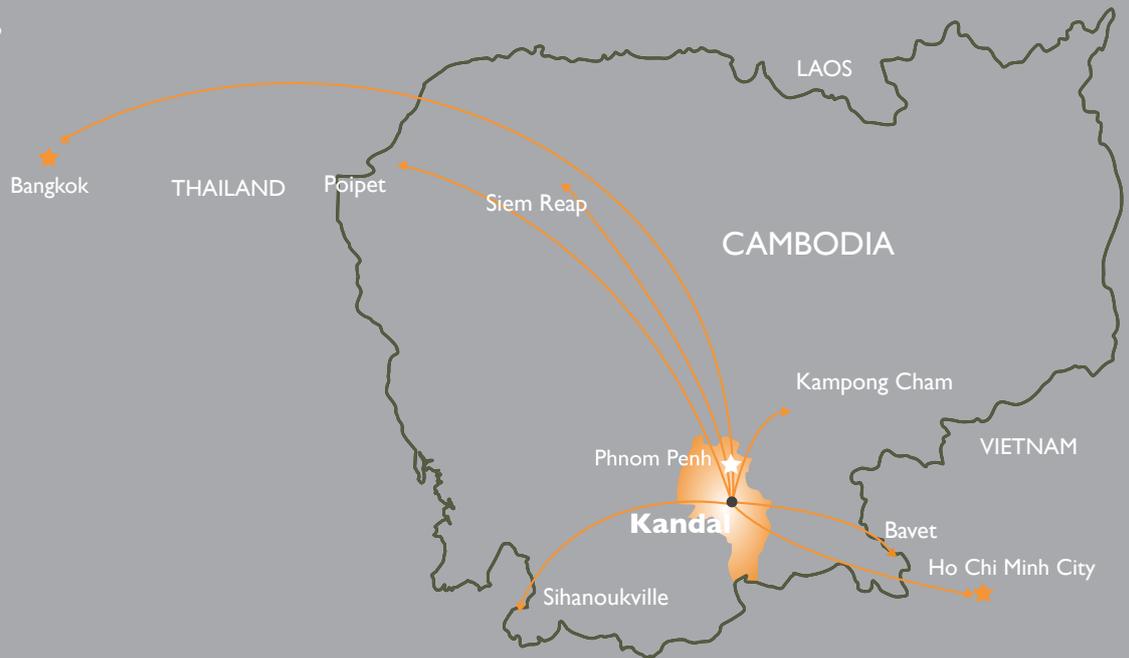


KANDAL PROVINCE

INVESTMENT PROFILE

OCTOBER 2008



KANDAL

The Center of Cambodian Business



USAID
FROM THE AMERICAN PEOPLE

DISCLAIMER

The authors' views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development (USAID) or the United States Government.



Kandal Investment Profile

Greetings from the Governor _____ p2

National Strengths _____ p3

Open Business Environment
 Inexpensive Workforce
 Strategic Regional Location

Why Kandal? _____ p4

1. Location, Location, Location
2. Labor Force – large, young, well-educated, inexpensive
3. Leading Special Economic Zones
4. Growing Financial Services Sector
5. Tourism
6. Diverse Electricity Supply

Key Provincial Industries _____ p5

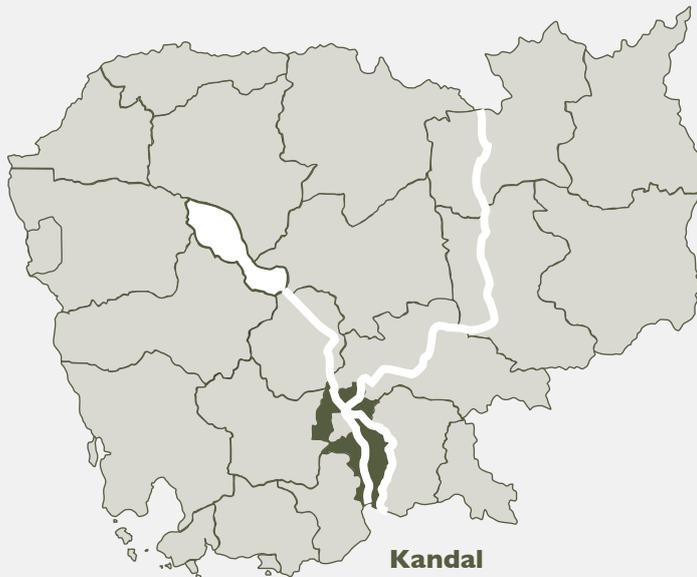
Business Opportunities _____ p6

Ongoing Developments _____ p7

Want to learn more? _____ p8

Statistics _____ p9

This Investment Profile was produced by Emerging Markets Consulting (EMC) for the USAID-funded Cambodia MSME project implemented by DAI.



