



Ministry of Commerce



CAMBODIA NATIONAL EXPORT STRATEGY 2007 – 2010

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The National Export Strategy (NES) Milestones	
Commitment and Endorsement	December 10, 2004
Formation of Nucleus Team	December 10, 2004
Clarification of Issues	December 10, 2004
Agreement of Priorities	December 10, 2004
National Symposium – Response Paper	April 29, 2005
National Symposium – NES Working Draft Paper Dissemination	August 29, 2005
Briefing Sr. Minister CHAM Prasidh, Ministry of Commerce – NES Working Draft Paper No. 1 Intro	September 20, 2005
National Symposium – NES Working Draft Paper No. 1 Intro	September 22, 2005
NES Workshop – Silk & Silk Products	November 7, 2005
NES Workshop – Fruits & Vegetables	November 8, 2005
NES Workshop – Organic Rice	November 10, 2005
NES Workshop – Garments & Textiles	December 5, 2005
NES Workshop – Inland Fisheries	March 17, 2006
National Export Strategy Final Draft Paper No. 2 Release	July 10, 2006
Formation of NECC	
Endorsement of NES Action Plan	
Start of Implementation of NES	

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Chapter I: Introduction and Rationale

A. The International Context: Challenges to be Addressed

1. Cambodia, today, faces an historic opportunity to change the trajectory of its growth path. The country is challenged with the opportunities of a growing, stable, and integrating East Asian Region, macroeconomic stability, and new market opportunities afforded by its successful bid to join the World Trade Organization (WTO). Beyond WTO, the ASEAN Free Trade Area (AFTA), China Early Harvest, and the European Union everything-but-arm (EU EBA) measures provide Cambodia with an unprecedented number of market access opportunities free of and/or reduce tariffs. This provides suitable circumstance to undertake the development and implementation of the National Export Strategy coupling with public services reform focused on – enabling broad-based growth – sustained improvement in export performance fuelled by a diversified export base, competitive foreign investment environment, an entrepreneurial and a professionally managed business sector and effective trade support services. However, without addressing the “the border-in, border, and development issues”, the extent to which market access “border-out” can be converted to employment generation, rural development, balanced-gender, and the progressive alleviation of poverty will be sharply limited.

2. For Cambodia to realize the full benefits from trade and globalization post-WTO. It is necessary to have a comprehensive National Export Strategy and a robust business environment whereby impediments to growth¹ which usually lie in the policy and regulatory² environment be eradicated.

3. In designing the National Export Strategy the following issues and opportunities were given considerable amount of weight and measure of short-, medium-, and long-term pro-growth and antipoverty impacts.

- Export development is essential to sustained broad-based economic growth and social stability in light of small domestic market.
- The strategy is heavily concentrated on “supply side” and oriented towards export “development”, not just “promotion”.
- The urgent need to build awareness, competency, and accountability within the framework of developing a functional public-private sector partnership.
- Strategy must combine competitiveness and “pro-poor” considerations, i.e., confirm and reinforce trade and sustainable human development relationship.
- The need to maintain the momentum of legal and regulatory reform – taking into account [small] progress already being made – within the business sector.
- The strategy must first and foremost target potential in the garment and textile, organic agriculture, horticulture, sericulture, fisheries, and tourism sectors.³
- Build upon the country’s unique archaeological, cultural heritage, and natural assets; for instance not just Angkor Wat the tourist destination but Kingdom of Cambodia is the

¹ Classical economic view: “increase is natural and will occur wherever opportunity and security exist, thereby, remove the obstacles and growth will take place/care of itself.”

² Regulations and procedures so obtuse that an entire army of high rent-seeking’ officials and unscrupulous middlemen spring up to expedite and/or extract.

³ With the view of replicating to other productive sectors.

“destination” and vertical linkage, especially with those sectors associated with “pro-poor” concerns... agriculture, horticulture, sericulture, etc... and the great lake Tonle Sap the fish bowl for the intra- and inter-regional markets.

- Developing light and medium industrial sectors to absorb expanding labor force.
- WTO membership, ASEAN FTA, EU EBA, and China Early Harvest preferential market access is currently offset, in part, by market uncertainties and technicalities, e.g., SPS, HACCP, EurepGAP, ending of MFA, etc...
- Advanced labor legislation complementing competitive wage.
- Infancy and limited production base coupled with geographical proximity to two agriculture juggernauts (Thailand/Vietnam) demands a “niche” approach to develop agribusiness exports market.
- A rolling strategy with long-term view given the lack of immediate opportunities and resources to expand current potential export base due to infancy of the private sector development, low-level of entrepreneurship, and weak institutional support’s base (public and private sectors).

4. As a new member to the WTO and trading partner in the international commerce. The global marketplace, of course, will not make exceptions for Cambodia because of its past. Now with the Government committed to political stability and greater openness to the world, Cambodia business is set for inevitable and substantial transformation. Particularly, domestic producers with exportable products/services and export strategy or those plans to benefit from the 147 markets of WTO’s members are clearly set to experience a significant rise in competition domestically and internationally. Cambodia’s first wave of entrepreneurial pioneers has shown great ingenuity and perseverance in succeeding against all odds in the difficult today environment. There is therefore, good reason for optimism that, given fair access to basic commercial resources, they and those soon to follow, will continue to adapt and broaden their competent and success within the evolving framework of global and rules-based markets.

5. The issue is not whether globalization can be a force for good which benefits the poor in Cambodia; of course it can be. But it needs to be managed in the right way and so far it has not been.

B. Where Do We Want To Be?

6. A National Export Strategy coupled with Policy Reforms in Support of Trade Facilitation and Competitiveness, Sector Wide Approach (SWAP), and DTIS/IF II. “Rolling Strategic Vision of National Export Strategy – Timeframes 3-5 years” (Box 1).

Box 1: Vision

"A dynamic and broad-based economic growth by 2010 characterized by high value-added and retention, entrepreneurship, internationally competitive export environment, creating new commercial/industrial opportunities, thereby contributing in a significant, concrete, sustainable growth, appreciable impact to the overall national economy and social development goals, especially employment generation – with emphasis in the rural development, poverty alleviation, balanced-gender – skill enhancement, efficient import, higher productivity/incomes within less prosperous population groups, and regions of the country."

Chapter II: Where Are We Now? – An Assessment

A. Export Performance

7. Cambodia has few suitable exportable commodities and products.⁴ Over the past 8 years the garment industry has been the fastest growing export sector and its economic/political power dominate the landscape of the Cambodian economy. In 1995 the exports of garments were about US\$26.5 million, by the years 2000 the corresponding annual figure exceed US\$1 billion. In early 2002 Cambodia ranked number 16 among the top suppliers of garments into the U.S. market and according to ITC Trade Performance Index the country ranked 29 out of 117 garment exporting countries in 2003 (Trade Performance Index: Cambodia 2003, page 15). The industry employing over 280,000 workers, mostly young women in 247 factories as of December 2005, out of which only a handful are Cambodian-owned.

8. For all 1996 the Kingdom greeted 260,000 tourists/visitors to its famous archaeological ruins dotting the countryside. In 2005 the country registered 1.4 million visitors of which the great majority visited the majestic ruin of Angkor Wat. While the country targets 3 millions tourists by 2010, its travel industry desired the Government to invest in projects and improve tourism infrastructures to increase length of stay.⁵ For Cambodia, there is an urgent need to develop other destinations than Angkor Wat, Siem Reap province and Sihanoukville.

9. Empirical observation has shown however that, laissez faire, tourism development in Cambodia does not necessarily and naturally fulfill its objectives or trickle down to those at the bottom end of the economic ladder.⁶

10. For example, early unofficial estimated of international tourism to Cambodia in 2005 probably generated over US\$1.3 billions in output, US\$800 millions in domestic income, US\$139 million in government revenue, and sustained over 150,000 jobs,⁷ yet the largeness of this is aggregated in few urban areas (Phnom Penh, Siem Reap, and Sihanoukville) and a handful of well-oiled/connected enterprises are the primary beneficiaries. The wealth's distribution of these benefits to those in greatest need – disadvantaged groups such as the poor farmer, women, children, and ethnic communities are very minimal.⁸ Extraordinary economic leakage (import) levels of tourism expenditures, weak and/or non existence vertical linkages between tourism and other sectors of the economy especially at the provincial and local level, and the absence of appropriate enabling policies are some of the main factors/forces behind the imbalance in the distribution of wealth and benefits of tourism.

⁴ Garment and Tourism Sectors make up almost 2/3 of current export with the world.

⁵ Average length of stay range from 3.20 to 6.53 days, sources GTZ and ADB.

⁶ New Sources of Growth, Trade and Poverty “Provincial/Regional Diagnostic Trade and Integration Study: Private Sector Development in Rural Cambodia”, Final Report May 2005. WB/MoC.

⁷ Based on the assumption of 40% leakage, real rate however, which cannot be confirmed or denied, is more in the range of 65-70% of the aggregated output.

⁸ Sources and data are from Ministry of Tourism Statistical Report 2005, ABD GMS Tourism Sector Strategy Vol. 1 Final Report June 30, 2005, and Draft National Export Strategy 2006-2008.

11. **Exports/Imports of the last five years.** In analyzing the country total foreign trade with the world (Table 1) the destination markets from the current exports are limited to: the U.S.; the EU; Singapore; Thailand; and Malaysia. This may well be the reflection of the country narrow exports base and closed proximity to the supplying countries (i.e., raw materials and finished products). The top five supplying/importing countries were Hong Kong-China, Thailand, Taiwan, China,⁹ and Singapore (Table 2).

Table 1: Cambodia's Total Foreign Trade with the World, 2000-2004 (in million US\$)

Actual	2000	2001	2002	2003	2004*
GDP	3,595.5	3,713.7	4,004.7	4,299.1	4,591.2
Merchandise exports	1,401.1	1,571.2	1,750.1	2,046.2	2,247.0
Merchandise imports	1,939.3	2,094.0	2,313.5	2,595.6	2,891.0
Total Foreign Trade	3,340.4	3,665.2	4,063.6	4,641.8	5,138.0
Trade Balance	(538.2)	(522.8)	(563.4)	(549.4)	(644)
GDP Growth %	4.3	3.3	7.8	7.4	6.8
Exports as Share of GDP %	39.0	42.3	43.7	47.6	44.5
Imports as Share of GDP %	53.9	56.4	57.8	60.4	58.2
Exports Growth %	24.1	12.1	11.4	16.9	9.8
Imports Growth %	21.9	8.0	10.5	12.2	11.4
USD / Riel	1 / 3,900	1 / 3,925	1 / 3,919	1 / 3,980	1 / 4,021

Source: reproduced from World Bank, Poverty Reduction and Economic Management Unit – East Asia and the Pacific Region (2005). *2004 estimates only.

Table 2: Main Trading Partners (supplying/importing), 2000-2004 (in US\$)

Countries	2000	2001	2002	2003	2004*
France	38,792,599	41,020,635	48,292,838	38,115,271	44,544,818
Germany	*	10,530,785	*	*	12,381,471
UK	18,932,410	23,022,032	14,015,843	*	*
Finland	*	*	*	*	12,666,793
036	21,423,342	*	*	*	*
US	32,546,552	19,255,287	15,282,742	16,838,378	23,065,949
India	*	*	13,034,111	15,294,321	19,381,622
Thailand	221,240,642	222,514,165	238,118,977	223,247,662	230,612,741
Vietnam	91,540,402	106,685,039	98,351,152	129,350,003	168,438,585
Indonesia	68,402,767	75,934,150	77,497,726	82,597,427	78,500,612
Malaysia	64,147,705	57,443,505	58,125,163	78,123,641	77,190,292
Singapore	105,876,862	118,262,567	120,992,421	126,574,672	142,257,816
China	112,745,403	151,174,164	197,209,553	225,025,300	340,658,905
Hong Kong – China	254,170,728	293,659,767	370,979,807	412,922,429	409,670,538
S. Korea	76,847,429	78,862,543	94,687,856	80,854,578	99,425,359
Japan	58,387,804	60,888,545	63,821,731	78,299,532	83,571,605
Taiwan	174,685,014	174,085,929	189,130,614	188,541,275	242,321,803
Australian	*	*	*	*	10,085,334

Sources: CED and MEF (2005). *2004 estimates only. *Less than US\$ 10 million.

⁹ China is the 800 pounds Gorilla in the region a force to be reckoned with economically and politically. "If the present trajectory is maintained we are looking to the time when China is by a long chalk going to be the most influential country in the region, and it's going to hard not to do what China says," argues Hugh White, director of the Australian Strategic Policy Institute. China Exerting More Influence Over Laos, by Dennis D. Gray, Associated Press Writer. AP-NY-04-03-04 1222EST

B. Assessment of National Competitiveness and Constraints¹⁰

12. **Cambodia is at the cross roads and faces a profound challenge.** Poverty incidence level barely changes from 1980 to 2002 – 36.70% to 35.70%, respectively.¹¹ The country is one the poorest among the world's least developed countries. According to the NPRS, over one third of the total population of 13.4 million lives below the poverty line of US\$0.46-\$0.63 per day; less than a third of this population has access to clean and an improved water source; one third is illiterate; 45% of young children are underweight.

13. **The legacy of conflict.** Decades of conflict, ruinous policies and embargos destroyed the institutional fabric of civil society and commerce. Cambodia's challenge is compounded by the legacy of internal conflict that not only depleted the country's reserves of human talent on which entrepreneurship is based, but also disrupted the continuity of social institutions and formal and informal rules that provide the framework for development, trade, and investment. The economic landscape reflects this lack of key institutions, most notably the rule of law. It also reflects an attempt by the Government to fill the institutional vacuum through administrative measures that have largely been ineffective and created opportunities for corruption. Essential public services and infrastructure are absent for much of the population.

14. **Narrow growth based on an extremely small formal private sector.** An estimated 80% of the population are rural dwellers, and linked to subsistence agriculture. Of these families who depend on agriculture, 80% are poor. Manufacturing employs less than nine percent of the total workforce. A large share of the private sector operates informally, contributing minimally to the tax base and facing limited access to finance, trade, and trade support.

15. **Extreme dependence on few export sectors which faces considerable internal and external risks and with no substantial comparative and/or competitive advantage.** In the process of transforming its economy, Cambodia faces myriad of challenges. Although Cambodia has demonstrated a comparative advantage in the production of labor-intensive manufactures for export and the potential exists for further growth, through diversification of markets and production. Exports of garments dominate the sector followed by few other products and services – tourism, rubber, and remittances of expatriate Cambodian workers (Mirror Exports of Cambodia, 2003, ITC, Geneva page 16). Other exports are small; though a number show strong promises, e.g., shoe manufacturing, rice, fish, organic agriculture and agro-processing, silk, etc. Tourism sector is expected to continue to grow on an annual average of 30%-40% in the coming years. The number of tourist arrival increased from 368,000 in 1999 to a milestone one million visitors in 2004, generating an excess of US\$777 million annually for the local economy, excluding leakage.

