

# ***Integrated Framework for Technical Assistance for Trade Development in Least Developed Countries***

**24 JULY**

## ***Cambodia - An Integration and Competitiveness Study Terms of Reference***

### ***1. General objectives of the Integrated Framework (IF)***

The Integrated Framework (IF) was established by WTO trade ministers in 1996 to promote the integration of the least developed countries (LDCs) into the global economy.<sup>1</sup> Participating agencies include the World Trade Organization (WTO), the International Monetary Fund (IMF), the International Trade Center (ITC), United National Development Program (UNDP), United National Committee for Trade and Development (UNCTAD), and the World Bank (WB). While early work had been initiated by the UNDP office in Antananarivo in March 2000, progress in mobilizing donor support proved difficult, and the program started slowly.

An independent review of the IF, completed in June 2000, highlighted the lack of linkages to overall development strategies or programs and the absence of donor resources. Following the meeting of the Heads of Organizations last summer, the IF was redefined to ensure better integration of trade with national development strategies and complemented by a trust fund for IF activities. A specific objective of the IF is to increase the benefits that least developed countries derive from trade-related Technical Assistance (TA) made available to them by the international community.

The revised IF initiative has decided to start the process with three pilot countries, Cambodia, Madagascar and Mauritania. These pilot studies are scheduled for completion by November 2001. The IF work program in a country starts with the preparation of a diagnostic trade integration study that covers:

- the progress of competitiveness - changes in the trade regime of the country and of market access in developed countries; of the regulatory framework in the country and its impact on transaction costs; efficient import substitution

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<sup>1</sup> This comprises a group of 49 mostly African countries, and Cambodia, Myanmar, Samoa, Lao Peoples Democratic Republic, Solomon Islands, Tuvalu, Kiribati, Vanuatu in East Asia; Afghanistan, Bangladesh, Nepal, Bhutan Maldives in South Asia; Yemen in MENA; and Haiti in LAC.

- the impact of increased integration in the world economy on poverty.

Each country study is to be undertaken by a team of local and international experts, relying on a participatory process to maximize the capacity building effect in the country.

The World Bank is taking the lead in this task, while funding is provided by a trust fund financed by the multilateral and bilateral agencies participating in the initiative supplemented by resources of international agencies in terms of staff contributions.

Based on the findings of the diagnostic study, the team will:

- suggest a program of TA to strengthen the overall competitiveness of the economy and of the sectors selected for more detailed analysis (a draft IF report will be presented to the Government and the donor community for discussion and action).
- hold a “trade specific” workshop or seminar in the country to discuss the draft report with relevant parties, including the donor community, and civil society, with a view to raising the profile of trade issues within the overall context of the Poverty Reduction Strategy Paper (PRSP). Governments are expected to include the major conclusions in the updated PRSP document.

In June 2001 the RGC, with support from UNDP and ITC, presented its pro-poor trade strategy at the third Cambodia consultative group meeting in Tokyo (referred to as the Tokyo Road Map) this strategy spells out Cambodia’s needs and priorities to be addressed in the IF. The following terms of reference build on these identified priorities.

### *Consultations with stakeholders*

The RGC has mandated the MOC to put in place and lead an interministerial steering committee to formulate and implement the country’s pro-poor trade sector strategy, including the work done under IF auspices. The MOC will be the focal point for the study and individual terms of reference and work plans including surveys will be carried out in close consultation with MOC. The steering committee will also include the resident representatives of the UNDP, the IMF and of the World Bank, as well as national counterparts from the public sector Ministry of Planning (PRSP Secretariat), Ministry of Economy and Finance, Ministry of Agriculture, Ministry of Industry, Council for Development of Cambodia and the Council of Ministers). The IF study team will work out of MOC offices and the MOC will co-ordinate participation in the project by other Ministries and private sector participants.

A precondition for undertaking the integration studies is a commitment to incorporate trade analysis into the PRSP preparation process. RGC is currently formulating a national poverty reduction strategy. The fully fledged PRSP paper will build on and expand the Interim - PRSP submitted to the Executive Boards of the IMF and the World Bank in January 2001. The Ministry of Planning is the designated focal point to coordinate the efforts of the entire Government in the formulation of the overall national poverty reduction strategy. This process of preparing the PRSP

has been designed to involve a variety of participation and consultation mechanisms with stakeholders so that discussions on trade will occur as part of the broader participatory mechanisms associated with the preparation of the PRSP. Under the IF these will be supplemented by at least one 'trade specific' workshop or seminar in the country to discuss the draft report with relevant parties, including the donor community, chambers of commerce, and civil society, with a view to raising the profile of trade issues within the overall context of the PRSP.

### *Capacity-building*

The Tokyo Road Map presented by the RGC in June 2001 sets out several key principals for policy development. These include:

- strengthening the capacity of the MOC to lead and manage formulation and implementation of a pro-poor trade sector integration strategy.
- the need for such a strategy to be supported by a wide range of stakeholders including:
  - a Business Forum Initiative involving seven working groups
  - sectoral working groups
  - donor groups working through consultative mechanisms

Cambodia's IF strategy study will be conducted to draw on these processes for consultation and openness. The Government is committed to supporting appropriate consultative mechanisms in the course of the IF study. At the same time, many of the issues and areas identified in the diagnostic study will need to be followed up in the context of the PRSP process both with the Government and with the supporting institutions and donors.