Greetings from His Excellency the Governor

With its territory surrounding the nation's Capital, Kandal Province really is at the center of the Cambodia's economy. We dominate Cambodia's garment manufacturing, Cambodia's largest industry, and are home to countless other manufacturing and service businesses. We are, however, more than just clothes and shoes. Our province is a major agricultural producer, home to many horticulture and aquaculture businesses.

We also have a young, energetic, well-educated and hard-working population, providing Cambodia's best labor force and also a large market for domestically-oriented businesses.

All roads leading to and from Phnom Penh pass through Kandal – this has ensured that our province is well-served by highways and other infrastructure such as electricity supply. It makes our province an ideal place to set up business – we are central in every sense of the word. While close to Phnom Penh, we are also only 4 hours from Cambodia's only deep sea port in Sihanoukville. We also share a border with Vietnam, making international trade convenient and efficient and giving us access to cheaper electricity.

We are excited about the potential to broaden and deepen our industry base. As such, we openly welcome new investors, both local and foreign. We make it easy for you to register your business and get established.

I want to thank USAID for their assistance in developing this investment profile and appreciate their continued commitment to promoting private sector development in our province.

I look forward to working with new investors to help grow their businesses and our dynamic province.

Sincerely,

H.E. Chhun Sirun

Governor, Province of Kandal



National Strengths

Over the last decade, Cambodia has emerged as a vibrant and robust regional player with many of the underlying attributes necessary for successful business development and growth.

Open for Business

- Low corporate taxes – 20% tax on corporate profits (5 years carry forward of losses).
- No foreign ownership restrictions. Cambodia allows joint ventures or 100% foreign-owned companies to operate, with full rights to import and export almost all types of products.
- Equal treatment of all investors.
- Ranked ahead of China, India, Vietnam and Indonesia for economic freedom.¹
- No price controls on any products or services.
- No foreign exchange controls or restrictions on convertibility.
- No restriction on capital repatriation.
- WTO and ASEAN membership.
- No quantitative trade restrictions; falling tariff barriers. Cambodia has duty-free and quota access to major world markets (such as the United States, European Union, Japan and many ASEAN members).
- Provincial governments have authority to approve investments under US\$2 million to fast-track business development start-up.

“Cambodia is fully open for business and the Royal Government of Cambodia will try its best to guarantee a favourable environment and the success of every enterprise in Cambodia.”

- H.E. Samdech Hun Sen, Prime Minister of Cambodia

Inexpensive Workforce

Compared to many regional competitors, Cambodia enjoys relatively low wage rates, making it an attractive destination for labour-intensive industry.

Over recent years, Cambodia’s labor force has grown by over 50%, more than double the rate in any other ASEAN country.² And with a very young population (half are under 20), this labor force growth will continue.

1. Heritage Foundation, *Index of Economic Freedom*, 2008. <http://www.heritage.org/index/>

2. ILO, *Labour and Social Trends in ASEAN 2007 - Integration, Challenges and Opportunities*, 2007.

Wages in the garment industry³

Country	Hourly wage rate (US\$)
Cambodia	0.33
China	0.88 ^a /0.66 ^b
Pakistan	0.41
India	0.38
Indonesia	0.30
Bangladesh	0.39

Strategic Regional Location

Cambodia is ideally located in the heart of the most dynamic region in the world. Nestled between Thailand and Vietnam, Cambodia is part of the Greater Mekong Sub-Region’s Southern Economic Corridor stretching from Ho Chi Minh City to Bangkok.

Given its strategic position, Cambodia has enjoyed significant international support in building its transport infrastructure to facilitate trade within the country and with its neighbors. As a result, trade with Vietnam and Thailand is growing rapidly.



“You’ve got two of the biggest cities in Asia on either side of you. You’ve got 15 million people in Bangkok and 8 million people in Ho Chi Minh City, and things are increasingly happening between the two.”

- Edward Hopkins, CB Richard Ellis Group Inc.

3. Note: a) coastal areas; b) non-coastal

Source: O. Bargawi, *Cambodia’s Garment Industry – Origins and Future Prospects*, Overseas Development Institute, 2005.



Why Kandal?