16. **Dilapidated infrastructure.** Cambodia's infrastructure network is the lowest in the East Asia region, contributing to high cost, poor quality services and limited access to markets (Refer to Table 3 next page). Competition is minimal in all sectors, lowering quality and raising costs. There is therefore no incentive to innovate to produce quality products. There is no power grid, a lack of adequate highway and rail service, and high port costs. The services that exist are mainly concentrated in urban areas, and the rural population suffers

¹⁰ Adopted from Cambodia Trade Facilitation and Competitiveness Project (WB 2005).

¹¹ Table III.7 Poverty and Income Distribution in Southeast Asia, UNDP SE Human Development Report, 2005 p. 97.

from lack of access to markets, from basic infrastructure, i.e., unsafe and unreliable water and dependence on traditional biomass energy. Future growth in such sectors as agro-industry and tourism are particularly sensitive to infrastructure.

Table 3: Road Network in Southeast Asia Countries (SECs), 2001

Countries	Road Density/1000 Sq. Km. Area		%’s Paved Roads to Total Road		%’s Growth in Road Network*
	1991	2001	1991	2001	1991 – 2001
Cambodia	198	200	7.50	16.20	0.12
Laos	60	92	16.00	44.50	5.40
Vietnam	280	296	23.90	25.10	0.57
Thailand	102	112	88.40	98.50	0.97

* Average annual growth for the period of 1991 – 2001

Rail Network in SECs, 2002

Countries	Railway Length in Km.	Railway Density Per 1000 Sq. Km. Area	Gauge Types*
Cambodia	632	3.49	Narrow Gauge
Laos	-	-	N/A
Vietnam	2,600	7.84	Narrow/Standard Gauge
Thailand	4,044	7.88	Narrow Gauge

*Broad = 1.676m – Standard = 1.435m – Narrow = 1.000m

Air Services in SECs, 2003

Countries	Airports*	Air Freight		Air Passengers			Air Departures	
		Vol./T**	Growth %	Vol.	Density	Growth %	Vol.	Growth %***
	2003	2003	‘00-‘03	2003	2003	‘00-‘03	2003	‘00-‘03
Cambodia	6	2.60	-	0.12	1	-	3,600	-
Laos	9	1.90	3.92	0.22	4	1.25	7,100	3.65
Vietnam	21	164.50	13.41	4.55	5	19.40	47,600	21.38
Thailand	65	1,764.10	1.00	16.62	28	(1.47)	93,600	(2.62)

* Paved runway – ** Million ton per KM – *** Simple average

Maritime Profile of SECs, 2003

Countries	Coastline*	Navigable Waterways	Ports**	Ports Traffic***	Container Traffic		Shipping b
					Volume	Growth % a	
Cambodia	443	1,300	6	2	0.13	5.17	1.9139
Laos	-	2,897	-	-	-	-	-
Vietnam	3,444	5,000	9	89	2.20	28.19	0.0024
Thailand	3,219	3,701	7	163	4.41	12.91	1.1706

* Kilometer – **Major ports only – Port traffic for CA & VN for year 2000 in million metric ton – (a) Simple average – (b) Million metric ton registered

Source: Reproduced (RIS) 2005.

17. **Declining FDI over the past decade.** FDI has been on a secular downward trend since 1996, when inflows reached nearly US\$300 million. FDI inflows for 2003 were US\$87 million (WDI).

18. **Policy and institutional environment facing firms.** The World Bank conducted an Investment Climate Assessment (ICA 2003) of 802 enterprises. Of these 200 were rural, 100 urban informal, and 502 were urban firms in Phnom Penh, Siem Reap, Kampong Cham, Sihanoukville, and Battambang. These enterprises ranged from micro (fewer than 10

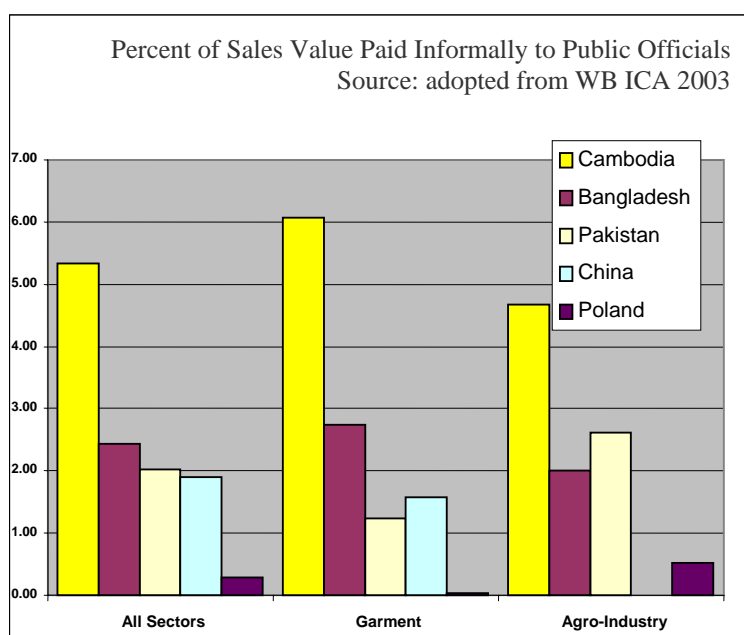
employees) to large (over 100 employees) and included both domestic and foreign firms. The key findings are.

– **Excessive regulation and weak institutions contributed to low productivity levels.** The ICA found that total factor productivity and labor productivity are low in comparison with Bangladesh, India, China, and Pakistan. Some key factors that contribute to low productivity include corruption, weak property rights, informal practices and complex and costly regulation. Cambodia has the most annual inspections, the highest cost per capita to officially register businesses, and requires management time to deal with officials on par with that of China. An assessment identified that import processes require 45 documents,¹² many of which are associated with unofficial fees.

– **Constraining trade facilitation processes.** Among Cambodia's regulatory processes, importing and exporting were identified as having the highest unofficial costs in the ICS. Value Chain Analysis (Refer to WB 2003, Figure 1 next page) found that the cause of high trade costs is not related to any one particular institution, but rather the cumulative impact of overlapping institutions, each of which require streamlining and in some case dismantling all together and/or consolidating into more user friendly agency.

– **Institutions vulnerable to corruption.** A combination

of low salaries – average salaries in the Customs and Excise Department (CED) are less than US\$23 per month – and regulatory processes that create frequent interaction between public officials and firms create powerful incentives for corruption. In the ICA, 82% of respondents reported that they pay bribes, and 71% of large firms suggest such payments are frequent. These payments amount to a reported average of 5.2% of firm sales – twice the similar metric for Bangladesh – but increase to over 6% for some large firms.



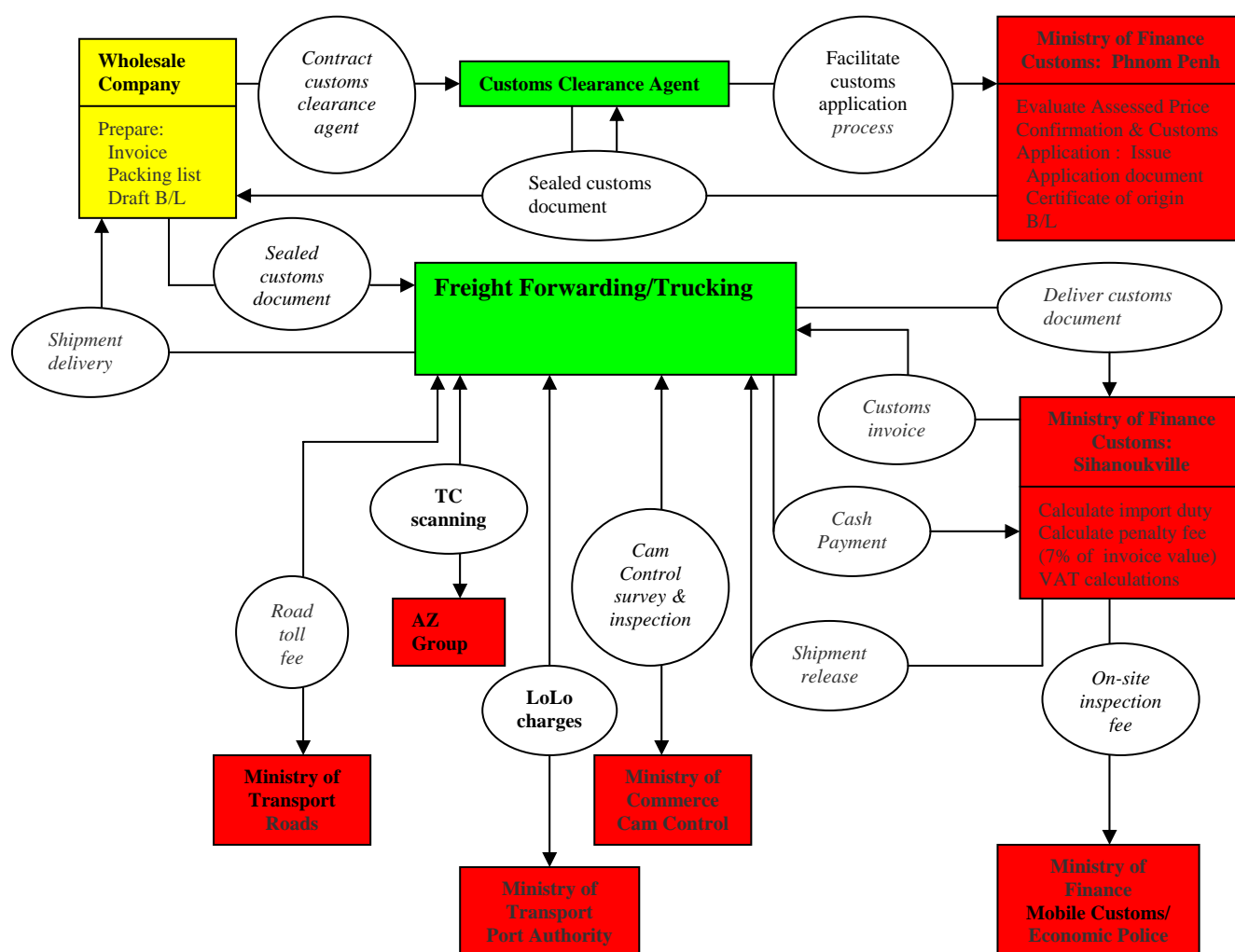
– **Weak governance of public-private partnerships and concessions.** The private sector represents the best opportunity for infrastructure development given financial and human resource constraints and the need for efficiency. However, consumers will only accrue the benefits of private participation if there is competition and transparency. Further, private infrastructure transactions suffer from a lack of clarity over roles and responsibilities within and between various government agencies with respect to Private Participation in Infrastructure (PPI) design, procurement, approvals and implementation, a general lack of

¹² There's been some improvement since then, however the process is still cumbersome for aspire and potential exporter.

transparency in the handling of dealings between the public and private sectors, and specifically in the negotiation and management of specific contracts between government and investors, from the initiation of a potential project through the construction, implementation or transaction to the operation of the project — few if any concession agreements or negotiated contracts have been made available for audit or public scrutiny.

- **A lack of a credible judicial system.** Notwithstanding [small] progress is being made. Judicial system capacity, remuneration and integrity are not being addressed in any adequate way. The inability to enforce laws and contractual rights and obligations in a predictable, transparent and efficient fashion has restricted proliferation of the SMEs, e.g., the inability of the financial sector to expand services to even 10% of the private sector, and continues to undermine investor confidence. Judicial decisions are seen in the private sector as arbitrary and subject to corruption.

Figure 1: Import and Customs Clearance Procedure for Loose Cargo Load



1. Complex & cumbersome import and customs clearance procedure
2. Heavy reliance on customs clearance agent and freight forwards
3. Multiple documentation & signature requirement
4. High unofficial charges

Source: adopted from WB VCA 2003

19. While the country accession into the WTO will bring many advantages of globalization to Cambodia, other major challenges, largely external, are also imposing on its small and fragile economy in the near and medium term. More particularly, the phase-out of Multi Fiber Arrangement (MFA), or the elimination of quantitative restrictions on textile trade – January 2005 – will further intensify the pressure on Cambodia to become more competitive in the textile and clothing industry. To minimizing the adverse impact on its garment exports, Cambodia needs to develop and secure new sources of growth (i.e., in organic agriculture and horticulture, aquaculture, and sericulture sectors) and to adopt a comprehensive National Export Strategy. As such successes or failures of Cambodia, as the newest member of the WTO, will depend to a large extent not only on its ability to balance its rights and obligations under the multilateral trading system but also on how well the country could mobilize its resources and position itself to take advantage of the broad opportunities and challenges of regionalize/globalize economy.

C. Current Government Policy and Strategy in Support of Export Development¹³

20. The Government has elaborated a private sector development strategy, but it does not have a National Export Strategy. In August 2004, the Government released its Rectangular Strategy, in which it committed to “broaden the base of growth by strengthening governance to attract investment and ensuring competitiveness.”¹⁴ In February 2005, the Government further described its platform as (i) trade facilitation, by rationalizing government agencies that impose high costs and delays on the private sector and reducing transaction costs; (ii) promotion of market infrastructure and deregulation; (iii) enhancing market access and access to information; (iv) institution building and enhanced Rule of Law; and (v) promoting small and medium-sized enterprises. Key features of this strategy are listed below.

- **Implementing WTO commitments and promoting exports are cornerstones of the Government’s strategy.** Cambodia’s Protocol of Accession commits the country to low bound tariffs, phased implementation of the agreements on Trade Related Intellectual Property Rights (TRIPS), Trade Related Investment Measures (TRIMS), the Telecom Reference Paper, and opening key service sectors, and use of WTO-compliant trade measures (pricing, tariffs, fees, subsidies and customs measures *inter alia*) in exchange for MFN treatment by all members.
- **The legal framework is evolving.** Legal and judicial reform has been an area of slow progress over the past five years, but there are indications that CY05 may see the development of a more conducive regulatory framework. At the present time, the following laws had either already been passed or presented to Parliament or were in an advanced stage of the drafting process: the Company Law, the Insolvency Law, Secured Transactions Act, Civil Code, the Law on Commercial Arbitration, Sub-Decree on Economic Concessions and Law establishing a Commercial Court.¹⁵

¹³ Adopted from Policy Reforms in Support of Trade Facilitation & Competitiveness (WB 2005).