Local consultants and representatives of the private sector will be active members of the mission to prepare the integration study. They will participate in firm interviews which will be key to a better understanding of the fundamental determinants of competitiveness. Such contributions will be critical to ensure that the foreign consultants are sensitive to the special conditions of Cambodia, and to facilitate appropriate follow-up through local workshops, policy debate and project implementation. The RGC is particularly concerned that the IF 'leave behind' established links for government and private sector to access people and information through information technology (IT). Consultations will also be held with representatives of professional organizations and universities to draw in their perspectives, raise the profile of the issues, and prepare for the discussion of its findings in the follow-up mission.

At the end of the main mission through August 2001, the team leader will assist the counterpart national PRSP team to incorporate the preliminary results of the integration study into the PRSP. The second follow-up mission will develop a series of workshops where the findings of the study can be extensively discussed and made more operational both within Cambodia and with the donor community.

## ***2. Selection of Cambodia in the pilot program***

The RGC Pro-Poor Trade Sector Strategy for Cambodia presented at Cambodia's Third consultative Group Meeting in Tokyo in June 2001 (The Tokyo Road Map) sets out a starting point snapshot of the Cambodia Economy; an end point in terms of a pro-poor integration strategy and principles — including ownership and partnership — processes and mechanisms for developing this strategy. The Road Map proposes to utilise the IF to provide financial and technical support to formulate the PRSP – and sets out specific principles and methods for doing that.

Thus the RGC has shown significant interest in securing support for trade integration into the global and regional economy. Furthermore, the Government has shown both resolve and application to own and develop the PRSP process with the Tokyo Road Map document setting out its planned approach for drawing on the IF to do this.

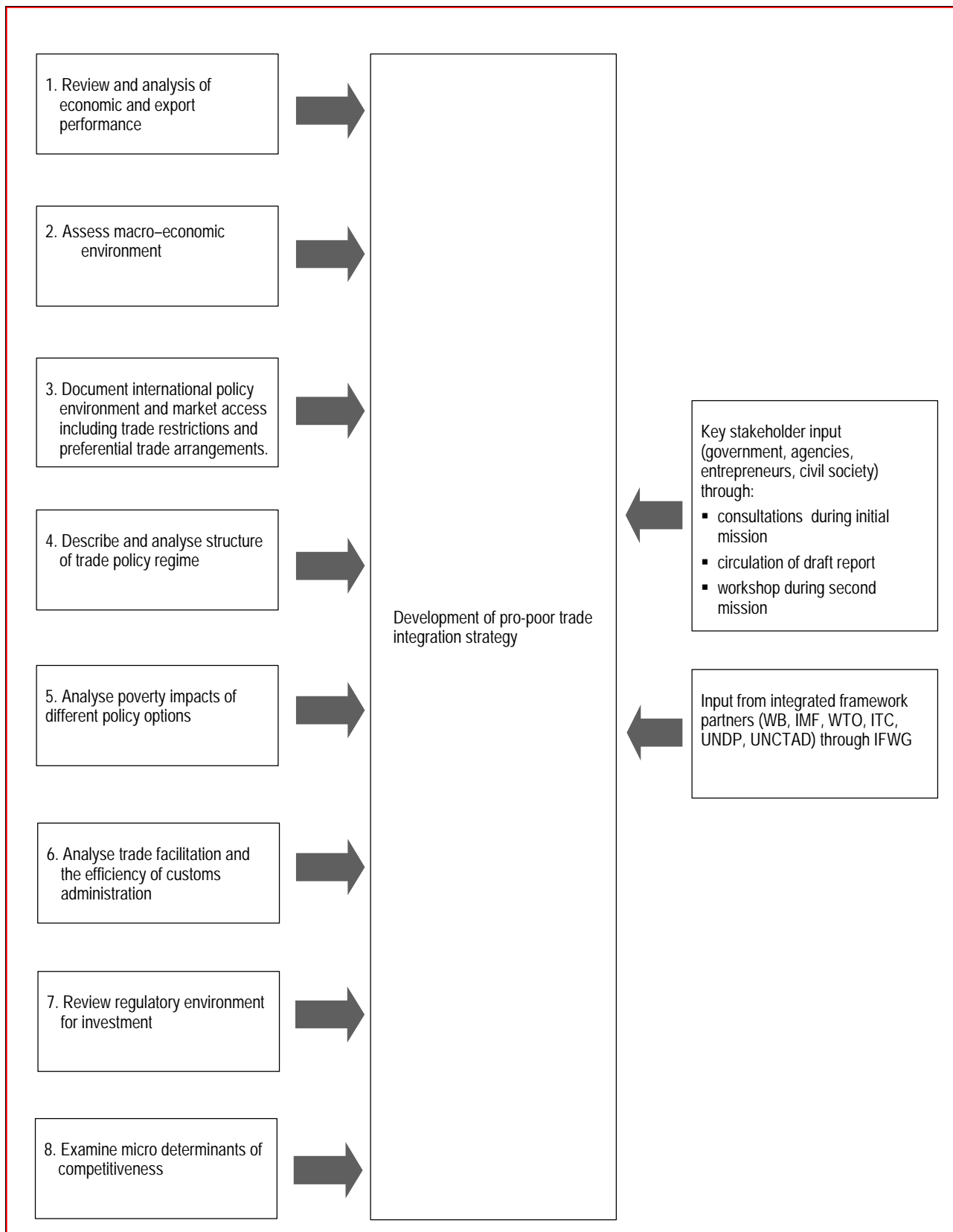
## ***3. Overall Structure of the report***

The study will be led by Sandy Cuthbertson (Centre for International Economics - CIE consultant). He will lead the mission and be responsible for the delivery of the draft report and final report.

