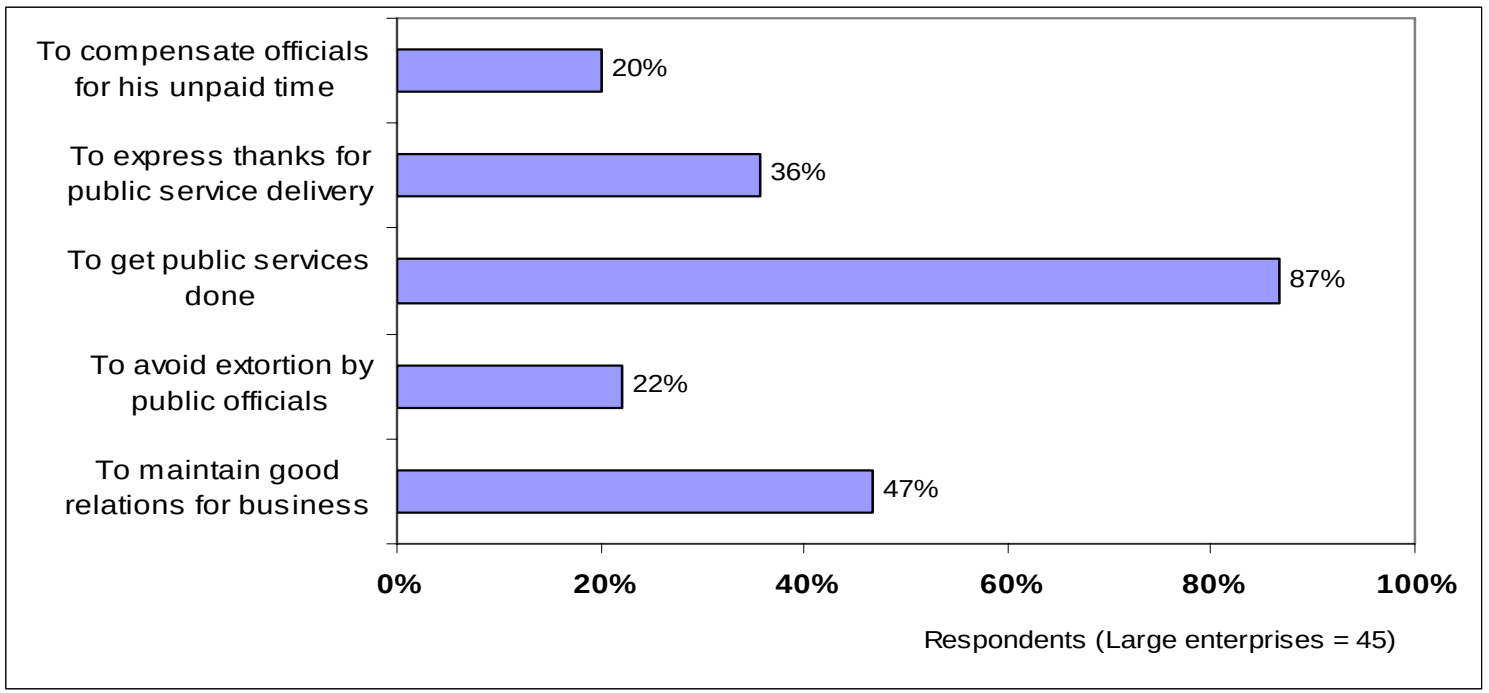

- Large enterprises pay unofficial fees mainly to receive public services

Perception of SMEs on Reasons for Unofficial Fees

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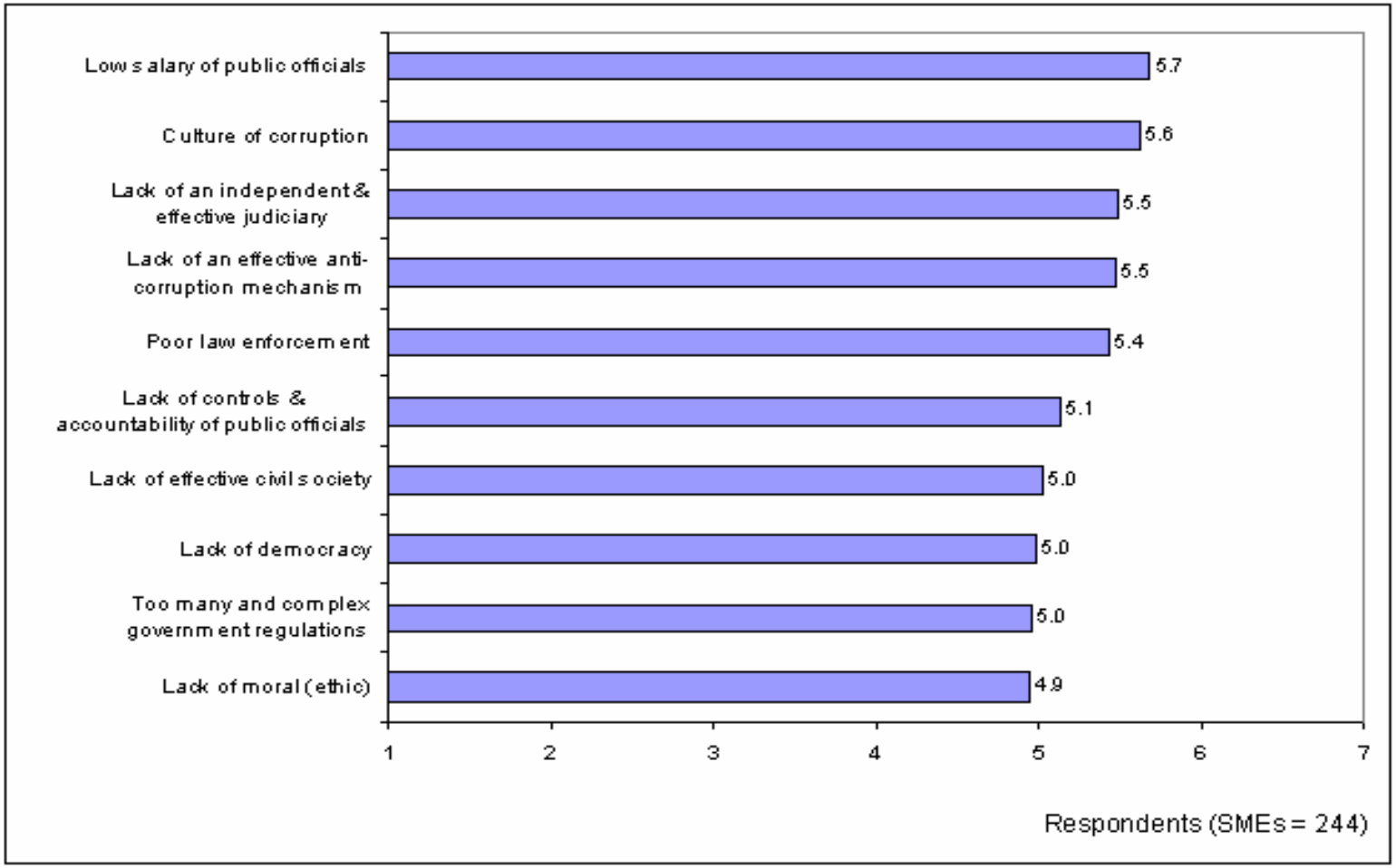

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Why Do Public Officials Ask for Unofficial Fees?

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- According to the perception of public officials:
  - Low salary of public officials, lack of an effective anti-corruption mechanism, culture of corruption, lack of an independent & effective judiciary, poor law enforcement
  - Major cause is low salary

"When we get thirsty while walking we must drink water, whether the water quality is good or bad."