¹⁴ “Our Hope, Our Strategy, Our Actions” *Keynote Address*, Seizing the Global Opportunity Conf., Feb 11, 2005.

¹⁵ Drawing attention to the pressing issues of transparency and reliability in the implementation of the law, in March 2005, the Prime Minister took initial steps to crack down on judicial corruption.

- **A Twelve-Point Plan of investment climate reforms was adopted as a cross Ministerial, multi-donor platform.** The Prime Minister appointed a Special Inter-Ministerial Task Force (SITF) to respond to the findings of the ICA. In June 2004, the SITF defined an integrated program of reform to reduce unofficial costs and clearance times, while increasing public revenue. This was articulated in twelve intermediate objectives. It determined, *inter alia*, to create a cross-agency Reform Team, consolidate inspection mandates across agencies, introduce selective inspections based on risk criteria, reduce documents to a Single Administrative Document, introduce a Single Window process, and reengineer and automate procedures. At present, five of the twelve actions have been implemented, and the remainders are scheduled for completion by December 2005 (Box 2). Importantly, within the Twelve-Point Plan, the Ministry of Commerce has substantially reduced the cost and time required to register a business. The cost has been reduced by over US\$400, while the Minimum Deposit Requirement reduced from US\$5,000 to US\$1,000.

BOX 2: TWELVE POINTS PLAN: GOVERNMENT COMMITMENTS TO IMPROVE THE INVESTMENT CLIMATE AND TRADE FACILITATION - JULY 2004 – DECEMBER 2005

Action 1. Establish a Cross-Agency Trade Facilitation/Investment Climate Reform Team.

Action 2. Establish Transparent Performance Measurement including Private Sector Monitoring.

Action 3. The trade facilitation process, including all licenses, procedures and documents, will be reviewed to remove overlaps and unnecessary approvals. Following the reengineering, a Single Administrative Document will be implemented and other documents progressively eliminated.

Action 4. Introduce an overall risk management strategy to consolidate and rationalize all examination requirements of the different control agencies.

Action 5. A strategic review of the role of CamControl will be launched to more productively deploy the organization's unique knowledge of quality control processes and make optimized use of inputs and resources from other agencies, such as the CED.

Action 6. A Single Window process to manage trade facilitation will be piloted in the Port of Sihanoukville by December 2005. The Trade Facilitation process, once streamlined, will be automated by **December 2005**.

Action 7. The Government will introduce a WTO compatible flat fee for service, and the service will be defined by a service-level agreement. The fee structure will be public.

Action 8. Streamline the process and reduce the cost of incorporating with the Commercial Register, which is maintained at the Office of the Clerk of the Commercial Court, and costs an average of \$630 and 30 days.

Action 9. Streamline the process notification of the Ministry of Labor to start hiring employees, which costs \$250 and 30 days to complete.

Action 10. Harmonize registration for VAT, income tax and company registration using the same form and resulting in the same unique identifier. This would facilitate information sharing across agencies.

Action 11. Implement a national award to promote good corporate citizenship in the private sector.

Action 12. Monitoring and Reporting will take place through the Private Sector Forum.

21. **Customs reforms.** As part of WTO accession, Cambodia prepared a new Law on Customs consistent with the Revised Kyoto Convention that addresses a number of discrepancies with modern international practices including in valuation, staff remuneration, inspection and audit. This Law was forwarded to the National Assembly with a target passage date of July 1, 2005.

22. **Streamlining trade documentation.** The Government with EU has completed technical work that would introduce an enhanced customs declaration to serve as a Single Administrative Document, replacing myriad documents that are currently involved in an import and export transactions.

23. **A Policy on Private Participation in Infrastructure and Law on Concessions is being considered at the Council of Ministers.** In the PPI/investment climate area, the Government has defined a clear process for planning, approving, awarding, negotiating, and managing PPI investment, and has enshrined this revised process in a new Concessions Law and sub-decree which is currently under review at the Council of Ministers following extensive consultations with the private sector.

24. **New investment promotion strategy.** The Council for Development of Cambodia (CDC)'s Cambodian Investment Board (CIB), as Cambodia's investment promotion agency, is currently undergoing the process of re-defining its role as a result of the Amendment to the Law on Investment, which was approved by the National Assembly in February 2003. The Amended Law on Investment explicitly moves the CIB toward serving as a facilitative and promotional agency, with many evaluative and regulatory functions replaced by automatic systems.

25. **Merit-Based Pay Initiative (MBPI).** The Government is introducing, on a pilot basis, differentiated compensation based on performance and merit in the context of Public Financial Management (PFM) in the MEF. A team comprised of the MoC, CED and Port Authority has been tasked with proposing a framework, using the MBPI framework developed by MEF, by May 20, 2005.

26. **Acceleration of the judicial reform process.** The Government's avowed Legal and Judicial Reform (LJR) Strategy¹⁶ outlines seven broad objectives that are aimed at improving access to, and the quality of, Cambodia's legal and judicial services. The third of these objectives requires the "provision of better access to legal and judicial information by promoting dissemination of basic legal knowledge through official publications, electronic media and information folders and ensuring easy accessibility to all legal and juridical information for legal practitioners and any other interested party". And, in accordance with the LJR Action Plan formally adopted by the Government in November 2004, acceleration of the LJR process is to occur in part by making "the improvement of access to legal and judicial information" an "operational priority" of the Government in 2005-2006.

D. Budgets, Resources and the Trade Support Network: Capacity and Coordination

27. **Finance.** National budget allocations for export development are limited to payment of salaries for ministerial staffs. It is therefore; fair to assert and ascertain the majority of funding and resources for implementation of exports development activities must be coming from the donor countries (DCs), international development agencies (IDAs), and practitioners e.g., China, Japan, ASEAN, EU, US, WB, IMF, IFC, ADB, UNDP, ITC, AusAID, USAID, NZAid, GTZ, etc.). Domestic resources/savings are inadequate (or are not directed at or make available for export-oriented activities – almost all liquidities are being targeted for

¹⁶ The Strategy was formally adopted by the RGC's Council of Legal and Judicial Reform in June 2003.

constructions of rental property and real estate development/speculation) and banking sector – has yet to develop the product(s) and/or management culture to proactively supporting export credit applications and/or activities.

28. **Institutions.** Private institutional assets (manpower/finance) are weak and limited – save for few firms with political connections/transnational corporation – are inefficiently/ineffectively used, e.g., training, marketing, and information infrastructure. Human resource within the public sector its primary assets¹⁷ are also very weak in terms of technical expertise/capacities, in particular with staff of key institutions in trade support network (strategy support sub-network and services delivery sub-network). Therefore given the severe limitations and lack of resources within private and public sector (financial and technical capacity), implementation of national export strategy (including capacity building components) will be fully reliant on the availability of on-going financial and technical support from donor community.

29. **Trade Promotion Organization.** It is well recognized that the network of trade support institutions in Cambodia is still in its infancy. Outside the garment sector, market and trade-supporting institutions are absent. There is a substantial gap both in trade supporting formal institutions and in firms with experience in exporting, including in complying with destination-country standards, and manage quality or resolve disputes. As these institutions being developed, there is also a gap in local understanding of how to use these institutions to affect trade. The shared view among development economists is that the ability of Cambodia to participate more fully in the global economy typically is constrained by bottlenecks and limitations arising from three main areas: (i) conditions of market access; (ii) macro-policy reforms; and (iii) supply capacity of domestic firms. Although all three areas are being addressed by the Government, DC, and IDA programmed, there seems to be no formal Public Private Partnership (PPP) and no coherent strategic and development initiatives to insure coordination and synergies of programmed to tackle the fundamental weakness of competency/capacity of Trade Support Network.

30. The MoC is in the process of assisting the functioning of networks of trade support institutions (TSIs) capable of providing numerous kinds of services to exporters. This network is a departure from the traditional approach, in which the MoC has attempted to meet most of the trade support service needs of exporters. Examples of operational trade support institutions exist in Cambodia, like the National Codex Committee to extending services to help enterprises meet with technical standards and packaging requirements of export markets. Enterprise Development Cambodia (EDC) which set out to support private sector development, the development of the processor/producer/grower¹⁸ which, like the SME associations and provincial chambers of commerce are relatively new and all of the existing institutions lack the resources to carry out an effective job. They are seriously under-funded and for the most part, their staff lacks the necessary training and experience to deliver trade support services to exporters or potential exporters. Some other business support services are

¹⁷ It is not realistic to consider financial resources within the public sector since more than half of national budget is still being financed by donor countries

¹⁸ Rice Miller Associations and the Federation of Cambodian Rice Miller Associations sector-specific private business associations have been formed, the formation of farmer producing and marketing associations around tobacco, fragrant rice, banana, soybean, and castor seed production, and in the tourism sector the Tour Guide Association in Siem Reap, the Hotel Owners Association, and the Cambodian Association of Travel Agents.

available, but there are still significant gaps in meeting exporter's and potential exporters' needs. Moreover, most existing services are in need of strengthening. These include: (i) trade information/market research; (ii) trade promotion/marketing advisory services; (iii) standards and quality/industrial design; and (iv) overseas trade representation and mission/trade finance.

E. Recapitulation: National SWOT Analysis

31. The analysis of strengths, weaknesses, opportunities, and threats (SWOT) attempt to sum up the conclusions of Chapter II and reflects the opportunities and challenges faced by the Government and the private sector in Cambodia (Refer to Box 3 next page).

Box 3: National SWOT Analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> – Large, productive, and uncontaminated arable land with low population density (72 inhabitants km²) and the great lake “Tonle Sap” – Market access, e.g., China and other GSP granting countries, WTO, ASEAN AISP, and “EU Everything but Arms” – Pocket of entrepreneurial business sector driving the movement towards value creation, addition, retention, and distribution – Extensive under-utilized capacity to add, create, and retain value, e.g., organic produces, agro-business, agro-/aqua-processing, sericulture, and tourism – Low-skilled but resourceful/cost-effective labor and labor law (international standard) – Chemical pesticides and/or fertilizers are not being widely used in the agriculture and horticulture in cultivation this make conversion to organic farming for export relatively quickly and more profitable than conventional method of farming – Angkor Wat temple and others archaeological complexes are the tourist destination of choice 	<ul style="list-style-type: none"> – Low productivity and poor quality products due to generally inadequate manufacturing and farming experience, technical know-how, and branding practices – Lacking of property right leading to limited access and size of arable land and fishing lot and no domestic sources of venture capital to fund entrepreneurial activities in the agro-industry sector – Inadequate products from the banking sector to develop and support the exports sector and cumbersome and expensive credit facilities (limited intermediate-, short- and long-term facilities) for all sector in the economy – Poor transportations infrastructure coupled with an urgent need to develop and re-habilitate/modernize irrigation systems – Lack of inter-industry/sector linkages and few serious agro-/aqua-processing facilities and/or grain silo, and policy impediments to vertical linkage and cluster development – Ineffective trade support network whether for export processed goods or import of inputs leading to extensive smuggling into/from Vietnam and Thailand – Monopolist of the few major private sector players in cohort with high-profile politicians crowding out other potential entrepreneurs in the export sector
Opportunities	Threats
<ul style="list-style-type: none"> – Open access to foreign markets, reinforced by membership such as WTO, ASEAN AISP and “EU EBA” – Organic agriculture and agro-processing under Government consideration to become “lead” industry for export market, e.g., organic rice to EU, China early harvest (297 products tariffs’ free), etc... – Domestic production of fruits and vegetables would provide new sources of growth, value retention/addition within the tourism sector and development of horticulture sector for export to intra- and inter-regional markets – Synergy among DC and IDA to assist in the implementation of National Export Strategy – Joint public-private sector initiative to establish and develop cross border transportation and joint economic development with Thailand/Vietnam to develop an exchange markets along the major border trading posts to reduce informal trade – Investment and development in backward linkages and clustering 	<ul style="list-style-type: none"> – Performance of competitor countries in region, i.e., Thailand, Vietnam, Philippines, etc... – Indifferent policing of existing laws and regulations likely to undermine drive towards value addition and value retention and to upgrade quality of products for domestic consumption and export market – Extremely poor business environment due to corruption and myriad of formal and informal costs of doing business and transaction costs leading to unwillingness of FDI to enter the other sectors of the economy besides garment factories – Current export mix overly narrow, extremely low value addition/retention and extremely vulnerable to internal/external shock given heavy reliance on a single product (garments) and tourism sector – GMO crops enter the agriculture production chain – Chemical pesticides and/or fertilizers enter the country without Khmer instructions and label warning in regard to health and environmental impact

Source: Field work interviews and desk research.