The diagnostic study, which will draw on material developed in the course of Cambodia's ongoing accession process to the WTO and other recent studies, will be organized around eight main themes that are classified in three parts: Incentives and Institutions (part I), Microeconomic Determinants (part II) and Summary and Recommendations (part III) The components are summarised in chart 1.

The principal output for this study is the development of a pro-poor trade integration strategy. This strategy will build up on the results of a number of component analyses and interactions with key stakeholders such as government, agencies, entrepreneurs, civil society and the Integrated Framework partner agencies.

## 1 Components of the IF



## **PART 1: Incentives, institutions and competitiveness**

### **Component 1 — Review economic and export performance**

***Recent developments: changing trade patterns and resource allocation.*** This will include a description of real per capita growth, poverty trends, and integration performance in a historical and international perspective. This is a basic benchmarking exercise to identify core characteristics for Cambodia to provide a basis for comparison with other countries. Particular attention will be paid to indicators of per capita income, trade and integration performance vis-à-vis those of comparator countries. Analysis will focus inter alia on trends in export and import to GDP ratios, FDI as a share of GDP ratio, type of FDI (by sector), the speed and extent of export diversification (across products and markets), intra-industry trade trends (horizontal and vertical; role of global production sharing and processing trade), the composition of imports (share of capital goods, intermediates), international telecommunication traffic, composition of employment, dependence on agricultural production, etc., as well as sources of foreign exchange earnings by sector (including services). The analysis of these indicators will be forward as well as backward looking.

- ◆ This task will be carried out in the WB Washington office by Alexander Yeats (consultant) and Francis Ng (World Bank)

### **Component 2 — Assess the macro-environment**

An assessment of the macro-environment for trade will be prepared taking into account the existing medium-term macroeconomic framework underlying the PRSP process. Particular attention will be paid to the fact that Cambodia is largely a dollarized economy. The monetary system is characterized by a high degree of currency substitution. Transactions are made mostly in cash with most transactions in main cities settled in dollars with use of local currency more common in rural areas.. A full analysis of the benefits and costs of such a regime is difficult to determine since important considerations in the analysis cannot be quantified. However, experience in other countries has shown that once dollarization has taken place, it usually takes a long time for market perceptions to change, and therefore, the de-facto dollar regime can be expected to be in place for some time and may have implications for the kind of export product and services in which Cambodia should seek to specialize. Any administrative measure to try to reverse the degree of dollarization would tend to drive dollars offshore, reduce financial intermediation, and would generally be counterproductive.

Particular emphasis will also be placed on the exchange rate system. Reflecting the high degree of dollarization, the exchange market is thin, and the rate is market-determined among private traders with intervention from the central bank limited to stabilizing short-term fluctuations. In this environment, the study will cover the historical development of the exchange rate regime, the behaviour of the real exchange rate, and potential implications on key activities and subsectors. Given the level of dollarization, the exchange rate has had a limited impact on the trading sector thus far, but could be more important in the future, particularly for agricultural development

outside of the main urban areas. The study will review and assess: (a) institutional arrangements for exchange rate management, especially whether they are flexible and reflect underlying productivity developments; and (b) the structure and constraints in the efficient operation of foreign exchange markets."

- ◆ This work will be done by Philippe Marciniak (IMF) incorporating mission participation and Washington based work.

### **Component 3 — Assess international environment and market access**

This section will **document the specific set of trade restrictions (and preferential trade arrangements)** that exist in industrial country markets for existing and potential export products. It will also explore the functioning of some of the existing preferential schemes such as LDC or GSP preferences that Cambodian exporters may enjoy in QUAD markets. Similarly obligations emerging under ASEAN such as AFTA/CEPT, ASEAN Investment Area and the Framework Agreement on Services will all need to be considered. Estimates of the cost of satisfying the respective rules of origin will be provided. The role of tariff quotas and export subsidies of OECD countries in limiting Cambodia's export growth will also be explicitly addressed. This will allow Cambodia to have reliable information to argue for greater market access in the global forums, as well as to adjust policy interventions so as not to be penalized by the restrictions in the world markets.

The component will involve a survey of firms to gather direct information on the domestic and international market access barriers confronting them. The purpose of the survey is to identify such barriers and what the RGC and donor countries can do to help these firms in order to better integrate the country into the global economy. The sector studies referred to in component 8 will also draw on this survey. The terms of reference for the market access survey are attached.

The component will also determine the impact of membership in regional economic integration arrangements on the prevailing policy stance by explicitly considering the benefits and costs of such agreements in terms of policy freedom and investment incentives. The impact on Cambodia's exports of reducing these trade barriers in partner markets in both a preferential or a Most Favored Nation way will also be examined. The main task will consist in collecting tariff, tariff quota, preferential regimes and export subsidy information across OECD markets for products that Cambodia has exported (or has the potential to export) during the last 10 years. A simulation exercise will be undertaken under partial equilibrium to provide transparency.

- ◆ This section will be carried out by Hiau Looi Kee, World Bank supported from Washington by Francis Ng. A local group will be working with her to undertake the survey.