I. Location, Location, Location

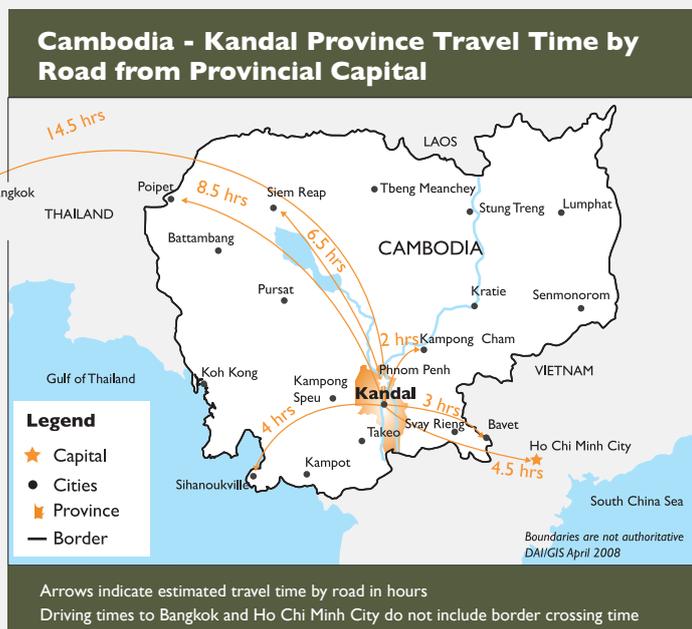
As they say in business, its all about location and Kandal province has it all. Kandal is located at the capital of Cambodia. It is adjacent to, and surrounds, Phnom Penh. This provides business with excellent access to suppliers, partners, markets and key government agencies.

Today, our province has become the new hot-spot for businesses seeking to escape the skyrocketing land and rental prices of the nation's capital while maintaining the benefits of the large market and central location.

The province has excellent transport infrastructure, serving local and export markets. Four major rivers flow for 260km through Kandal, providing a valuable natural resource and transportation opportunities.

Kandal is served by 12 national roads, running for 446km (11% of Cambodia's total). As a result, the province has six times the national average of kilometres of national road per square kilometre of area.

National Road #1 runs from Phnom Penh to Ho Chi Minh City, while National Road 4 runs to Sihanoukville, Cambodia's only deep-sea port. These roads are part of the ASEAN road network, and are therefore in excellent condition. They allow fast access from Kandal to Phnom Penh, Sihanoukville and Vietnam. New businesses are springing up in Kandal as a result.

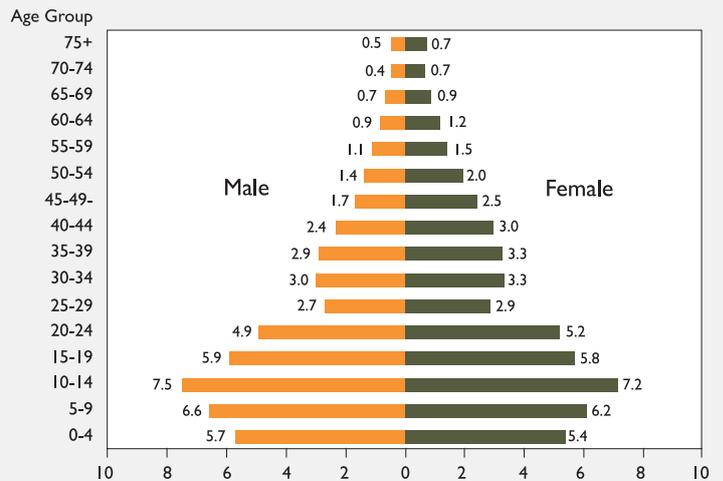


A new \$20m bridge at Chrey Thom will link Kandal with Vietnam (close to Chau Doc) via National Road #21. The bridge is expected to be completed in 2010, with the aim to increase cross-border commerce. Once completed, Kandal will have highway access to the Vietnamese port at Can Tho. Two garment factories have already moved to this border area of Kandal, where inexpensive land and labor are available.

2. Labor Force – large, young, well-educated, inexpensive

Kandal is one of Cambodia's most populous provinces with 1.3 million people. Around 40% of the population is under the age of 18 – our workforce will remain young and enthusiastic for many years to come.

Favorable demographics⁴



Outside of Phnom Penh, Kandal has the highest literacy levels in Cambodia — secondary school enrolment rates are well above the national average.