Trade Performance Index: Cambodia, 2003										
Indicators	Cambodia	Fresh food		Wood products		Leather products		Clothing		
		Value	Rank (173)**	Value	Rank (125)**	Value	Rank (84)**	Value	Rank (117)**	
General profile	Value of exports (US\$000)	27,389		15,999		169,066		1,958,479		
	Trend of exports (99-03) p.a.	-3%	157	-1%	115	14%	42	20%	29	
	Share in national export	1%		1%		8%		88%		
	Share in national import	1%		1%		2%		3%		
	Average annual change in per capita exports	-10%	160	-15%	124	8%	22	11%	28	
	Relative unit value (world average = 1)	1.1		2.8		1.3		1.2		
	Average annual change in relative unit value	4%		13%		-2%		-5%		
Position in 2003 for Current Index	Value of net exports (US\$000)	15,973	77	-6,583	54	139,519	22	1,901,380	18	
	Per capita exports (US\$/inhabitant)	2.1	163	1.2	112	13.2	40	152.5	27	
	Share in world market	0.01%	140	0.01%	96	0.19%	40	0.81%	32	
	Product diversification (N° of equivalent products)	5	102	7	777	3	62	15	58	
	Product spread (concentration)		114		95		63		60	
	Market diversification (N° of equivalent markets)	6	94	1	119	3	56	2	83	
	Market spread (concentration)		123		117		51		69	
Change 1999-2003 for Change Index	Relative change of world market share (% p.a.)	-12.03%		-16.34%		7.24%		9.13%		
	Sources	Competitiveness effect p.a.	-11.78%	168	-11.62%	124	5.40%	12	10.41%	18
		Initial geographic specialization p.a.	-1.20%	143	1.25%	76	-0.53%	64	-1.54%	83
		Initial product specialization p.a.	-0.11%	77	-8.49%	122	2.10%	17	0.68%	41
		Adaptation p.a.	1.06%	25	2.53%	9	0.27%	30	-0.42%	56
	Trend of import coverage by exports	-12%	134	-33%	122	8%	13	-1%	55	
	Matching with dynamics of world demand		90		85		63		79	
	Change in product diversification (N° of equivalent)		87		7		66		23	
	Change in product spread (concentration)		87		6		67		22	
	Change in market diversification (N° of equivalent markets)		119		85		79		32	
Change in market spread (concentration)		113		83		79		35		
Indicators included in chart	Absolute change of world market share (% points p.a.)	(0.0030%)	127	(0.0062%)	106	0.0103%	21	0.0559%	13	
	Current Index		145		111		43		37	
	Change Index		150		108		63		21	

Source: adopted from ITC, Geneva (ITC calculations based on COMTRADE of UNSD) ** ranking out of all exporting countries (number)

Mirror Exports of Cambodia, 2003 – Trade with the World												
RANK	HS Code and Product Label	Exports 2003	Net Exports 2003	Volume Exports 2003		Export Growth 1999-2003 % P.A.		World Trade Growth 99-03 % P.A.		Share in world (%)	Leading Markets	
		US\$ M	US\$ M	Quant.	Unit	Value	Quant.	Value	Quant.		1 st %	2 nd %
-	All GOODS	2,282				17	-	-	-	-	-	-
-	All GOODS (WTO)	1,690	(25)	-	-	-	-	-	-	-	-	-
39	0306 Crustaceans	3.1	2.3	-	-	(22)	-	1	5	0.0	HKG 75	CHN 14
40	3923 Plastic packing goods or closures stoppers, lids, caps, closures, plastic containers etc	2.9	(7.3)	-	-	276	-	9	12	0.0	USA 100	SWE 0
22	4001 Natural rubber, balata, gutta-percha etc	14.6	14.2	-	-	(21)	-	11	3	0.2	CHN 53	MYS 19
34	4407 Wood sawn/chipped lengthwise, sliced/peeled	4.9	4.9	3	-	(15)	-	(1)	4	0.0	CHN 96	JPN 2
27	4412 Plywood, veneered panels and similar laminated	9.6	9.3	-	-	(6)	-	2	4	0.1	CHN 90	AUS 7
38	5205 Cotton yarn (not sewing thread) 85% or more cotton not retail	3.4	(10.9)	-	-	49	-	4	8	0.0	CHN 91	PHL 5
26	6101 Men's overcoats, capes, etc, knitted/crocheted, o/t of hd 61.03	9.8	9.8	-	-	42	-	5	11	1.2	USA 37	GBR 21
20	6102 Women's overcoat, cape, etc, knitted/crocheted, o/t of hd 61.04	16.8	16.8	-	-	35	-	16	20	1.2	USA 31	GBR 23
25	6103 Men's suits, jackets, trousers etc & shorts, knit/croch	10.2	9.9	-	-	(10)	-	4	8	0.4	USA 47	GBR 24
11	6104 Women's suits, dresses, skirt etc & short	49.5	49.2	-	-	14	-	1	5	0.7	USA 60	SGP 10
8	6105 Men's shirts, knitted or crocheted	56.5	56.2	-	-	18	-	(3)	-	1.4	USA 55	GBR 19
12	6106 Women's blouses & shirts, knitted or crocheted	47.6	47.6	3	-	21	-	6	9	1.0	USA 73	SGP 8
6	6107 Men's underpants, pyjamas, bathrobes etc, knit/croch	75.3	75.2	-	-	117	-	6	6	2.4	USA 99	DEU 0
4	6108 Women's slips, panties, pyjamas, bathrobes etc, knitted/crocheted	129.7	129.7	-	-	86	-	5	8	1.8	USA 95	CAN 2
9	6109 T-shirts, singlets and other vests, knitted or crocheted	54.5	54.0	-	-	1	-	7	5	0.3	DEU 28	USA 24
1	6110 Jerseys, pullovers, cardigans, etc, knitted or crocheted	494.0	459.1	-	-	13	-	5	9	1.4	USA 84	DEU 22
19	6111 Babies' garments, knitted or crocheted	17.0	16.9	-	-	15	-	6	13	0.4	USA 84	GBR 4
28	6112 Track suits, ski suits and swimwear, knitted or crocheted	9.4	9.4	-	-	14	-	4	9	0.4	USA 85	SGP 10
33	6113 Garment made up of knitted/crocheted fabric of hd no 59.03 06.07	6.2	6.2	-	-	34	-	1	5	1.6	USA 90	CAN 9
24	6114 Garments, knitted or crocheted, nes	11.2	11.0	-	-	36	-	13	17	0.5	USA 49	CAN 32
17	6201 Men's overcoats, capes, wind-jackets etc o/t those of hd 62.03	32.4	32.3	-	-	6	-	-	6	0.5	USA 74	CAN 8
29	6202 Women's overcoats, capes, wind-jackets etc o/t those of hd 62.04	9.2	9.1	-	-	(8)	-	8	15	0.1	USA 60	DEU 9
3	6203 Men's suits, jackets, trousers etc & shorts	214.7	214.2	-	-	-	-	2	4	0.8	USA 68	DEU 12
2	6204 Women's suits, jackets, dresses skirts etc & shorts	468.7	468.3	-	-	35	-	7	9	1.3	USA 82	DEU 4
7	6205 Men's shirts	66.5	65.8	-	-	13	-	1	-	0.7	USA 82	GBR 8
15	6206 Women's blouses & shirts	38.8	38.8	3	-	31	-	5	5	0.4	USA 87	SGP 6
14	6207 Men's singlets, briefs, pyjamas, bathrobes etc.	39.3	39.3	-	-	29	-	(1)	6	3.1	USA 88	SGP 4
10	6208 Women's singlets, slips, briefs, pyjamas, bathrobes etc	50.4	50.4	-	-	73	-	(1)	5	2.3	USA 94	CAN 3
35	6209 Babies garments and clothing accessories	4.2	4.2	-	-	18	-	9	17	0.2	USA 65	CAN 15
30	6210 Garment made up of fabric of heading no 56.02 56.03 59.06 59.07	8.6	8.5	-	-	10	-	1	3	0.2	LUX 51	DEU 12
16	6211 Track suits, ski suits and swimwear, other garments	37.1	37.0	-	-	25	-	4	5	0.7	USA 70	GBR 6
32	6212 Brassieres, girdles, corsets, braces, suspenders etc & parts	7.0	6.7	-	-	36	-	6	9	0.1	USA 97	CAN 23
31	6302 Bed, table, toilet and kitchen linens	7.9	7.5	-	-	202	-	7	12	0.1	USA 97	TWN 2
13	6402 Footwear nes, outer soles and uppers of rubber or plastics	44.2	40.9	-	-	25	-	4	4	0.4	DEU 49	FRA 9
5	6403 Footwear, upper of leather	110.6	110.4	-	-	37	-	6	5	0.3	JPN 72	DEU 18
21	6404 Footwear, upper of textile mat	14.8	14.2	-	-	(4)	-	-	(1)	0.2	DEU 56	DNK 6
23	6505 Hats & headgear, knit/croche from lace	12.2	12.2	-	-	54	-	5	9	0.5	USA 92	CAN 3
18	7108 Gold unwrought or in semi-manuf forms	28.5	28.4	-	-	310	-	2	(5)	0.1	SGP 100	NPL 0
36	7204 Ferrous waste and scrap, remelting scrap ingots or iron or steel	4.1	3.6	-	-	39	-	18	7	-	THA 100	TWN 0
37	9999 (*) Special Transaction Trade	4.0	(22.3)	-	-	7	-	(1)	-	-	USA 40	THA 23
-	Other services, credit (2002)	50.0	(70.0)	-	-	-	-	8	-	-	-	-
-	Transport services, credit (2002)	89.0	(125)	-	-	-	-	5	-	-	-	-
-	Travel, credit (2002)	454.0	416.0	-	-	-	-	3	-	0.1	-	-

Note: the indicators are based on the partner countries' export statistics (mirror)

(*): may include re-exports or ships registration

Source: adopted from ITC, Geneva (COMTRADE of UNSD)

Chapter III: The Strategy Design Process and Paradigms

A. Scope of Strategy

31. For Cambodia to become internationally competitive, and to stimulate the development of the export sector, its require a comprehensive approach – one that addresses the impediments to competitiveness which takes advantage of regional and global trade opportunities for enhanced export performance.

32. Cambodia's National Export Strategy 2007-2010 adopts ITC's **4-Gears** of national export strategy (Figure 2) model as a basis for its strategic scope, namely.

- “Border-In” (**supply-side issues**) focusing on production capacity, productivity, quality, technology development, management and export marketing competencies, and competency within the trade support network to assist enterprises in supply-side matters.
- “Border” (**operational issues**) focusing on a developing and facilitating a business environment that is internationally competitive, on reducing the costs of the trade transaction, on streamlining official procedures and documentation, and progressing infrastructure development.

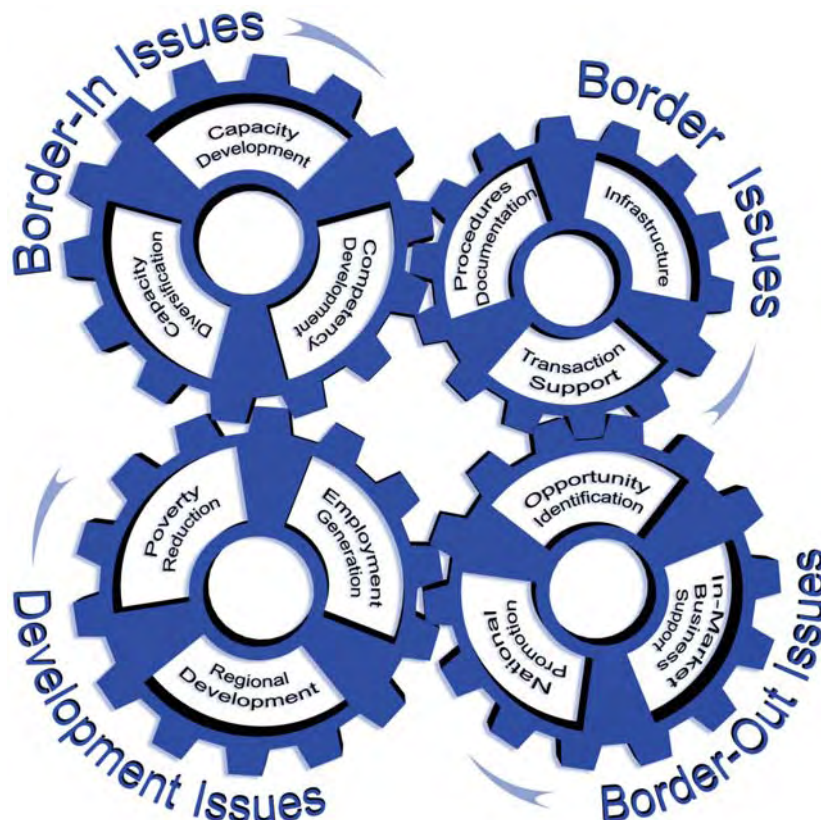


Figure 2: NES 4-Gears

- “Border-Out” (**demand-side issues**) focusing on identifying commercial opportunities abroad, provision of in-market support, promotion of the country and its sectors, promoting export-oriented foreign direct investment and technology/know-how transfer.
- “Development” (**socioeconomic issues**) focusing on job creation, balanced-gender, poverty alleviation and urban/rural development.

33. Apart from developing strategies to improve the competitiveness of the various product and service sectors, the strategy must also address cross-sectorial issues such as:

- trade information;
- trade finance;
- quality management; and
- competency development.

34. Simultaneously, trade-related policy measures (such as SWAP, DTIS/IF II, and other donors’ country strategy) and the investment promotion regime must be attuned (to) the National Export Strategy.

B. Public Private Partnership

35. Public private sector dialogue is a platform for interaction to inform policy reform and development. Given the many areas of discipline where there exists a mutual economic and social interest in cooperation between the two sectors, encompassing policies, trade and infrastructure development, environmental protection, and the promotion of inter-firm backward/forward linkages, the ability of the Government – inter-ministerial and interdepartmental – and the private sector to build an effective working relationship assumes particular importance.¹⁹

36. Hence, to insure the NES is progressive and relevant to the needs of the industry and realistic in terms of resources available to implement the strategy (finance/human resources) a consultative process between the public sector and private sector and relevant NGOs were initiated and maintain throughout the strategy design processes. It is strongly recommended that this process of consultation be maintained and strengthened through the implementation and monitoring phases.

37. While the MoC has assumed the role of coordinating this consultative process and has enable working group to identify competitiveness and competency constraints and come up with the agreed possible solution. A permanent platform for the working group need to be instituted to carry on the implementation of the strategy once it’s adopted by the Government. In short a process which has enabled structure dialogue that combines a top down with a bottom up approach must be perpetuated. Best practice suggested that the public sector set strategic priority among sector while the private sector set strategic priority within each sector. This combines the private sector short-term commercial objectives with the public sector long-term developmental objectives and addresses issues at the macro, meso, and micro level simultaneously.

¹⁹ For example, Law, Tax, & Good Governance working group, Export Processing & Trade Facilitation working group, and Manufacturing & SME working group.

C. Value Addition, Value Creation, Value Retention, and Value Distribution

38. Sector-level strategy is the fundamental of national export strategy. In this respect, sectorial value chains/supply chains provide the basis for determining the focus of sector-level strategy. The ultimate objective is to:

- improve efficiency within the national component of the value chain (thereby enhancing the sector’s competitiveness);
- retain and add value by adjusting, and reducing leakage from, the national component of the value chain;
- increase value-addition and create value by entering new value chains within the sector, or related sectors; and
- improve the sector’s value distribution – direct contribution to such national development goals as employment generation, poverty reduction, rural and regional development, gender issues, sustainable human development, and sustainability of the environment.

39. These value-related considerations are the drivers of the sector’s future orientation, therefore the following issues are assessed:

- compliance with the market’s critical success factors (CSF);
- bottlenecks to competitiveness and export-led growth;
- opportunities to add, create, retain, and distribute value; and
- adequacy/competency of trade support services.

40. The value-chain methodology is applied to identify opportunities and impediments for each the sector (Figure 3 generic value-chain model).