## **Component 4 — Describe and analyse structure of trade regime**

Cambodia is currently working toward accession to the WTO. Knowledgeable observers broadly agree that market access is unlikely to be a major factor holding back Cambodia's entry into the WTO. Rather, pressure from WTO members is likely to focus on the need for Cambodia to put in place a trade-related legal, regulatory, institutional and enforcement regime in conformity with the WTO. Even in advance of the meeting, there is broad consensus that Cambodia will be pressed to develop and present to WTO members soonest an action plan describing the steps and timelines envisioned by the RGC to develop such legal and institutional infrastructure. In all likelihood, Cambodia's accession to the WTO will be largely dictated by the pace at which it is able to develop such a 'WTO-conformed' regime. Cambodia is in serious need of a thorough assessment and mapping of its requirement in this area so that technical assistance can be deployed rapidly to build an enabling environment for trade and commerce.

Another area that might receive attention under this activity is bilateral trade relations. The RGC is at the early stage of developing and/or deepening a series of bilateral trade agreements with key trading partners. A review and recommendations on how to improve and deepen (if required) some of those bilaterals would be particularly useful at this stage.

While this is a trade policy focused study it will need to take a broader perspective recognising the importance of the institutions for developing and implementing trade policy. It will also need to recognise that trade policy issues are almost always domestic economic policy issues.

- ◆ The specific tasks for the trade policy regime component are as follows.
  1. Describe the pattern of imports and exports, their evolution and direction across markets and products, and if possible, the relation between reforms undertaken over the last decade and the response of trade to these reforms.
  2. Describe and summarise the current tariff regime, identifying:
    - the average tariff (using simple, imported weighted and production weighted averages to the extent that the available data allows);
    - the dispersion of tariff rates;
    - preferential tariff rates and their effect on the structure of protection;
    - concessions and exemptions;
    - any para-tariff measures or other taxes that are differentially applied to imported goods);
    - the sectoral dispersion of tariff rates; and
    - to the extent possible, changes in these measures over the past ten years.
  3. Describe and summarise policies affecting exported goods and services such as:
    - export taxes and other imposts;
    - export subsidies — either explicit or implicit;

- export quotas; and
  - free trade or export processing zones.
4. Identify any restrictions that the RCG places on international trade through controls on:
    - which enterprises may engage in trade (export and import trade) — both foreign and domestic;
    - the types of commodities that may be imported and exported; and
    - foreign exchange usage.
  5. Document the mechanisms that the RCG uses to administer its trade policy, identifying:
    - the legislative instruments that specify the trade regime;
    - the government ministries and other agencies responsible for administering the trade regime;
    - the government ministries and other agencies responsible for the development of trade policy; and
    - the institutional mechanisms for developing trade policy reforms.
  6. Describe current policies with respect to safeguards measures such as antidumping and countervailing duties.
  7. Determine the current objectives of trade policy and of the various trade policy instruments used by the RCG.
  8. Document Cambodia's commitments under bilateral and multilateral trade agreements to which it is currently party to.
  9. Analyse the resource allocation implications of the current trade regime. To the extent that time and data allows, rank sectors according to effective protection offered by the trade regime.
  10. Analyse how well the current trade regime conforms with WTO membership requirements.
  11. Identify appropriate reforms to the trade regime that will improve the efficiency of resource allocation in the Cambodian economy and that will be required to comply with WTO membership requirements.
- ◆ This section will be undertaken in the field by Kelly Bird (consultant), and Maika Oshikawa of the WTO.

## **Component 5 — Poverty impact analysis**

The Tokyo Road Map document stresses that Cambodia's most pressing social and economic challenge is poverty reduction. Annual GDP per capita at current prices has barely changed since the mid 1990s from approximately US\$284 in 1995 to US\$266 in 2000. Rapid population and labor

force growth (3 per cent and 3.4 per cent respectively) insufficient employment creation and low productivity growth are all identified as components of the poverty equation in Cambodia.

However a clear assessment of the linkages among **trade, growth and poverty** is lacking in Cambodia. The analysis will seek to identify the geographical, income, and poverty impact of imports and exports. The review will serve as a basis for identifying indicators linking trade to poverty reduction in the context of Cambodia. Identification of trade-poverty reduction indicators will be required if the RGC is to formulate a trade sector strategy that can identify clear achievable poverty reduction outcomes.

This component will describe the evolution of poverty during the last 10 years in Cambodia and infer the impact that changes in trade policy and other macro-economic variables have had or would have had on the poor. It will also provide an analysis of the effects that different future changes in trade policy (or market access) may have on poverty. A simple model will be developed to relate consumption and production of the poor relative to the rest of the economy with changes in poverty and vulnerability of households. The main difficulty of this exercise will be to “locate” the poor in terms of consumption and production patterns relative to the rest of the economy.

The RGC is putting in place a Poverty Monitoring and Analysis System (PMAS) under the auspices of the Council for Social Development headed by the Ministry of Planning to assist it in the monitoring of its national poverty reduction strategy. The PMAS system, which has been developed with the assistance of UNDP, will include a technical unit in the Ministry of Planning and the IF should cooperate and coordinate its activities with this unit.

In most Asian economies (except Singapore and Hong Kong) agricultural productivity improvements have been the springboard for wider economic growth. In Cambodia agricultural growth is slow relative to the rest of the economy yet over 75 per cent of the labor force is employed in agriculture. This 75 per cent produces only 43 per cent of GDP. Thus the potential for policies to impact on agriculture must be a key consideration in potential for poverty reduction.

- ◆ This section will be prepared by the Isidro Solango (consultant) working on poverty issues in the IF programs.