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Extent of Corruption

Seriousness of Unofficial Payments

(1 = not serious, 7 = very serious)

	Micro	SME	Large
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	-
Average	**4.53**	**3.95**	**4.98**

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- Seriousness of unofficial fees depends on types, business locations, revenues of enterprises as well as public authorities that the business deals with.

Payments to Public Officials

(as Percentage of Turnover)

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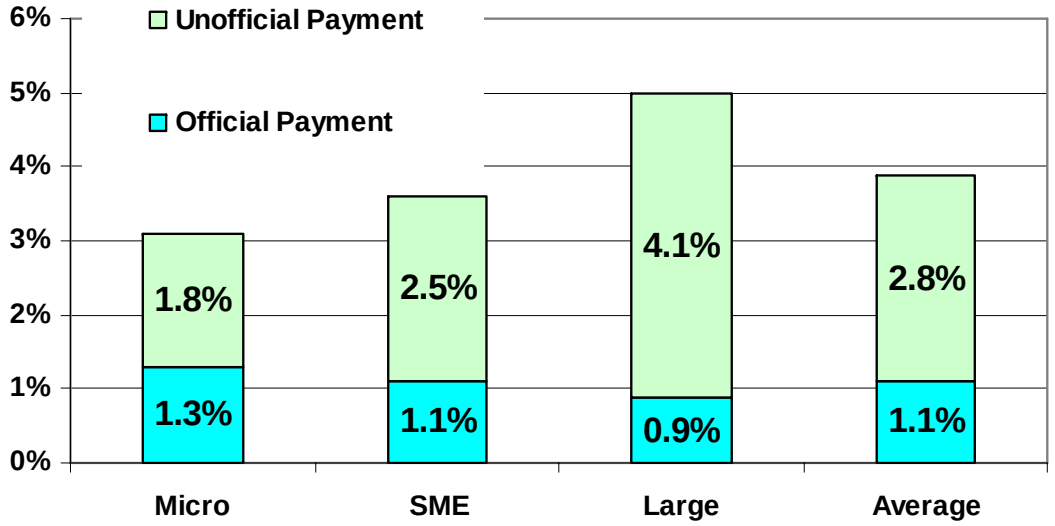

Source: *EIC, CAPS Survey, April 2006*

- The larger the firm, the more payments are required by government officials.