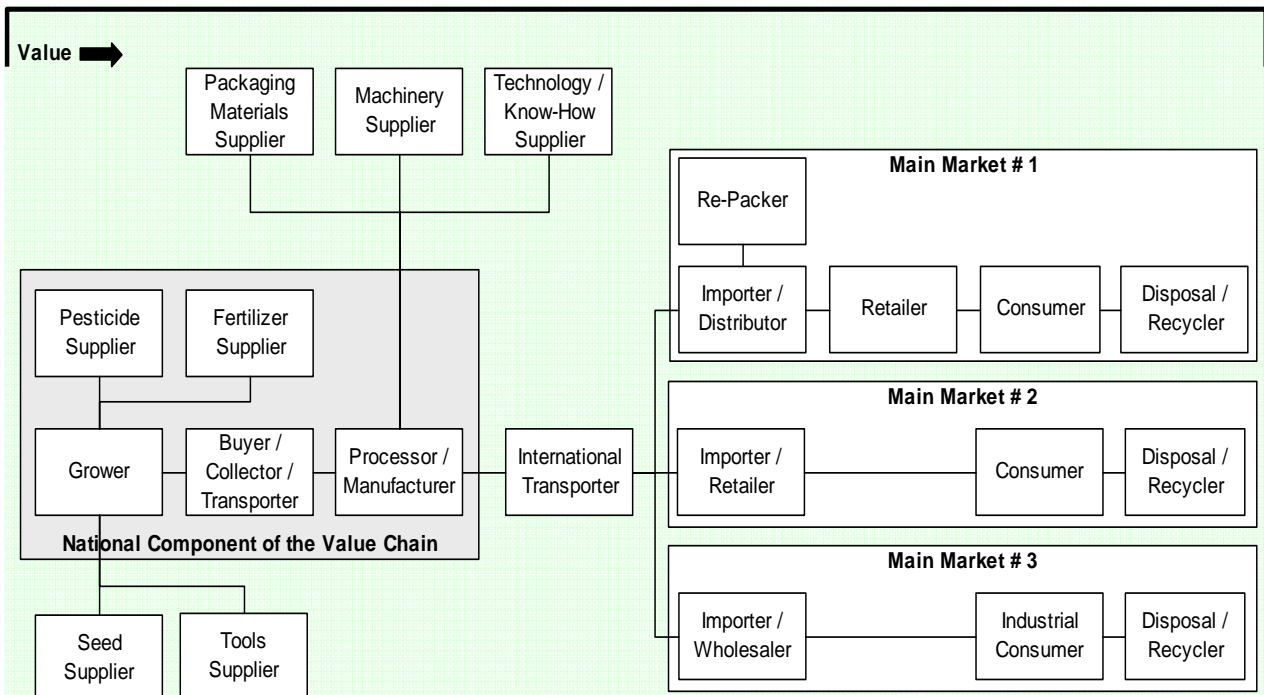


Figure 3: Generic Value-Chain

D. Strategy Management Framework

41. The recommended framework for managing the strategy's implementation is based on Kaplan and Norton's Balanced Scorecard (Figure 4 and Figure 5 next page) which involve together the public and private sector in order for.

- Ensuring that all major economic actors relate to directly and/or indirectly to the strategy share ownership of the strategic vision elaborated in box 1.
- Assigning a relevant and realistic weighting to each stakeholders' perspective proportional to its importance (as agreed by the Strategy Design Team).
- Ensuring that targets are set for each strategic initiative, and that measures are specified by which these targets will be monitored and the impact of strategy assessed.

Figure 4: The Logical Framework Applied to Develop the NES

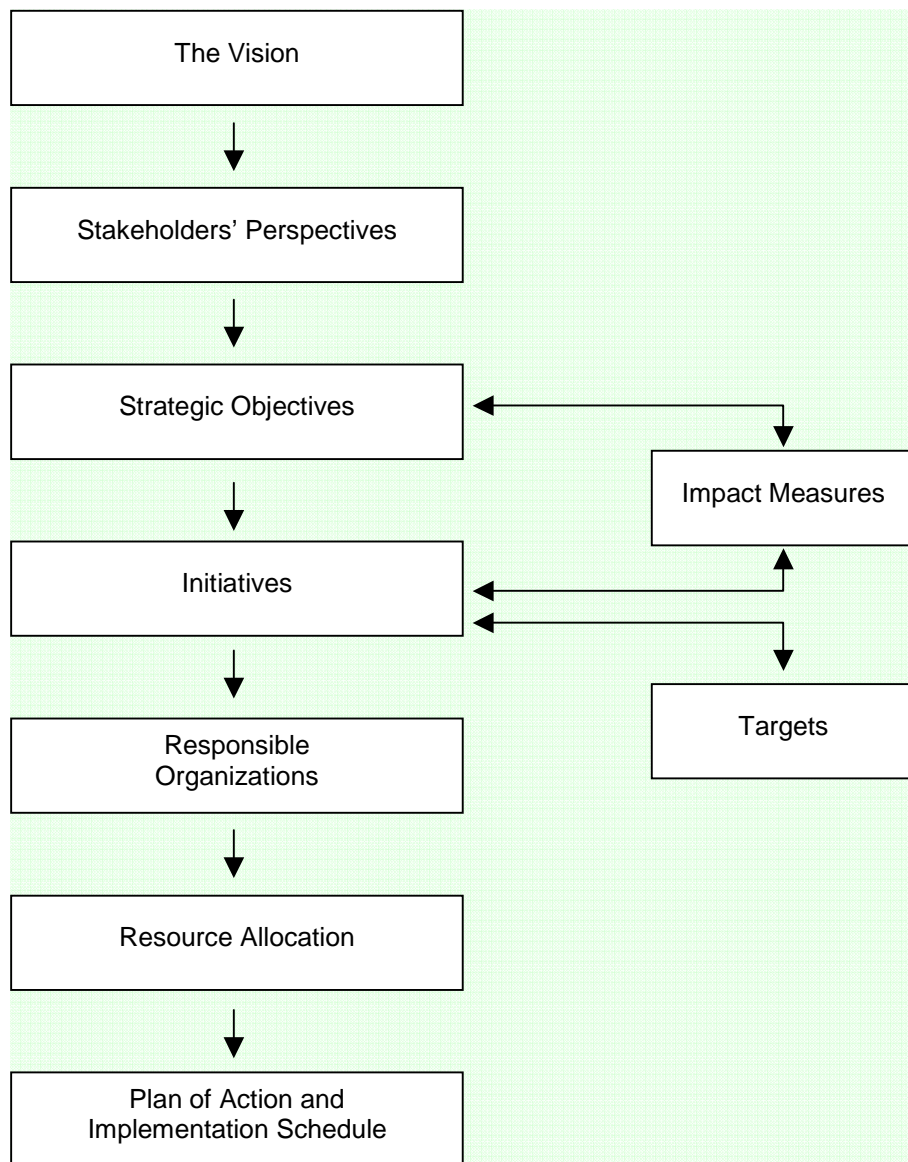
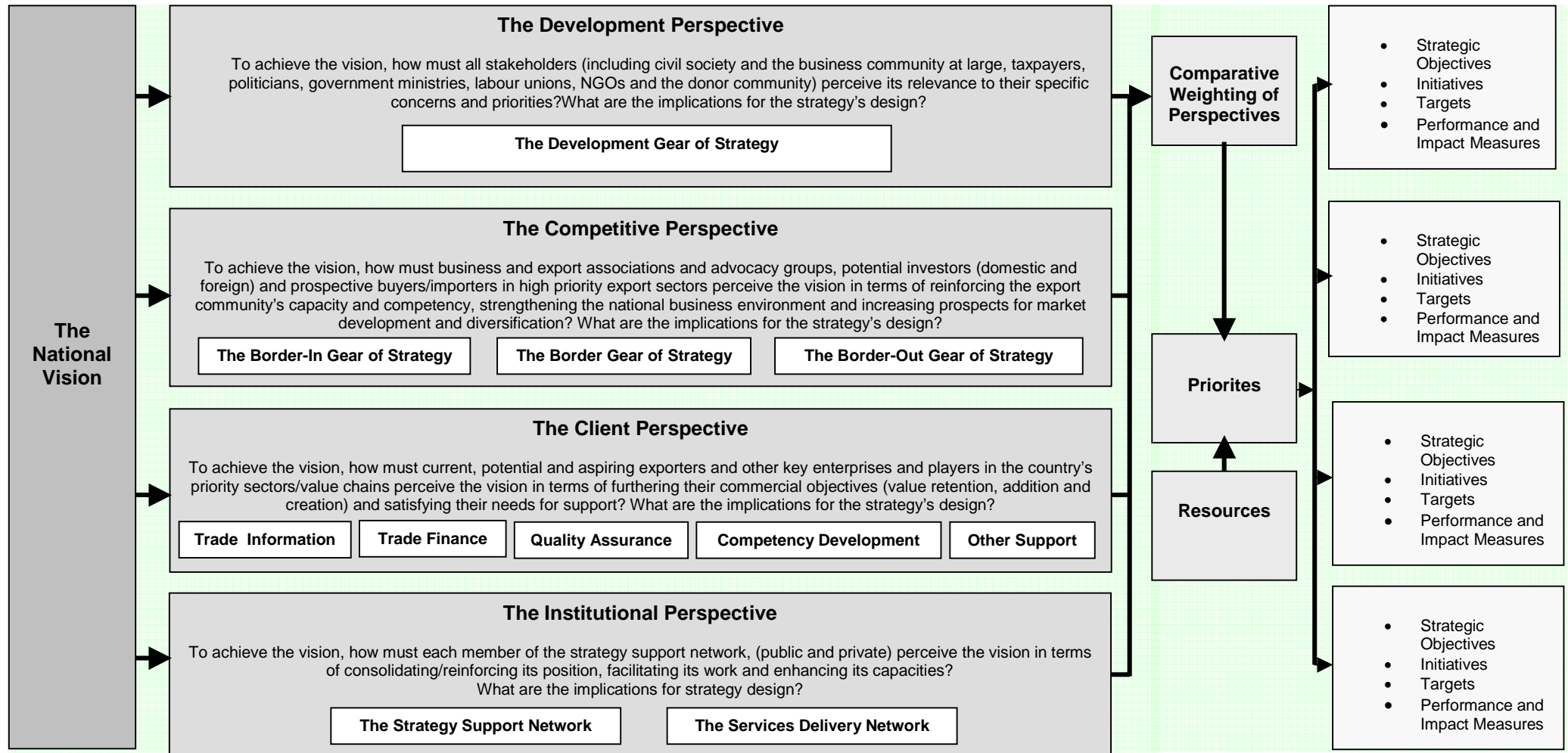


Figure 5: The Process Strategy Design and Management Framework



Chapter IV: The Way Forward – ‘06-‘09 Export Development Strategy

A. Three- to Five-Year Rolling Strategy

42. In light of the resources [finance] constraints to implement the said strategy. The NES is design as three (3) and five (5) years rolling strategy which will provide maximum flexibility to adapt to evolving economic and political environment within and without Cambodia. Further the NES incorporated the draft of National Strategic Development Plan (NSDP) which provides a sound statement regarding trade policy that is helpful in setting the direction for strategic objectives and initiatives (Box 4).

Box 4. Excerpts from the NSDP draft:

"Linking production to consumption or producers to consumers, Trade is a powerful and important catalyst for socio-economic development. It plays a vital role in income generation and distribution, both contributing to human development in a significant way. Cambodia is uniquely situated in a geographical area with fast growing middle and higher income countries whose demands for products and services could be met by Cambodia's products available at competitive prices. Trade will facilitate entry into such markets and other far away ones for goods and services generated in Cambodia at competitive prices using immense comparative advantages. Though not an end in itself, it is an inescapable means to overall development. Not narrowly confined to local markets, imports and exports, it has multiple interactions and linkages to many other domains and cross-cutting spheres of socio-economic activity. By using markets for goods and services at primary levels, it facilitates investments and contributes to achievement of poverty reduction and gender equality".

B. The Development Perspective (currently weighted 30/100)

1. Strategic consideration #1 the "Development Gear Strategy" maximizing the direct contribution to overall economic and social development

43. The NES is not just a strategy for exporters. It is a strategy for all Cambodian citizens. In fact, the nucleus of the NES revolves around universally valued developmental priorities.

44. It is thus essential that there is sustained growth in the export sector's contribution to national socioeconomic development. Cambodia is facing development and economic gaps compared with other countries in South Asia. Enhancing export competitiveness and competency is a proven way to reduce these gaps. Therefore, export development is not an objective in itself but a crucial way to also ensure sustainable economic and human development.

45. The main objective of the strategy is to alleviate and ultimately reduce poverty in Cambodia, through activities that promote regional development, contribute to employment and income generation, and that encourage the participation of women entrepreneurs.

46. To achieve this, it is essential that all stakeholders, including politicians, civil servants, the private sectors, civil societies and the donor communities must work within an agreed and accepted framework. This strategy provides such a framework.

1.1. Contribution to regional development

- Upgrade regional physical infrastructure to support emerging sectors such as tourism and to strengthen existing sectors such as agriculture, fisheries, sericulture, and handicrafts.
- Implementation of export oriented projects and programs in rural development.
- Programs to stimulate the establishment of business alliances at local level within sectors that have high domestic multiplier potential, e.g., agricultural products, fisheries, silk and handicrafts.
- Programs to stimulate export-oriented cluster development in sectors such as agriculture, fisheries, tourism, silk and handicrafts.

1.2. Contribution to employment generation

- Support and strengthen the key employing sectors, e.g., garment, tourism, agriculture, and fisheries.
- Create new employment opportunities in existing/emerging sectors, e.g., community-based and cultural tourism, organic farming, processed fish products, light-scale manufacturing.
- Foster a competitive policy framework and environment conducive to attract and retain foreign and domestic investment into these sectors.

1.3. Contribution of women

- Reinforce and promote women's contribution and involvement in the economy, particularly the garments, silk and handicraft, and tourism sectors.
- Encourage and strengthen women entrepreneurship to ensure effective participation of women in business and export activities.
- Ameliorate women's roles in the cottage industry at village level linking with export industries.

1.4. Environmental sustainability

- Strengthen the policy framework to maximize sustainable management and use of natural resources while minimizing environmental impacts posed by critical and emerging sectors, e.g., agriculture, aquaculture, horticulture, and fisheries.
- Protection of environment and biodiversity at regional level, e.g., Tonle Sap, National Park, and Wildlife Sanctuary.
- Facilitate and underwrite compliance with environment standards for exporters.

C. The Competitive Perspective (currently weighted 30/100)

47. Currently the country depends on comparative advantage such as competitive labor complement with fair labor law and natural resources such as the great lake Tonle Sap and archaeological heritage such as Angkor Wat. Given this narrow base to compete and the proximity to the agriculture powerhouses (Thailand/Vietnam) this comparative advantage is not sustainable to generate long-term stable growth, therefore new sources of growth base on competitive and comparative advantage must be quickly developed.

48. Among other constraints, the limited capacities of the current exporters to adapt to the demand of the export market requirements are very low. For these reasons the NES cannot simply be designed around export promotion for market access, but a comprehensive approach must be at the core of the strategy which encompasses the **4-Gears** of the NES, i.e., capacity development, infrastructure, national promotion, and regional development coupled with business environment that's conducive to regional and international trade.