## **Component 6 — Trade facilitation/efficiency of customs administration**

The Road Map document refers to a number of identified trade facilitation needs. These include:

- simplification of trade documentation and dissemination of EDI
- customs reforms and related activities in line with WTO agreements

Significant work has already been carried out with UNESCAP, IMF and Malaysian technical support. The IF diagnostic study will build on these earlier contributions in addressing areas of need and identifying a coherent program of TA to address these needs.

This component will need to assess the efficiency of the institutions and procedures affecting the cross-border flow of goods and services, and identify the scope for improvements. Issues covered will include: import and export clearance procedures (including documentary requirements and processing); customs valuation and duty assessment processes; risk management procedures; and pre-shipment inspection; procedures to provide exporters duty relief on imported inputs, including EPZs and bonded warehouse arrangements; export inspection; quality control and standards enforcement procedures carried out by CAMCONTROL; and the application of sanitary and phytosanitary measures. It will also undertake an assessment of institutional capacity issues within the customs service, with a view to identifying broad capacity building needs.

Trade Facilitation in both the IF general terms of reference and Tokyo Road Map covers other issues besides customs procedures. Also important are such matters as access to information on markets and regulations, trade related infrastructure, transport regulation, trade finance and trade promotion. The diagnostic study will need to set priorities, identifying key obstacles and spell out a coherent program of technical assistance to address trade facilitation issues of greatest significance and which offer the best chance of making practical improvements. The sector studies will be directed to test the significance of these aspects of trade facilitation at the farm level. The implications will be developed in the overall study by the team leader sector specialists and the customs advisor.

For issues related to customs administration, the mission will work closely with the IMF customs advisor, and will take into account the existing work program formulated as part of the IMF's Technical Cooperation Action Plan which focuses on: (i) maximizing the return from preshipment inspection operations; (ii) strengthening general customs administration; (iii) improving legislation (laws and regulations); (iv) strengthening customs enforcement capabilities; (v) modernizing and streamlining customs procedures; (vi) enhancing organization and human resources; and (vii) computerizing customs operations.

The RGC has agreed with the Government of Thailand to develop in export processing zone capacity in border areas. A legal framework to expedite this is being developed by the Ministry of Industries with the assistance of JICA. Establishment of these arrangements will raise a wide range of issues covering the construction and ownership of infrastructure, access to preferential markets and implications for regional investment and trade.

- ◆ This section will be carried out by Geoff Wright (consultant).

## **Component 7 — Report on the regulatory environment for investment**

The **investment climate and ease of entry, exit and expansion** of enterprises is normally a core component of an IF diagnoses study. In this case it is an area critical to understanding the environment for trade development in Cambodia.

The regulation of investment in Cambodia is currently being reviewed and proposals and assessments of the implications of these proposals have been prepared. Draft amendments to the

Law on Investment have been canvassed and circulated among stakeholders. This has prompted debate on the appropriate reforms to Cambodia's investment regime. The World Bank is supporting the RCG in working through these issues. Given that a CIE team of Ross Chapman and Lee Davis with the support of James Crittle of FIAS will be assisting the government to assess various options for revising the LOI. They will start work in mid July and it will be appropriate to draw on this stream of work rather than initiate a separate IF component. In drawing on this work it will be essential to develop the relationship between the trade regime and direct foreign investment.

- ◆ This section will draw on past work of the government and international agencies including the Foreign Investment Advisory Service (FIAS) and ongoing analysis by Ross Chapman and Lee Davis (CIE) and James Crittle (FIAS) which is being conducted through July and August as a separate exercise.

## **PART II: Assess microeconomic determinants of competitiveness**

### **Component 8 — Sector studies**

A practical appraisal of Cambodia's potential competitiveness will need to be based on firm level cost structures and actual experiences with the policy, regulatory and infrastructure environment. This component will use a set of sector case studies to gather detailed information about the factors constraining trade and output development at a sectoral level, with a view to developing a practical perspective on issues that would need to be addressed in an overall trade strategy. Amongst other things, the sector case studies should provide for benchmarking both in terms of current competitiveness/performance as well as in terms of the sectoral development paths which have demonstrated some success in other ASEAN countries.

The Tokyo Road Map stresses the importance of encouraging and attracting investment and entrepreneurship in rural based sectors. These include specialty (non traditional) export crops such as spices, nuts and seed fruits, freshwater fish and seafood, handicrafts and labor service exports. Case studies will involve a set of structured interviews/field visits with stakeholders, including producers, traders, industry associations, sectoral ministries and relevant service providers (such as transport operators) and trade/commercial attaches in trading partner embassies. These interviews will focus on identifying:

- a broad picture of the sector, covering production, trade, enterprise characteristics, and some perspective on the domestic and international market for products of the sector; and
- domestic policy, regulatory, trade facilitation, infrastructural, institutional and other bottlenecks affecting sectoral development.

The final diagnostic and strategy will also draw on sector studies already conducted such as for rice and tourism.

Each sector study will require the consultants to:

- survey domestic supply capacity
- review domestic policy and regulation with respect to trade facilitation, infrastructure, institutions and bottlenecks created
- survey international demand
- identify and rank sector specific measures according to practical cost effectiveness.

Each sector study should be conducted in close consultation with the business sector working through relevant Business Forum sectoral working groups.

Common threads in the survey-based analysis will include:

***Transition costs:*** trade facilitation, duty free access to intermediate inputs, availability and costs of export credit, communication and energy.

***Transportation:*** adequacy of transport infrastructure and regulation, including entry limits on transport providers.