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Payments to Public Officials
(Million US$)

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

Source: *EIC's Projection based on the CAPS Survey, April 2006*
(*) Excluding the agriculture and public administration that do not pay tax

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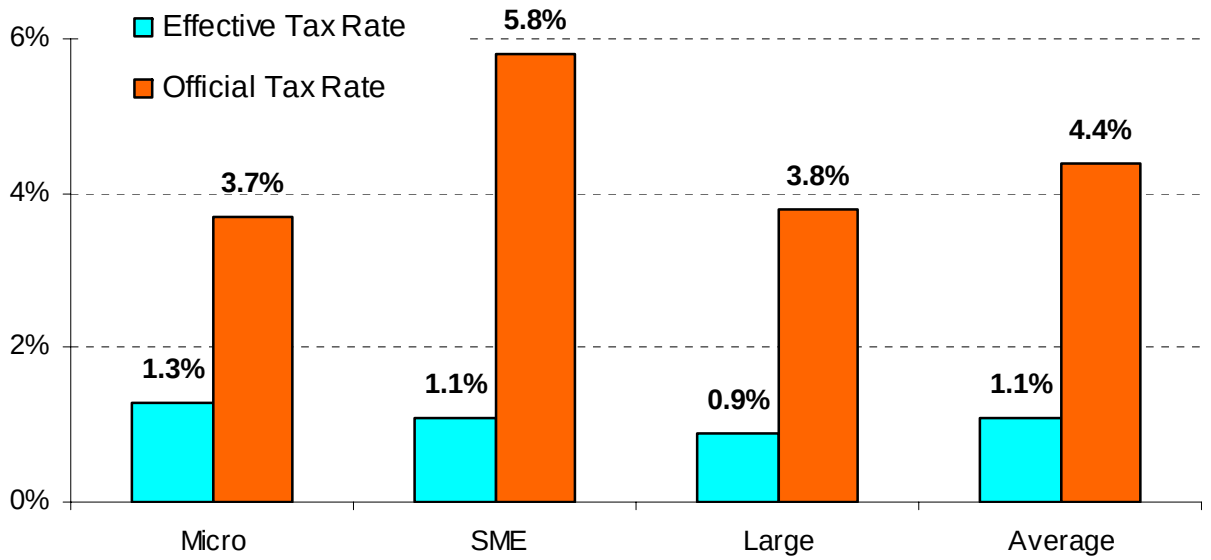
- The unofficial fees paid by the private sector reach US$330 million in 2005.

Effective vs. Official Tax Rate



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

- Only about 25 percent of the potential tax was collected from the private sector in 2005

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Potential Tax Evasion
(million US$)

	Micro	SME	Large	Average
Effective Tax Paid	50	46	34	130
Official Tax Amount	144	240	146	530
Potential Tax Evasion	94	194	112	400
Memorandum Items				
Turnovers	***3,885***	***4,154***	***3,805***	***11,844***

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

- The Government's potential loss in tax evasion represented about US$400 million in 2005

Impacts of Corruption on the Economy

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The estimated US$330 million of unofficial fees could be used for:

- Raising the salary of civil servants to a decent level of US$130 to US$150 a month on average
- Developing an irrigation system that could supply about 500,000 ha of cultivated land.
- Putting in place a suitable education system

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Recommendations

Effective Anti-corruption Mechanism

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- A good anti-corruption law (international standards):
  - Independence and autonomous budget of the anti-corruption body
  - Independent investigation authority of anti-corruption body
  - Anti-corruption body should be able to access asset declaration during investigation
  - Compatibility of the law with the criminal code and penal code procedure and confidentiality provisions

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Effective Anti-corruption Mechanism (cont.)

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- Enforcing Anti-corruption Law
  - Top-down vs. bottom up
  - Rotating of public officials
  - Clear policy and strong direction and control of high ranking officials over their subordinates
  - Recruitment, evaluation and promotion of public officials
  - Corruption reporting system

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Raising Salaries of Civil Servants

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- Enforcement of the law is more effective if civil servants have adequate salaries
- According to public officials, a salary between US$100 and US$150 per month would be enough
- Tax collection is important to enhance state income and thereby increase salary of public officials
- Tax system should be simple and transparent and the level of taxes for MSMEs should be considered so that there are incentives to pay tax

"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."

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Promoting Good Governance and Ethics

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- One window services
- Simplifying business laws, regulations and procedures
- Make business laws and regulations accessible at low costs
- Publishing official fees and disseminate to the private sector
- Educating everyone, the private sector and public officials to be honest

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Participation of the Private Sector

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- Every single member of the private sector should refrain from bribing public officials
- The private sector should take part in a counter-corruption community and associations
- Strong business associations will bring the private sector concerns closer to policymakers

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