Spending on primary education as a share of GDP has increased significantly in Cambodia in recent years, and is now on a par with Thailand. Kandal is no exception to this. The government plans to continue increasing education spending.

Given our strong educational system, it is not surprising that Kandal's labor force is mature and well-trained to support non-agricultural businesses — 46% of the workforce is employed in the industry and service sectors (the highest outside Phnom Penh).

We take pride in having leading human resources to support our businesses and believe this is one of our strongest competitive advantages — let our people help grow your enterprise.

4. National Institute of Statistics, Cambodia Inter-Censal Population Survey 2004.



3. Leading Special Economic Zones

Our location has led to the establishment of two Special Economic Zones (SEZs) within our province — the Phnom Penh SEZ and the Goldfame Pak Shun SEZ.⁵

The 350 hectare Phnom Penh SEZ on National Road #4 is 8km from Phnom Penh airport and 18km from the city centre. This SEZ is expected to employ as many as 100,000 workers by late 2010. The 80 hectare Goldfame Pak Shun SEZ is in Sa Ang district.

These SEZs provide:

- Streamlined licensing.
- On-site, one-stop SEZ Administration Office for all paper work and approvals.
- Tax holidays of between 3 to 6 years.
- Full import duty exemption.
- No export taxes.
- World-class infrastructure.
- Electricity, water and sewerage and waste water treatment 10% cheaper.
- Industrial land can be leased for as little as \$0.50/m² per month.
- Factories can be rented for \$1.50/m² per month.

Investors in this SEZ produce and export garments, drinking water, electricity poles, and other light manufacturing products. Investments in the manufacture of cartons and motors are planned.

4. Growing Financial Services Sector

With a vibrant business community and a growing middle class, the financial services sector in the province is well developed. Two commercial banks serve the province through 15 branches.

We also account for over 10% of the Cambodian microfinance market – our businesses are provided the capital they need to grow.

5. Tourism

Residents of Phnom Penh seek refuge from the heat and congestion of the Capital in our province's natural attractions – our sandy river banks provide the perfect retreat. In 2007 Kandal received nearly one million tourists.

To capitalize on the growing economic prosperity of the country, Kandal is seeking to further develop several eco-tourism sites. The local government has identified 8 tourism sites:

1. Phnom Preah Reach Trorb in Ponhealeur district;
2. Phnom Prorset in Anksnoul and Ponhealeur district;
3. Koh Dach in Mok Kampoul district;
4. Saang Phnom in Saang district;
5. Wat Thon Mon pagoda in Saang district;
6. Wat Kien Svay Krav pagoda in Kien Svay district;
7. Wat Ankor Chey in Kien Svay district; and
8. Wat Phnom Reap in Anksnoul district.

Kandal has a number of historical sites, including the Angkor Chey and Kien Svay Krav pagodas. The province has a handicraft center and the government aims to encourage the silk production and processing in the Koh Dach commune.

We are keen to encourage further investment in our local tourism and hospitality industry and our provincial government stands ready to work with investors keen to develop this sector with us.

6. Diverse Electricity Supply

Kandal is well-supplied with electricity from a number of sources, including 2 generation plants in the provincial capital and 4 local independent power producers. Kandal is also served by generators in Phnom Penh and by imports of electricity from Vietnam.

Electricity supply throughout the province is expected to improve with further imports from Vietnam increasing over the next one to two years.

Key Provincial Industries

Agriculture

Kandal is well suited to agriculture. The province has 140,797 hectares devoted to agricultural production. Around 101,500 hectares of this is rice production, with yields above the national average. The main other crops are maize, sugarcane, soybean, and many varieties of vegetables and fruits. Kandal supplies fish, meat, and vegetables to Phnom Penh and to export markets.

The province is also a supplier of sweet palm juice to Confirel, which exports over 20 tonnes of sugar annually.

The province's Department of Agriculture promotes Good Agriculture Practices to ensure the quality and safety of all products and promotes post-harvest processing for local and export markets. Education in family integrated farming systems is encouraged to promote poverty alleviation. In all its agricultural development projects, the Department of Agriculture is ready to cooperate with development partners to help Kandal be one of Cambodia's leading agricultural areas.

⁵ The Phnom Penh SEZ straddles the border of Phnom Penh and Kandal provinces.



Kandal is one of Cambodia's largest fisheries producers, accounting around 15% of the freshwater fish catch and nearly 10% of total aquaculture production.

Industry

The garment industry is by far Kandal's largest, accounting for 62 factories and 70,000 employees.