***Regulatory environment:*** covering firm level perspectives and experience with restriction on entry and exit, inspections and other regulations that might both help and hinder production performance.

***International and regional rules and disciplines:*** covering analysis of constraints and opportunities as affected by such things as product and other standards, intellectual property requirements, and rules of origin.

***Services performance*** particularly the policies and performance of such services as telecommunications, airlines, maritime, banking, insurance and financial services. Local consultants will be used to complete an inventory of services policy and performances following an established template.

To be effective in the formulations of a plan of action these firm analysis will need to derive estimates of the relative impact on costs of production of unnecessary regulation, inefficient administration and below standard infrastructure.

A section on supporting services will provide a general background for the sector studies. This section will draw on a survey template developed by the World Bank trade group which measures the cost and efficiency of services for supporting trade (transport, communications, finance etc). This survey material will provide the information for the Government to be able to assess where services delivery stands.

## *Agriculture*

The Tokyo Road Map emphasises the need to harness productivity improvements in agriculture. Amongst other things suggests exploring the potential for specialty crops (including essential oils, spices, nuts and seeds) and the processing of such crops. It also emphasises the importance of decentralisation. The RGC wishes to use the sector studies to build concrete action plans by drawing on existing success stories to build momentum and grassroots support for its pro-poor trade strategy. To this end the sector studies should provide in depth assessment of the internal constraints that investors face in expanding production and exporting to the rest of the world. These assessments should demonstrate through detailed measurement just what the bottlenecks that inhibit or stop people from competition are. This material should provide the Government with sufficient persuasive evidence to be able to be able to constructively tackle these obstacles. This exercise will require provincial survey work. The agricultural sector study should:

- conduct interviews with agroprocessing firms, farmer groups and associations, exporters of agricultural products, to gather information on the obstacles facing and potential for increased exports
- interview selected agricultural input suppliers — seeds, credit, fertiliser, transport, water — to get first hand information bottleneck in supply
- review government and other support functions with respect to research and development extension and market information
- review conditions of land tenure

The detailed agricultural subsectors to be covered will need to be resolved in the field by discussion among the team and the government including Department of Agriculture Officials. Possible areas include:

*Oilseeds.* This could include sesame, castor, peanuts, coconut, maize, and soybean. Sesame has promise as a dual purpose crop, both for oil production and as a human and animal food. Castor is already developing quickly, and is benefiting in this early phase from a buyer who has contracted for essentially all of Cambodia's foreseeable production for the next 3 years. Peanuts are grown very extensively in the country, as is coconut, which has a variety of products (oil, animal feed, shell craft and charcoal, and note especially rubberized coir for the geo-textile market, synergising with the rubber industry)

*Tree Fruit.* candidates here are citrus (especially Pursat orange, pomelo, and kaffir lime), cashew nuts, pineapple, jackfruit, durian, and noni-fruit. All of these except noni are already planted extensively and recently in Cambodia, both in large scale plantations (e.g. Kampong Speu and Kampong Cham) and on small holdings. Pursat oranges and kaffir limes have high market value, and both produce essential oils in leaf and fruit-peels, and pectin from inner peel. There is a well developed trading network, at least for oranges. Pineapples are now in very extensive production due to NGO activity.

*Herbs and Spices.* Most will fit into one or a limited number of enterprise structures with common processing requirements and market chains, offering seasonal product diversity. Chillies, common and “holy” basil, lemongrass tea, hibiscus tea, the various salad herbs collectively called “chi” in Khmer, ginger, and Chinese ginger, all have local production and local and potential export markets in the food industry. Cambodia produces a world recognised variety of black pepper (*piper nigrum*)

*Essential Oils.* Opportunities exist for Cambodian production of essential oils and other refined extracts from plants. Many candidate species are already produced in the country or could easily be introduced to small farming systems or in plantations. Tea tree oil (*Melaleuca cajeputi*) is already produced in Prey Veng and Svey Rieng, and marketed to Vietnamese traders. Lemongrass, sweet and "holy" basil, and ginger oils have been test-produced using Cambodian raw materials.

### *Freshwater fish and seafood*

Drawing on the Tonle Sap Lake, the Mekong River and coastal waters, fisheries are a core economic activity in Cambodia. The IF will need to draw on recent studies covering management harvesting and distribution prepared under ESCAP and FAO auspices. A recent EDC paper entitled *Report of Preliminary Field Assessment and Observations of Comercial Fresh Water Fishing Operations around table Sap Lake* provides a good basis for drawing fisheries into the Integrated Framework. In particular the IF sector study should identify obstacles — including information limits — to identifying new fish product markets and production and distribution actions to respond to such markets.

### *Handicrafts*

There is already a lot of activity in Cambodia in this sector. The presentation by HE Ing Kantha Phavi (Sec. State, Minister of Women’s and Veterans’ Affairs - MWVA) at the recent Globalization Conference provides a very comprehensive introduction. On the supply side handicraft activities are frequently carried out in home based activities where the production process depends on contracting networks between the home based producers and the contracting or centralised person or firm aggregating output from all these production units. For these highly decentralised systems to be effective there needs to be good systems of communication about product specification and price, trust between the cooperating parties and efficient methods of transport and storage. Already some Cambodian firms are mobilising large numbers of people in their homes into effective and cohesive production units. On the demand side marketing relies on both competitive values and the uniqueness of the Cambodian product. Activities which might assist marketing include market niche identification and support for web site design including product design and presentation for developed country markets. The potential for these activities to be a way for very low income people with limited access to resources and markets to be able to harness the benefits of modern marketing through the interest has already been demonstrated.