1. Strategic consideration # 2 the “Border-In Gear of Strategy” developing the supply side

49. The urgency to reduce the gap between the supply side capacity and the demand of the market destinations the NES calls for actions plan to be taken simultaneously by all stakeholders. These include policies and development programs as such.

- Enhancing the production capacity of industry (this involves access to arable land, upgrading skills, production techniques and know-how, modernization of plants, tools and equipments, product design, research/development, and diversification into other product line).
- Organizing the sector through alliances, cooperatives, associations, clusters in order to enable small scale producer/grower to participate directly and proactively in the international trade.
- Persuade local and foreign investment outside the garment sector, e.g., aquatic production, organic farming, and sericulture.
- Encourage the use of domestic inputs in manufacturing and production for example: agriculture inputs such as natural fertilizer; insecticide and pesticide; and fishing boats and tackle.
- Competency development (entails building enterprises management competency in the areas of marketing and finance, vocational skills, accounting and engineering, and competency in production and productivity in particular in agricultural extension services, fisheries technology and competency in quality management and international standard).
- Vertical linkages among the academics institutions (K-12 to university to vocational school) and the business communities, e.g., internship and in-house career training to insure graduate had the skill and knowledge needs by the business communities.

2. Strategic consideration # 3 the “Border Gear of Strategy” improving the business environment and minimizing the costs of doing business

50. Cambodia business operating environment is full of obstacles for small-medium-enterprises to navigate and compete effectively. This affects the cost of doing business with dire consequent results in greater number of informal practices and higher [domestic] international transactions making Cambodian products uncompetitive. It is essential for the entrepreneur and enterprise to operate in predictable and transparent environment which enable them to compete on a level playing field with their competitor.

51. Some of those constraints and impediments which need resolves are, but not limited to.

- Official predatory practices of informal payments in every step of international transactions.

- Excessive documentations (once there were 45 different documents just to process the export application).
- Complexity and non-transparency of export procedures discourage many enterprises from engage in formal trade (this in turn encourage large volume of informal border trade with Vietnam and Thailand with little or nil value added being retained in the country).
- Customs procedures and Camcontrol are lengthy and inefficient which results in time-delayed and lost sales.
- Poor/inadequate infrastructure, e.g., road, utilities, transportation, telecom, ports, airport and in particular there's an urgent need to develop and rehabilitate/build new irrigations systems, grain silo, warehouses, cold storage and cool chain. Without these essentials infrastructure Cambodian producer/exporter could not compete even in the local market.
- Inadequate quality standard to meet export market requirement, e.g., CODEX, STMQ (Standard, Testing, Metrology, and Quality), SPS, HACCP, ISO certification, etc... which results in Cambodia's products fail to meet international standard.
- Weakness in enactment and enforcement of business law, e.g., the Insolvency Law, Secured Transactions Act, Law on Commercial Arbitration, Civil Code, Anti-Corruption Law, etc... need to be in placed to provide the business community the legal framework to conduct trade.

3. Strategic consideration # 4 the “Border-Out Gear of Strategy” improving market access and exploiting commercial opportunity

52. Cambodia has adequate market access via the WTO membership, EU EBA, China Early Harvest, ASEAN FTA. Nevertheless, it is essential the export promotion programs actively participate in the NES to improve the image of the Cambodian products. It is likewise crucial for enterprises to have access to relevant and timely market information in which to forecast and base production, marketing, and export decision. It is therefore critical to:

- reinforce the image of Cambodian products through the “Made in Cambodia” label and/or quality standard label, e.g., Pure Golden Khmer Silk, Fish from Tonle Sap, Neang Malis Organic Rice, Palm Wine and Juice, Kampot Black Pepper, etc...;
- enable the export enterprises to actively participate in the regional and international trade fair in order to establish direct contact with the supplier and buyer;
- seek to diversify into new export market where Cambodian products have the potential;
- broaden an ecommerce portal to which Cambodian product can be promoted and sold worldwide directly to the consumer, e.g., silk products and tourism package; and
- improve accessibility to market information including trade and business opportunity, investment prospect, etc... by coordinating with the overseas commercial trade attaché.

4. Strategic consideration # 5 prioritization of export sectors for maximizing value addition, value creation, value retention and value distribution

53. Though the NES is designed for and expected to benefits all sectors in the economy. The initial thrust of the NES is principally focus on five (5) priority sectors which were the results from comprehensive consultation with all stakeholders at the launch of the strategy design. These sectors are:

- garments and textiles;
- fisheries;

- organic agriculture;
- silk; and
- tourism.

54. The primary reason these sectors are prioritized and selected because they were/are the main engine for employment generation, poverty alleviation, and symmetrical balanced-gender and Cambodia has a clear and present comparative and competitive advantage coupled with open access to her primary market/s. In addition, these sectors offer the best potential to be further developed for added-, created-, retained-, and distributed-value and benefits to those at the bottom end of the economic ladder. More, it will usher in the development of production cluster which sorely needs in post-WTO Cambodia to elevate small-scale producer/exporter to compete effectively in the global market.

55. The compilation of detailed study/analysis of these sectors and/or sub-sectors over number of years by various donors, practitioners, research institutes, and government agencies which form an integral part of this document can be found in the annexes at the end of the strategy paper.

D. The Client Perspective (currently weighted 20/100)

1. Strategic consideration # 6 prioritization of clients (national and sectorial)

56. Cambodian enterprises are at different level of sophistication in terms competency, capacity, and their ability to engage in export. There're therefore different levels of need commensurate with the firm capacity to absorb external technical and managerial assistance. The NES must be responsive to these various needs effectively and in timely manner.

57. For instance, current exporter needs a minimum level of generic services, thus priority must be given to:

- improvement of capacity to meet international order and availability of competitive export finance;
- upgrade product standard/quality and training on the international standard;
- access to affordable business counseling services and market diversification;
- timely and availability of relevant trade information and market opportunity;
- lowering the costs of trade transactions and improvement in efficiency of trade formality;
- accessibility to inputs – raw materials, labor, etc... at reasonable costs and on time.

58. To be effectively assisted the potential/aspiring exporter the focus would gear to:

- creating awareness on the benefits and requirements of exporting;
- entrepreneurship development training/capacity building in manufacturing and processing;
- provision of guideline on exporter potential assessment and readiness; and
- provision of information on the requirements of international buyer, and regional and international market trends and facilitating linkages with potential customer/supplier.

2. Strategic consideration # 7 “Trade Information Services/Commercial Intelligence Services”

59. Trade information services play a critical role whether the firm is exporting and/or just serving domestic market. Accurate and timely economic/financial, market, and trade data enable enterprises to make informed production, marketing, and export decisions and public institutions to develop the right policies which affect trade. Currently several institutions are involved in the provision of trade information, but these face major constraints in terms of, but not limited to:

- deficiency, inferiority, and uniformity of trade information;
- frequent over lapse in-real-time of trade information;
- lack of coordination/specialization among the different suppliers of the trade information; and
- shortage of qualified professional in the field.

60. The objectives of Trade Information Services (TIS) therefore are to focus on.

- Networking with and foster cooperation with national, international institutions, and other information services provider.
- Capacity building a team of skilled information professional – training the trainer.
- Collect, compile, organize, and disseminate relevant and up-to-date information to the user.
- Proactive in fulfilling and anticipating the information needs of the user and deliver value-added services by professional staff, e.g., advisory and/or consulting services.

3. Strategic consideration # 8 “Trade Finance”

61. In order to develop and expand export capacity, and skills to engage in export the enterprises needs financing and/or export credit facilities. Currently there are several constraints in financing of export as they are, but not limited to:

- legal system is not yet set up to protect neither the lender nor the borrower;
- infancy of the financial and banking system;
- inability to conduct throughout due diligence and/or credit check;
- inept at assessing, managing and pricing risk associated with revolving/term loans due to lack of skilled banker in commercial and merchant banking;
- borrowers are required to have high liquidity ratio, put up excessive collateral and have to pay usury interest rate; and
- available financing is only for short-term loan typically for one year or less.

4. Strategic consideration # 9 “Quality Assurance and Conformity”

62. What’s quality and conformity? In general term, the degree of excellence which a thing (tangible/intangible) possesses and the condition or fact of being in harmony or agreement with customs, rules, and/or prevailing opinion. Marketing surveys dictate that consumer makes purchase decision to satisfy his/her wants/needs. It is essential then, that Cambodian products must meet buyer requirements. This has implications on the national and institutional infrastructure as well as on the individual enterprises.

63. Currently the International Standard of Cambodia (ISC) is the only organization responsible for quality assurance, metrology, and standardization. However the entity is

lacking in quality, capacity, resource, and competency to serve the producer and exporter community adequately.

64. The NES will prioritize the following activities/programs to narrow the gap between market requirements and current practice.

- Lobbying for the adoption and implementation of CODEX Alimentarius Standard.
- Training center for Quality Control/Assurance Professional.
- Establish additional accredited labs with sufficient equipment and laboratory facilities.
- Establish domestic certification programs in accordance with international quality standards.
- Conduct public awareness program and training on quality assurance and conformity issues aimed directly at producer/grower at the provincial level.
- Encourage enterprises to achieve ISO standard, e.g., 9001, 14000, etc...

5. Strategic consideration # 10 competency development

65. To be effectively engaged in the international trade Cambodian enterprises must go beyond normal learning curve in upgrading and developing management competency at every level in order to be competitive in the race for market share. It is urgent that such human capital be developed in critical mass among local enterprises to ensure that they can compete successfully and benefits from post-WTO Cambodia, and meet the demands of domestic and international buyers. The following are the key areas in which competencies need to be developed throughout the industry.

- Processing/manufacturing which meet/exceed international standards via technology transfer of production processes, techniques and technologies.
- Proper handling of product, e.g., fisheries sector.
- Product design, labeling and packaging, and branding to improve marketability.
- Logistics and supply chain management to bring product to the international market.
- Strategic alliances and networking with international buyers/importers.
- Management skills, e.g., negotiation, market research, use of information systems, export and financial management, etc...

E. The Institutional Perspective (currently weighted 20/100)

1. Strategic consideration # 11 strategy “Support Network” and “Delivery Network”

66. Developing exportable products/services, then brings it to markets required putting in place a range of proficient trade support apparatus – trade information, trade promotion, trade financing, etc..., to facilitate exporting enterprises as well as fostering a range of export skills within those enterprises. Public institutions and its human resources to accommodate this broad area are inadequate.

67. Developing new products and markets also requires new entrepreneurial spirit – willing to take risk – which is also weak in Cambodia, partially can be attributed to absent of venture capital and weak-willed capitalists. However, even if domestic savings are mobilized for investment in the trade sector, there is still a shortage of “soft” capital – that is the know-how that entrepreneurs need backing for they are to succeed. How to promote and circulate

such transfer among domestic enterprises should be under the overall coordination and cooperation of line ministries in full partnership with the private sector.

68. In short the Trade Support Network (TSN) from the inception must be restructured in ways, which itself acquired expertise and embodiment of trade-related issues, and must be organized to ensure that there is no duplication of effort, thereby optimize the impact of the limited available resources, while ensuring that there are no significant gaps (see proposed TSN on page 30). This requires strong leadership, coordination and collaboration from every aspect of the public and private sector.

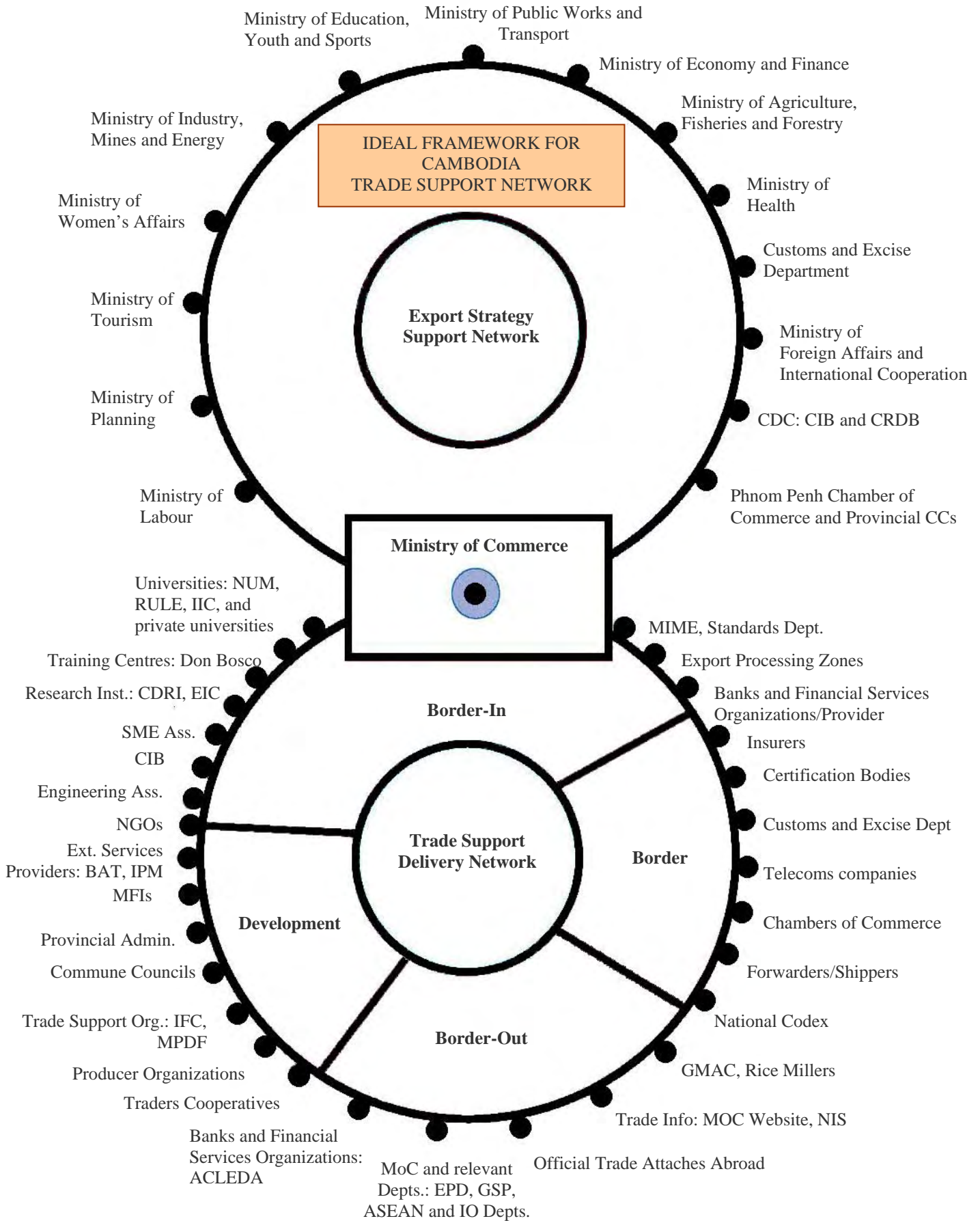
69. For this purpose, the NES will address four (4) main areas of concerns.