In addition to garments, we have built the manufacturing infrastructure to support our other key sectors including shoe manufacturing, brick and tiles (to support the real estate boom in Phnom Penh) Cambodia, and many service industries.

Cambodia's first bio-ethanol plant has been built in Kandal. MH Bio-Energy Group says the plant will produce fuel for export. As much as 50,000 hectares of cassava plantation will be required to supply the plant.

A new water treatment plant began operating in Kandal's Kien Svay district in August 2008. The \$2m facility supplies water to local residents for 1,700 riel per cubic metre.

Activity	Number of enterprises	Number of employees
Garments, footwear and textiles	62	~70,000
Services (various, including finance, hospitality, education, etc)	31	23,181
Printing houses	2	na
Chemicals	2	150
Wood processing	2	100
Paper and cardboard box manufacturing	5	280
Animal feed	1	132
Bio-ethanol plant	1	na
Sand quarry	1	na

Many small and medium-sized business operate in our province, with 2,058 registered at our Provincial Department of Commerce. These SME businesses employ over 11,300 workers, mostly in food, drink and tobacco and non-metal processing.

A number of larger companies have moved their offices to Kandal, to be closer to production and to take advantage of cheaper business costs than Phnom Penh. Factories are moving to rural areas of Kandal to take advantage of lower costs, including cheaper electricity from Vietnam.

Business Opportunities

Our province provides a myriad of opportunities for new businesses, as evidenced by the types of companies already operating here. We see significant opportunity for businesses to take advantage of our competitive strengths through further investment in:

- **Agri-business**, particularly food processing. We significant scope to add value to our agricultural output. Our abundance of sugarcane, maize and vegetables offers opportunities. We also see good potential in swine raising.
- **Fish processing**. Kandal's provincial government is seeking further investment in fish processing for export markets and will work closely with investors to utilize the existing infrastructure to the benefit of new projects and businesses. The province has significant water resources in its numerous rivers and lakes. We will also help investors with technical assistance from our Agriculture and Fisheries departments working to improve farmers' output and productivity.
- **Light manufacturing**, including garments and electronics. Abundant inexpensive labor; infrastructure and supportive business environment. Koh Thom district, with cheap land, labor and electricity, will offer excellent access to Vietnam once the new Chrey Thom bridge opens in 2010.
- **Eco-tourism**. Opportunities exist to capitalise on the development of Koh Dach, Phnom Thunmun, Sa Ang Mountain and other locations.



Ongoing Developments

Although we are proud of our accomplishments, we continue to strengthen and improve our investment attractiveness. We remain active in building our business infrastructure and attracting leading business enterprises to our home. Some of the key developments under way include:

- The Royal Government of Cambodia’s *Diagnostic Trade Integration Strategy*. Under this program, many of Kandal’s products receive additional support. Products identified under this strategy include garments, footwear, light manufacturing fisheries, transport and tourism. Assistance includes trade facilitation and investment promotion, legal reforms, and the building of management capacity and local expertise.
- A number of development partners are aiding Kandal’s private sector development in key industries:

Project	DP	Sector
Improvement of Vegetable Production and Post-harvest Management Systems	ACIAR	Fruits & Vegetables, Chillies
Improving Understanding and Management of Rice Pathogens	ACIAR	Rice
Cambodia Australia Agricultural Extension Project Phase II	AusAID	Agriculture
Agriculture Quality Improvement Project	AusAID	Rice, Fruits & Vegetables
Agriculture Marketing Information Service Project	CIDA	Fruits & Vegetables
The Study on Comprehensive Agricultural Development of Prek Thonot River Basin	JICA	Rice
Northwest Irrigation Sector Project	AFD	Irrigation
Improve and promote agriculture	WOB	Agriculture
Chemical Use Reduction Project	FAO	Vegetables and rice
Cambodian Rice Knowledge Bank	ADB	Rice
Community Development Project	World Vision	Livestock and crops
Cattle Health and Production Improvement	ACIAR	Livestock
Cambodia Micro, Small, and Medium Enterprise (MSME) Project	USAID	Livestock, aquaculture, agro-processing, and clay tiles

Want to learn more?