### *Labour services*

Like many Asian countries Cambodian workers already work extensively overseas. It is reported that there are some 80,000 people currently working in Thailand. Opportunities also exist for construction, factory and domestic workers in Malaysia along with other countries in the region. However the development of labor service exports requires an appropriate and facilitative regulatory regime. On the one hand there is a need to regularise the processing of passport and visas and other checks including health and confirmation of skills and language standards. But on the other hand these supportive regulatory services need to be supplied effectively and at low cost. There are lessons from other countries including for example the Philippines where appropriate regulatory mechanisms have evolved. The review team should examine:

- existing labour service activity
- existing regulatory arrangements
- options for improving these arrangements

### *Garments*

Cambodia's fastest growing industry is garment production. In 1999 US\$580 million of clothing was exported, with about three-quarters going to the US and Europe. In 2000 garment exports were an estimated US\$965m, making the sector the largest source of export earnings. Almost 85 percent of total export income comes from garment exports. Garment making employs around 100,000 people, most of them women. Typically Cambodian firms import materials for manufacture on commission from foreign firms that supply the basic materials.

The garment industry faces a number of uncertainties. In 1999 the US introduced export quotas and required improvements in labour standards. Cambodia is allocated quotas into the US market under 12 broad categories. Quotas are binding on cotton shirts and cotton and cotton jeans.

Other developments likely to impact on the sector are:

- the impending accession of China to the WTO; and
- the impending end of the Multi-Fibre Agreement in 2005.

A garment sector study would need to:

- examine the relative impacts on costs and competitiveness of the existing tax and regulatory environment
- assess the impacts on costs of the infrastructure support environment including ports and handling, transport and communication
- examine evidence of environmental impacts
- test the efficiency of quota allocation methods

### *Tourism*

Extensive work has already been done by the RGC to develop a tourism master plan in collaboration with the Asian Development Bank (ADB), UNDP and the World Tourism Organisation. This material will be utilised in drafting the main report and recommendations.

- ◆ These sector studies will be carried out by a team comprising an international consultant, Ray Mallon and local consultants, Andrew McNaughton, Curtis Hundley, Ieng Sovannara and Iv Phirum. They will also draw on the services template work survey and the survey of costs facing firms mentioned referred to in the attachment. The initial priorities for sector studies drawing on these resources will be agriculture, handicrafts, and labor services. Other case studies for example fisheries and tourism will draw on existing work. Garments are a special case which will be covered as time and existing resources permit and as additional resources come on stream.

## **PART III: Executive summary and policy recommendations**

### **Component 9 — Development of pro-poor trade integration strategy**

Based on the above, the report will develop a pro-poor trade integration strategy made up of a proposed set of policy reform priorities and several action plans at the sectoral level that include project proposals to capitalize on major opportunities identified in the strategy. The policy proposals will target the key bottlenecks and constraints that emerge from the analysis as priority areas for poverty reduction, and may be incorporated into a Poverty Reduction Strategy Credit as appropriate. Other policy and sector-specific proposals will be identified for follow up action by donors and development partners. The study will also include an assessment of technical assistance and capacity-building priorities to support the trade strategy, as well as recommended actions that should be taken by high-income and regional partner countries to improve access to their markets. The recommendations will take into account the likely impact of proposed actions on the level and structure of poverty to ensure that the strategy has the desired positive impact on the poor. To the extent possible, an analysis of gainers and losers from the policy changes will be undertaken and specific policies to minimize any possible detrimental impact on the poor must be identified.

- ◆ With input and participation from the team, this section will be drafted by Sandy Cuthbertson (Team Leader)

### **Timetable**

The timeframe for undertaking the diagnostic study is relatively tight with a final report required by December. To meet this deadline, requires an initial mission in late July–early August with timely finalisation of individual component reports. Table 2 outlines the proposed timing for the diagnostic study.

Meeting this tight deadline will require that individual mission team members have their reports finalised by mid-August at the latest. A draft report of findings will be required before the completion of the mission. Components that do not involve a mission visit will also need to be finalised by mid-August.

## 2 Proposed timing for diagnostic study

<b>Task</b>	<b>Timing</b>	<b>Prior actions required</b>
Develop terms of reference	Initial visit by Team Leader 8 July  Draft by 16 July Video conference early July Finalise early July	
Appoint team	Mid July 2001	Finalisation of terms of reference
First mission	End July – early August 2001	Successful appointment of team members – will depend on lead time, early scoping of potential members required.
Team member reports finalised	Mid August 2001	
First draft of full report	Mid September 2001	Completion of individual team members reports.
Draft report to government and IFWG	End September 2001	Quick turnaround of comments of government and IFWG members.
Workshop and dissemination (second mission)	November 2001	
Final report	December 2001	

## ***CAMBODIA: MARKET ACCESS SURVEY OF PRIVATE ENTERPRISES***

### ***Terms of Reference***

#### Context

This survey instrument will **document the specific set of trade restrictions (and preferential trade arrangements)** that exist in industrial country markets for existing and potential export products. It will also explore the functioning of some of the existing preferential schemes such as LDC or GSP preferences that Cambodian exporters may enjoy in QUAD markets. Similarly obligations emerging under ASEAN such as AFTA/CEPT, ASEAN Investment Area and the Framework Agreement on Services will all need to be considered. Estimates of the cost of satisfying the respective rules of origin will be provided. The role of tariff quotas and export subsidies of OECD countries in limiting Cambodia's export growth will also be explicitly addressed. This will allow Cambodia to have reliable information to argue for greater market access in the global forums, as well as to adjust policy interventions so as not to be penalized by the restrictions in the world markets.