- Strengthen existing trade support institutions both at the national and provincial level.
- Strengthen the current trade information capacity at the national level servicing the specific needs of trade support institutions and exporting enterprises and recommend the extension of such information to provincial counterparts.
- Establishment of an operational trade support network at the national level between Government, trade support institutions, product associations and exporting enterprises, led by strengthened trade promotion organizations.
- Provide technical assistance to assist in the improvement of knowledge, capacity building of training institutions to provide training in trade promotion and export development to existing, and potential exporting enterprises.

70. The NES process must be coordinated and collaborated at every level. Designing, implementing, monitoring, and assessing stages. This calls for a partnership between the public and private sector that involves the key stakeholders within the TSN. Such a partnership must be formalized since an informal partnership represents only an informal commitment, no mandate and lax accountability, and no authority. The best form of institution is a quasi-judicial National Export Council (NEC) that will have a legal mandate to:

- coordinate the implementation of the strategy;
- insure that resources for the implementation of the public sector contribution to the strategy are duly allocated and available;
- monitor strategy implementation and assess performance and impact; and
- introduce changes.

71. Annex 5 elaborates a suggested legal framework for institutionalizing such a National Export Council of Cambodia.



Chapter V: Strategy Management²⁰

A. Institutional Approach

72. In designing the National Export Strategy and its implementation requires an on-going and effective public-private sector partnership. It is therefore essential that leadership be confirmed, nonpartisan, and sustained for it will for naught. A National Export Council as previously mentioned in Chapter IV that is quasi-judicial and backed up by legislation is the best form of public-private sector partnership and an explicit solution to implement and manage the NES.

73. The National Export Council of Cambodia (NECC) shall be given a formal mandate to insure status de jure and authority, and shall be held responsible and accountable with line ministries, and be tasked, but not limited to.

- Ensure a consistent and consensual private sector ‘voice’ – the Government must respond to private sector’s willingness to support it strategy, it must reciprocate the offer of collaboration – the role of line ministries not just industry associations/clusters, chambers of commerce, as well as individual companies and industry leaders of strategic importance.
- Ensure the Government live up to the responsibility and accountability of paying heed to the private sector and of ensuring that the available support and related regulation correspond to those needs of the private sector.
- Refocus the role of the Export Promotion Department (EPD)²¹ – strengthen the role of EPD at the operational, not the strategic level, hence EPD should therefore focus on its core business – that of proactive and responding to the demands and needs of enterprises.
- Ensure the NES developmental objectives of the public sector tight-knit with the commercial objectives of the private sector, and that the strategy is relevant, realistic, and ultimately realized.
- Financing (self-sustained) – one of the greatest constraints to sustaining the partnership is lack of funding. Partnership implies joint action; joint action involves joint expenditure of resources – resources mean money. ‘Best practice’ suggests a variety of schemes to be used to generate funds to finance the partnership’s activities, including import/export levies, matching grants and import/export banks. The Response Paper recommended 100% funding from the donors at the inception, thereafter 50% of the operating costs come from the private sector through taxes and/or levies and 50% from customer services.

74. The public sector (Council of Ministers) must take the initial crucial steps to form the NECC for the principal part of responsibility lies within its sphere of legal mandate. But once formalized, the operations and leadership of the NECC shall be delegated to the private sector to insure its maintenance, nonpartisanship, proactive approach to identifying and allocating resources necessary for the implementation, and assessment of the impact of the NES.

²⁰ Adopted from ITC EF 2005 Consultative Cycle – Techniques for Managing National Export Strategy, January 24-26, 2005.

²¹ It is recommended that the Export Promotion Department be renamed to Export Development Department with a new mandate to developing export sector.

B. Monitoring and Impact Measurement

75. For NES to deliver broad-based and sustained-growth, balanced-gender and balanced-wealth distribution, and antipoverty the implementation the strategy must remains coherent throughout, henceforth the document calls for the following to be specified clearly, and be used as benchmark for regular monitoring by the NECC.

- Strategic Objectives – what we want to achieve?
- Initiatives – how we will achieve our objectives?
- Responsible Institutions Public/Private – who’s the driver/navigator?
- Resources to Be Allocated – finance and human capital/political capital.
- Additional Resources Required – TA, soft loans, grants, IDA country programs, etc...
- Implementation Timeframe – by when we will launch and for how long?
- Targets – by when and how much?
- Impact Measures – how we will know we are achieving our objectives?

76. The strategy applies “balanced scorecard” (BSC) to monitor and measure the impact for each perspective. Weighting are applied to each of the four (4) perspectives and the appropriate measuring of impact for each strategic objectives under considerations addressed (Table 4).

Table 4: The Weighting of the Perspectives and Impact Measures

Perspectives	Weighting	Impact Measures
Development	30/100	TBD
Competitive	30/100	TBD
Client	20/100	TBD
Institutional	20/100	TBD

77. The design team arrived at the weighting and measures from the results of the consultative processes with stakeholders during the first (Response Paper), second (working draft NES), and third (working draft NES) National Symposium on April 29, 2005, August 29, 2005, and September 22, 2005, respectively. By the directive of the Senior Minister of the Ministry of Commerce the design team further conducted Sector-level strategy to fine-tune the design process, confirmed, and validated the working draft (see NES Milestones page vi). Country’s circumstances in addition to competitiveness constraints were also the main focus of the strategy Response Paper and working draft NES debated in all those consultations. For instance, Cambodia with inadequate and dilapidated infrastructures, e.g., port facilities (sea/air), primary/secondary roads, railroad tracks, navigable river channels, power grid, telecom, water/sewage systems, irrigation/canals system, etc. Widening gap between supply side capacities and the demand of the market destinations, and narrow-based exportable products and commodities dictate the strategy to place a higher weighting on addressing the Development and Competitive Perspectives.

78. For simplicity and accuracy of measuring the strategy impact, a simple checklist is shown on Tables 5 and 6.

Table 5: Simple Scoring Checklist

0 =	Didn’t Start	1 =	Below Target
2 =	Meet Target	3 =	Exceeded Target

Table 6: Impact Measures Checklist

The Development Perspective (weighting = 30, measures = 0)		
Strategic Consideration	Measures	Scores
Development		
- Regional Development	1.	0
- Employment Generation (balanced-gender)	2.	0
- Environmental Sustainability	3.	0
Sub-Total (max. score = 3 x 3 = 9)		0
Score for this perspective (0/9 = 0) (0 of 30)		0

The Competitive Perspective (weighting = 30, measures = 0)		
Strategic Consideration	Measures	Score
Border-in		
- Developing Supply Side	1.	0
Border		
- Improving the Business Environment and Minimizing the Cost of Doing Business	1.	0
Border-out		
- Improving Market Access and Exploiting Commercial Opportunity	1.	0
Targeted Sector		
- Maximizing Value Addition, Value Creation, Value Retention, and Value Distribution	1.	0
Sub-Total (max. score = 4 x 3 = 12)		0
Score for this perspective (0/12 = 0) (0 of 30)		0

The Client Perspective (weighting = 20, measures = 0)		
Strategic Consideration	Measures	Score
- Prioritization of Clients (national and sectorial)	1. 2.	0 0
- Trade Information and Commercial Intelligence	1.	0
- Trade Finance	1.	0
- Quality Assurance	1.	0
- Competency Development	1.	0
Sub-Total (max. score = 6 x 3 = 18)		0
Score for this perspective (X/18 = 0) (0 of 20)		0

The Institutional Perspective (weighting = 20, measures = 0)		
Strategic Consideration	Measures	Score
- Strategy Support Network and Delivery Network	1. 2.	0 0
Sub-Total (max. score = 2 x 3 = 6)		0
Score for this perspective (X/6 = 0) (0 of 20)		0

79. The recommend checklist suggests two (2) to three (3) measures (3 max.) for each strategic consideration. Considering the availability of resources (finance and human capital/political capital), it is unrealistic and undesirable to have higher number of measures,

as the NECC may become over burdened in admin procedures and/or descend into “checking the box” mentality, which must be avoided at all costs.

80. The hypothetical example for measuring the overall assessment of the strategy implementation is shown on Table 7 below. It is assumed that the Development Perspective score 6 out of 9 (67%), while the remaining three perspectives score below target.

Table 7: Sample Overall Assessment of Strategy Implementation

Scores	Impact Assessment	Weighting
Development Perspective	17	30
Competitive Perspective	12	30
Client Perspective	7	20
Institutional Perspective	7	20
Total	43	100

➤ **Overall Assessment – Between**

- 80 to 100 – We’re generally exceeding expectations, keep the momentum going.
- 66 to 80 – The strategy is just about meeting or slightly exceeding expectations we need to work harder.
- 33 to 66 – We’re simply not implementing the strategy, we need to take step back and take a long hard look at ourselves and realign our priorities.
- **Assessment: With a Score of 43, the NES implementation is below expectation, we are being ineffective.**

81. It is important to recognize and be reminded that National Export Strategy **CANNOT AND SHALL NOT** be implemented by externality alone. It must be formulated and implemented by institutions and organizations (public/private) which are comprised of Cambodian people of virtue and integrity. At the heart of the NES approach is the development of a public-private sector partnership in the formulation, implementation, monitoring, and refinement of the national strategy under the leadership of an autonomous organization, such as the National Export Council of Cambodia (recommended). International development agencies, donors, NGOs, etc... as well as other support agencies must also have/play a supporting role in its ultimate success.

Chapter VI: Resources Mobilization

A. Priorities, Approach, and Focus

82. In light of the Government limited resources (finance and human capital) and reflecting on sectors competitive and comparative advantage, NES will [initially] focus on limited numbers of sectors, i.e., garment & textile, fisheries, organic agriculture, silk, and tourism. Eventually all other productive sectors in the economy will be dovetailed into the NES. The primary reason these sectors are prioritized and selected because they were/are the main engine for employment generation, poverty alleviation, and symmetrical balanced-gender and Cambodia has a clear and present comparative and competitive advantage coupled with open access to her primary market/s. In addition, these sectors offer the best potential to be further developed for added-, created-, retained-, and distributed-value and benefits to those at the bottom end of the economic ladder. More, it will usher in the development of production cluster which sorely needs in post-WTO Cambodia to elevate small-scale producer/exporter to compete effectively in the global market.

83. National budget allocations for export development are limited to payment of salaries for ministerial staffs. It is therefore; fair to assert and ascertain the majority of funding and resources for implementation of the four perspectives elaborated in Chapter IV and summarized in Chapter V Table 6, comes from the donor' countries (DCs) and international development agencies (IDAs). Domestic resources/savings are inadequate (or are not directed at or make available for export-oriented activities – almost all liquidities are being targeted for constructions of rental property and real estate development/speculation) and banking sector – has yet to develop the product(s) and/or management culture to proactively supporting export credit applications and/or activities.

84. Commitment and concerted effort from the Government to continue push forward the Trade Facilitation and Competitiveness Project (WB 2005) to reduce corruption, transaction costs, and strengthen good governance (public/private sector), combined with an appropriate and coordinated technical assistance from the donor countries (DCs), international development agencies (IDAs), and practitioners e.g., China, Japan, ASEAN, EU, US, WB, IMF, IFC/MPDF, ADB, UNDP, ITC, AusAID, USAID, NZAid, GTZ, DFID, AFD, etc. is prerequisite to launch and implement the National Export Strategy.

B. Detailed Plan of Action

85. The complexities of implementing, managing, and monitoring the National Export Strategy render the Work Plan and Management Framework (Annexes 1-4) as a guiding tool for the NECC to adopt and/or modify to meet the country needs and available resources. In this regard, its strength lies in its simplicity and flexibility. It must, therefore, be recognized for what it is: a tool/framework for which enables policy-makers, economic actors, and donors to reference key perspective/s around a common cause/vision. Policy-makers, economic actors, and donors must comes together under the aegis of the NECC and they should and ought to add/subtract to/from this Work Plan and Management Framework what is/are they deem relevant and fit with their commitment and resources.

ANNEX 1 – Work Plan and Management Framework

Vision	"A dynamic and broad-based economic growth by 2010 characterized by high value-added and retention, entrepreneurship, internationally competitive export environment, creating new commercial/industrial opportunities, thereby contributing in a significant, concrete, sustainable growth, appreciable impact to the overall national economy and social development goals, especially employment generation – with emphasis in the rural development, poverty alleviation, balanced-gender – skill enhancement, efficient import, higher productivity/incomes within less prosperous population groups, and regions of the country."					
Perspective	Development					
Strategic Objective: maximizing the direct contribution to overall economic and social development						
Initiatives	Responsible and Accountable Institutions	Resources to be Allocated	Additional Resources Required	Implementation Timeframe	Targets	Impact Measures
<ul style="list-style-type: none"> - Regional Development - Employment Generation (gender equality) - Environmental Sustainability 	NECC with line ministries	HR resources and political capital	Donor countries (DCs), international development agencies (IDAs), and practitioners e.g., China, Japan, ASEAN, EU, US, WB, IMF, IFC/MPDF, ADB, UNDP, ITC, AusAID, USAID, NZAid, GTZ, DFID, AFD, etc...	TBD by NECC at its first plenary session	TBD by NECC at its first plenary session	TBD by NECC at its first plenary session

ANNEX 2 – Work Plan and Management Framework

Vision	"A dynamic and broad-based economic growth by 2010 characterized by high value-added and retention, entrepreneurship, internationally competitive export environment, creating new commercial/industrial opportunities, thereby contributing in a significant, concrete, sustainable growth, appreciable impact to the overall national economy and social development goals, especially employment generation – with emphasis in the rural development, poverty alleviation, balanced-gender – skill enhancement, efficient import, higher productivity/incomes within less prosperous population groups, and regions of the country."					
Perspective	Competitive					
Strategic Objective: capacity development; diversification; and reduce costs of doing business						
Initiatives	Responsible and Accountable Institutions	Resources to be Allocated	Additional Resources Required	Implementation Timeframe	Targets	Impact Measures
<ul style="list-style-type: none"> - Developing the Supply Side - Improving the Business Environment and Reducing the Costs of Doing Business - Maximizing Value Addition, Value Creation, Value Retention, and Value Distribution 	NECC with line ministries	HR resources and political capital	Donor countries (DCs), international development agencies (IDAs), and practitioners e.g., China, Japan, ASEAN, EU, US, WB, IMF, IFC/MPDF, ADB, UNDP, ITC, AusAID, USAID, NZAid, GTZ, DFID, AFD, etc...	TBD by NECC at its first plenary session	TBD by NECC at its first plenary session	TBD by NECC at its first plenary session