For more information on investment opportunities and development in Kandal, please contact:

The Office of H. E. Ney Charey
Deputy Governor of Kandal Province
+855 (0)12 220 606
charey@camshin.com.kh

Mr. Prak Saran
Deputy Chief of Cabinet
+855 (0)12 779 956

Mr. Nut Song
General Secretary
+855 (0)12 932 667

Mr. Som Chivoan
Chief of Economic Office
+855 (0)11 715 705

Mr. Sek Sythoun
Department of Commerce
+855 (0)11 224 631

Mr. Heng Phenich
Director of Department of Industry
+855 (0)12 836 332

Mr Buntuon Simona
Director
Kandal Department of Agriculture
+855 (0)12 898 049

Mr. Cheang Ratanak
Director of Department of Tourism
+855 (0)12 738 687

Mr. Khlang Vanthul
Department of Fishery
+855 (0)17 771 881

www.cambodiainvestment.gov.kh
www.investincambodia.com

The Council for the Development of Cambodia -
Cambodian Investment Board
Tel: (855) 23 981 154
www.cambodianinvestment.gov.kh

National Institute of Statistics:
www.nis.gov.kh

National Ministries

Ministry of Commerce:
www.moc.gov.kh

Ministry of Economy & Finance:
www.mef.gov.kh

Ministry of Industry, Mines & Energy:
www.mine.gov.kh

Ministry of Labor and Vocational training:
www.mlv.gov.kh

Ministry of Land management, Urban Planning & Construction:
www.mlmupc.gov.kh

Ministry of Posts & Telecommunication:
www.mptc.gov.kh

Ministry of Public Works & Transport:
www.mpwt.gov.kh

Ministry of Tourism:
www.mot.gov.kh

Ministry of Agriculture, Forestry and Fishery:
www.maff.gov.kh

Other

Garment Manufacturers Association of Cambodia:
www.gmac-cambodia.org

The Government-Private Sector Forum:
www.cambodia-gpsf.org

Phnom Penh Chamber of Commerce:
www.ppcc.org.kh

Phnom Penh Small and Medium Industry Association
www.smecambodia.org

Kandal at a glance

Population:	1,280,781
Aged 15-64:	58.2%
Proportion employed in Agriculture:	51%
Provincial poverty ranking:	2/24
Land area:	3,568 km ²
Population density: (% of National Average)	452%
Number of Districts:	11
Number of Communes:	147

Kandal's soils

Type: Mostly Alluvial Lithosols. Closer to the banks of the Mekong and Tonle Sap rivers, soils are Brown Alluvials. In the north-west of the province, Red-yellow podzols are common.

Fertility level: high

Cambodia Tax Rates

Profit tax	normal	20%
	incentive rate	0% or 9%
Minimum tax		1% of turnover
Withholding tax		15%
Income from property rental		10%
Payment to non-residents		14%
Tax on salary (riel per month)		
0-500,000		0%
500,001-1,250,000		5%
1,250,001-8,500,000		10%
8,500,001-12,500,000		15%
12,500,001 +		20%
Non-residents	flat rate	20%
Fringe benefits tax		20%
Value added tax		10%
	exports	
Property transfer tax		4%

Cambodian macro-economic data

	2005	2006	2007	2008f	2009f
GDP growth (%)	13.5	10.8	9.6	6.5	6.0
Exports growth (%)	12.6	19.2	8.1	5.6	8.5
Exports (% GDP)	64.2	68.0	66.7	65.7	66.1
FDI (\$m)	375	475	598	660	759
FDI (% GDP)	6.0	6.5	6.9	6.7	6.8

Business costs

Land	Sale (per sq.m)
Phnom Penh	\$350-\$2,000
Commercial land	\$30-\$100
Other area	\$4-\$30
Rural	\$0.50-\$5
Office space	Rent per month
Prime	\$9-11/sq.m
Secondary	\$6-8/sq.m
Factory rental	\$1.50-\$2.50/sq.m per month
Warehouse rental	\$1.00-\$2.50/sq.m per month

Electricity tariffs in Phnom Penh (excl. SEZs)

Industrial	kWh/month	Tariff (riel/kWh)
	<45,000	600
	45,000-130,000	550
	>130,000	500
	Medium voltage	480
Commercial	kWh/month	Tariff (riel/kWh)
	<45,000	650
	45,000-130,000	600
	>130,000	500
	Medium voltage	480

Industrial gas supply	\$0.32/kg
-----------------------	-----------

Labour costs

Labour costs	Salary, \$ per month
Senior Manager	1,000-1,500
Middle Manager	500-1,000
Entry level Manager	240-400
Accountant	250-400
Secretary	120-150
Office clerk	100-120
Driver	100-120
Janitor	50-80
Laborer	50-80
Garment worker minimum wage	60

KANDAL PROVINCE

INVESTMENT PROFILE