The component will also determine the impact of membership in regional economic integration arrangements on the prevailing policy stance by explicitly considering the benefits and costs of such agreements in terms of policy freedom and investment incentives. The impact on Cambodia's exports of reducing these trade barriers in partner markets in both a preferential or a Most Favored Nation way will also be examined. The main task will consist in collecting tariff, tariff quota, preferential regimes and export subsidy information across OECD markets for products that Cambodia has exported (or has the potential to export) during the last 10 years. A simulation exercise will be undertaken under partial equilibrium to provide transparency

**Objective:** The component will involve a survey of firms to gather direct information on the domestic and international market access barriers confronting them. The purpose of the survey is to identify such barriers and what the RGC and donor countries can do to help these firms in order to better integrate the country into the global economy.

**Working Group:** The World Bank, in consultation with the Ministry of Commerce and with advice from a local consulting firm will design the questionnaire and select the survey sample. The Ministry of Commerce will appoint one or more officials to work with the local consultant team on several steps of the survey

**Scope of Work** The following functions are required to carry out the survey. The consulting firms will:

- contribute to the drafting of the survey questionnaire, advising on subjects and phrasing of questions that will elicit useful responses;
- participate in the pre-testing of the questionnaires, in cooperation with the task manager, with at least eight entrepreneurs;
- revise and codify the questionnaire as indicated by pre-testing and analysis;
- hire, employ, train and supervise required surveyors and data entry personnel for work in each region where the survey is administered -- recognizing that different surveyors may need to be employed in different areas;
- supervise and make all required arrangements for the implementation of the survey in multiple locations, (to be determined).
- base on the 1999 World Bank survey on enterprises in Cambodia, select a stratified sample of 80 firms, and based in additional information (e.g., newspapers, enterprise organizations, government records) select 20 new firms, not included in the 1999 survey. The final sample of firms will have sectoral, size, location and ownership characteristics agreed with the Bank;
- incorporate to its working team one or more officials appointed by the Ministry of Commerce to participate in several steps of the survey (training, questionnaire design, sampling, interviews, data entry, tabulation of results)
- reproduce and distribute the questionnaires to surveyors;
- work with the task manager to design and implement a system for data entry and tabulate the data;
- provide the data and results of the survey (e.g. frequencies and means);

Division of Work: The bulk of the work would be carried out by the local consulting firm. The consulting firm would be advised and guided by World Bank Group who will manage the task with consultations with the Ministry of Commerce.

**Qualifications of the Consultants** The local consultants must have demonstrated experience in analysing economic and business-related policy and the capacity to undertake basic survey implementation and data analysis. The local consultants preferably should have participated in the previous World Bank survey in 1999. They should have a proven capacity to distil survey results and/or other data in a concise and thoughtful manner. The consulting firm must be able to mobilize qualified surveyors, data entry personnel, and analytic staff as agreed in the contract and must have the logistical capacity to carry out the survey on short notice.

**Timetable of Output** The survey is to begin on August 02, 2001 and should be completed no later than September 02, 2001. The schedule for delivery of the output (the tabulated Excel files) should follow the Compensation Schedule.

**Output** In addition to the weekly tabulated results each containing 25 complete surveys as described in the Compensation Schedule, the consulting firm is to provide the overall tabulated results that contains all 100 surveys in an EXCEL readable file format within one week of survey completion (by September 09, 2001). The final data set should contain data from both the current survey and the 1999 World Bank survey of enterprises in Cambodia, with the firms being matched by the Firm Identification Numbers.

**Confidentiality** The local consulting firm will at all stages protect the confidentiality of firms and individuals participating in the survey. None of the intermediate or final outputs of the survey will bear the names of either participating firms or individuals.

**Complete Survey** A complete survey is not an incomplete survey. A survey is incomplete if any question in Section I, II and III are not answered by the interviewed firm. If any question of the remaining parts of the survey is unanswered by the interviewed firm, the survey should be considered either complete or incomplete on a case-by-case basis, by the task manager.

**Compensation and Compensation Schedule** Compensation will be based on the number of Complete Surveys and Output, at a rate of US\$100 per firm (i.e. per complete survey). The total compensation of the survey will not exceed US\$10,000. The payment schedule is as follows:

1. An initial payment of 15% of the total contract value may be made when the contract is signed.
2. A second payment of 15% of the contract value will be made upon receipt and approval of the tabulated survey results (in Excel readable format) by the task manager based on the first 25 complete surveys of firms, no later than August 12, 2001.
3. A third payment of 15% of the contract value will be made upon receipt and approval of the tabulated survey results (in Excel readable format) by the task manager based on the next 25 complete surveys of firms, no later than August 19, 2001.
4. A fourth payment of 15% of the contract value will be made upon receipt and approval of the tabulated survey results (in Excel readable format) by the task manager based on the next 25 complete surveys of firms, no later than August 26, 2001.
5. A fifth payment of 15% of the contract value will be made upon receipt and approval of the tabulated survey results (in Excel readable format) by the task manager based on the next 25 complete surveys of firms, no later than September 02, 2001.

6. A final payment covering the balance of the contract value will be made upon receipt and approval of the Output (in Excel readable format) by the task manager based on all 100 of the complete surveys of firms, no later than September 15, 2001.