ANNEX 3 – Work Plan and Management Framework

Vision	"A dynamic and broad-based economic growth by 2010 characterized by high value-added and retention, entrepreneurship, internationally competitive export environment, creating new commercial/industrial opportunities, thereby contributing in a significant, concrete, sustainable growth, appreciable impact to the overall national economy and social development goals, especially employment generation – with emphasis in the rural development, poverty alleviation, balanced-gender – skill enhancement, efficient import, higher productivity/incomes within less prosperous population groups, and regions of the country."					
Perspective	Client					
Strategic Objective: enhance the efficiency and competency by focusing on current exporter and potential/aspire exporter						
Initiatives	Responsible and Accountable Institutions	Resources to be Allocated	Additional Resources Required	Implementation Timeframe	Targets	Impact Measures
<ul style="list-style-type: none"> - Prioritization of Clients - Trade Information and Commercial Intelligence - Trade Finance - Quality Assurance - Competency Development 	NECC with line ministries	HR resources and political capital	Donor countries (DCs), international development agencies (IDAs), and practitioners e.g., China, Japan, ASEAN, EU, US, WB, IMF, IFC/MPDF, ADB, UNDP, ITC, AusAID, USAID, NZAid, GTZ, DFID, AFD, etc...	TBD by NECC at its first plenary session	TBD by NECC at its first plenary session	TBD by NECC at its first plenary session

ANNEX 4 – Work Plan and Management Framework

Vision	"A dynamic and broad-based economic growth by 2010 characterized by high value-added and retention, entrepreneurship, internationally competitive export environment, creating new commercial/industrial opportunities, thereby contributing in a significant, concrete, sustainable growth, appreciable impact to the overall national economy and social development goals, especially employment generation – with emphasis in the rural development, poverty alleviation, balanced-gender – skill enhancement, efficient import, higher productivity/incomes within less prosperous population groups, and regions of the country."					
Perspective	Institutional					
Strategic Objective: operational of trade support network and trade information services						
Initiatives	Responsible and Accountable Institutions	Resources to be Allocated	Additional Resources Required	Implementation Timeframe	Targets	Impact Measures
- Export Strategy Support Network and Delivery Network	NECC with line ministries	HR resources and political capital	Donor countries (DCs), international development agencies (IDAs), and practitioners e.g., China, Japan, ASEAN, EU, US, WB, IMF, IFC/MPDF, ADB, UNDP, ITC, AusAID, USAID, NZAid, GTZ, DFID, AFD, etc...	TBD by NECC at its first plenary session	TBD by NECC at its first plenary session	TBD by NECC at its first plenary session

Annex 5 – National Export Council

Draft Model Enactment for Setting-up a National Export Council (Quasi-Judicial)

Article 1: Functions

- 1) The National Export Council is an independent institution for public/private deliberation, that acts in an advisory capacity to the government and the private sector over issues related to or affecting national export strategy.
- 2) National export strategy covers issues which affect the international competitiveness of the business community and specialized needs of sectors with high export potential.
- 3) The National Export Council:
 - a) Elaborates and recommends adoption of a national export strategy that would best respond to the needs and long term interests of the national business community;
 - b) Coordinates and monitors the implementation of the national export strategy adopted by the government and its agencies and private sector organizations;
 - c) Identifies and allocates the resources necessary for the implementation of the national export strategy; and
 - d) Assesses the effectiveness and the impact of the national export strategy.

Article 2: Structure and Organization

- 1) The National Export Council consists of:
 - a) The Council's General Meeting, which is the supreme organ of the National Export Council, has the exclusive authority to: (i) fulfill the functions of the National Export Council; (ii) adopt resolutions and recommendations in the name of the Council; (iii) establish and amend the internal regulations and procedures of the National Export Council and its subordinate organs; (iii) create and dissolve specialized committees; (iv) appoint and replace the members of the Board of Directors (if any)²² and the Secretary General; (v) all other matter not expressly reserved by these articles to the Board of Directors (if any) or the Secretary General;

²² The creation of the Board of Directors may be recommended in those cases where, due to the large number of representatives, the Council's General Meeting cannot adequately supervise the work of the Secretariat, creating the need for an intermediate body that is to serve as an interface between the Council's General Meeting and the Secretariat.

- b) The Secretary General, responsible for: (i) the day to day management of the National Export Council and its Secretariat; (ii) preparation of reports on all issues to be referred to the Council's General Meeting for deliberation which do not fall under the authority of a specialized committee; (iii) recruitment of the Secretariat's staff; (iv) communication with departments, organizations or institutions represented within NEC;
- c) The Secretariat, assisting the Secretary General in the day to day management of the National Export Council; and
- d) Specialized Committees, *ad hoc* or permanent, created by decision of the Council's General Meeting, and responsible for preparing detailed reports or recommendations to the Council's General Meeting for deliberation.

Article 3: Composition of the Council's General Meeting

- 1) The Council's General Meeting is composed of [an equal number of] representatives from the public and the private sector.
- 2) Each representative is appointed by the ministry, agency, association, organization or corporation that she/he represents.
- 3) The following [or their equivalents] shall each have one appointed representative on behalf of the public sector at the Council's General Meeting.
 - Ministry of Commerce
 - Ministry of Agriculture, Forestry, and Fisheries
 - Ministry of Culture and Fine Arts
 - Ministry of Economy and Finance
 - Ministry of Environment
 - Ministry of Foreign Affairs and International Cooperation
 - Ministry of Health
 - Ministry of Industry, Mine, and Energy
 - Ministry of Information
 - Ministry of Interior
 - Ministry of Justice
 - Ministry of Land Management, Urban Planning, and Construction
 - Ministry of Planning
 - Ministry of Post and Telecommunications
 - Ministry of Public Works and Transport
 - Ministry of Rural Development
 - Ministry of Labor
 - Ministry of Water Resource and Meteorology
 - Ministry of Women Affairs
 - Office of the Council of Minister
 - Cambodia National Bank

- Export Development Agencies
 - Custom and Camcontrol Authorities
 - Heads of the Major Public Corporations
 - Etc...
- 4) The following shall each have one appointed representative on behalf of the private sector at the Council’s General Meeting.
- Private sector representatives should include appointees of the major export oriented companies, the Chamber of Commerce and Industry, labor unions, trade and employer unions, association of industrial and agricultural producers ... etc.
 - List to be compiled ...
- 5) Each representative of the public sector is appointed and replaced in accordance with the decision of the Public entity represented. Each representative of the private sector is appointed and replaced according to the internal rules and procedures of the organization or corporation represented subject to the minimum tenure of one year.

Article 4: Council’s General Meeting

- 1) Council’s General Meetings are convened at regular intervals, but at least once every three months. The Chairman of the Council’s General Meeting can, on its own motion or upon recommendation by the Secretary General, convene extraordinary meetings.
- 2) The Secretary General shall serve a written notice upon each representative indicating the date of the Meeting. The notice shall be accompanied with the agenda of the Meeting and the reports detailing the issues to be debated and resolved.
- 3) The notice should be served at the latest fifteen days before the scheduled Council’s General Meeting except for urgent matters or extraordinary meetings as provided above under paragraph 1.

Article 5: Agenda

- 1) Each representative at the Council’s General Meeting, or an accredited outside organization, may bring an issue that falls within the functions of the National Export Council to the attention of the Secretary General for referral to the Council’s General Meeting [for debate and deliberation].
- 2) The Secretary General shall establish an agenda for the Council’s General Meeting. The agenda should indicate those issues that were brought to the attention of the Secretary General but were finally dismissed.
- 3) The Secretariat shall prepare, under the authority of the Secretary General, a summary report on the issues that are placed on the agenda, along with

any relevant supporting materials, that are to be referred to Council's General Meeting.

- 4) Issues proposed for debate and deliberation by Special Committees are placed on the agenda of the next Meeting. The Committee requesting an issue to be placed on the agenda is responsible for preparing a detailed report on that issue.

Article 6: Deliberations and Voting

- 1) The Chief Executive Officer from the private sector shall act as the Chairman of the Council's General Meeting.
- 2) The quorum [minimum participation requirement] is reached if a minimum of fifty (50) percent of the total number of representatives are present at the meeting.
- 3) Each representative should be given a reasonable time to address oral communications and the opportunity to submit written comments to the Council's General Meeting on the issues placed on the agenda of the meeting.
- 4) The Council's General Meetings resolutions and recommendations are to be adopted, to the extent possible, unanimously
- 5) Failing unanimity, Council's General Meeting resolutions are adopted by a simple majority vote of the representatives present at the Meeting.
- 6) Each representative has one vote at the meeting. In the event of deadlock, the Chairman shall have a casting vote
- 7) The records and the minutes of the Council's General Meeting shall be made accessible to the public.

Article 7: Financing and Compensation

- 1) The relevant authorities shall determine and finance the annual budget of the National Export Council.
- 2) The Representatives at Council's General Meeting shall receive no compensation by virtue of their service on the Council.
- 3) The employment contract and the salary of the Secretary General and the staff of the Secretariat are determined by the relevant authorities in accordance with the tariffs applicable to the employees of that equal department in the private sector.

Appendix I

Sector 1 – Garments and Textiles Sector Strategy

Sector 2 – Fisheries Sector Strategy

Sector 3 – Organic Agriculture Sector Strategy

Sector 4 – Silk Sector Strategy

Sector 5 – Tourism Sector Strategy

Garments and Textiles Sector

Note: *This garment sector strategy is particularly based on the analysis carried out by Asian Development Bank (ADB) commissioned by the Ministry Commerce (MoC).*

This document goes a step further by proposing and specifying an action plan, which is intended to achieve the broad objectives of the strategy. The following are the highlights of the ADB-MoC Cambodia's Garment Industry: Meeting the Challenges of the Post-Quota Environment.

A. The Context

1. **Domestic** – two major fundamentals within the garment industry; first, the important role of the garment industry in addressing issues relating to poverty and female worker empowerment in the country. While Cambodia still reports the lowest Gender Development Index in Asia, there is no doubt that employment opportunities in the garment industry have played a significant role in alleviating poverty and in raising the profile of women workers. Any changes in the industry – either positive or negative – will have strong effects on the progress made so far in these two areas. Second, the overall investment climate in which the garment industry is operating. A recent World Bank study (2004) reported that the top priorities of the business community in Cambodia are governance, the rule of law, and corruption.¹ The serious constraints posed by these factors in Cambodia, as well as the dilapidated infrastructure, are likely to become even more acute as Cambodian-based garment businesses face an increasingly competitive global marketplace in the post-quota and post-WTO period.

2. **Global** – the key date for the garment industry worldwide was January 1, 2005, when quotas finally phased out (although Cambodia still enjoys some preferential treatment through the GSP schemes). To date Cambodia is not only succeed in sustaining the sector growth path in post-quota world, but seeking to become the rare third world country to develop economically, while maintaining labor compliance program – Better Factories Cambodia.²

3. The ending of the quota system brings about the following major industry issues and considerations.

- Cost competitiveness continues to be a key factor as garments prices continue to fall post 2004.³
- Buyers are requiring faster deliveries to meet increasing levels of consumer demand and ever decreasing product cycle times. This will place greater and greater emphasis on countries with more complete supply chains that are able to meet these increasing

¹ Governance has been improved such as corporative inspection among ministries, i.e., MIME and MOC and reduces number of bureaucratic procedures.

² Sustainability strategy for Better Factories Cambodia launched by ILO, RGC, GMAC, and Unions, aiming to bring labor standards monitoring under a tripartite local body by 2009.

³ Cambodia's is seeking to become the rare third world country to develop economically while treating workers reasonably well. Whether it succeeds might ultimately depend upon whether US consumers demand more than low prices from their clothing stores. Cambodia's sales pitch: Sweatshop-free products. USA Today, April 4, 2005.

demands. It is noticeable that many garment supply countries have been making strategic investments in recent years to ensure that their supply chains are ‘complete’.

- Buyers want business to be as straightforward and uncomplicated as possible. They will have a greater choice after the ending of quotas, and they will buy from preferred suppliers who offer consistent quality, reliable delivery dates, competitive prices and productivity levels at international standards. The number of countries in the garment industry can be expected to fall, and buyers will have greater value-added service requirements.
- Foreign investors have more freedom in where to place offshore investments after the ending of the quota system and will prefer host countries that enable successful operations with the least problems.
- In general, the global garment market has been demanding higher levels of (a) personal service, (b) quality consistency, (c) delivery lead times, (d) product innovation, (e) price competitiveness, (f) reliability, and (g) country image (including compliance with corporate codes of conduct, i.e., corporate social responsibility, labor law compliance).

4. The overall impact of the new global market environment on Cambodia’s garment exporters, and in particular the increasing competitiveness in the global textile and clothing (T&C) industry, is expected to be a reduction in exports over the next 3-5 years, re-trenched workers without alternative job opportunities, and a downturn in the national economy. However, this predicament has proven to be off up to now or yet the full impact of the post-quota world is not as severe as most thought out.

5. **Key characteristics** – the Cambodian garment industry is in a unique position. It has grown very quickly (presently involving around 247 companies with around 280,000 employees of whom 85-90% are women) but has been almost exclusively driven by foreign investment and by comparative advantages resulting primarily from preferential access to the major markets and, to a lesser extent, by cheap labor. The industry is considered one of the most compliant in terms of labor practices.

6. The industry remains virtually 100% foreign owned, with most of the decision makers largely based in East Asia from where production orders are received together with fabric and accessory supplies and delivery instructions. These foreign owners make decisions about operations in Cambodia based on global business developments and most have similar operations in other countries, such as China.

7. The industry is almost 100% dependent on imported yarns (for knitwear), finished woven and circular knitted fabrics (for woven and knitted cut and sew garments), all accessories, and almost all packaging and presentation materials. The domestic material content is limited to some cardboard cartons and poly bags. The domestic value added content of the Cambodian garment industry amounts to approx. 28.6% of total garment exports.

8. Reflecting general business operating conditions in Cambodia, the garment industry faces a number of operating and structural problems, if not fundamental problems. These include the complexity of import-export procedures, corruption and bribery that accounts for up to 7% of total sales value, worker motivation and productivity, and high costs of infrastructure – especially the cost of electricity. The key structural problem concerns the issue of lead times, a factor that is becoming increasingly important in the global garment

market. This relates closely to the almost complete absence of backward linkages in the Cambodian garment industry.

B. Where Are We Now? – An Assessment

9. The Cambodian garment industry has achieved tremendous growth during its short history. The garment industry has become the engine driving the national economy, making the greatest national contribution to poverty reduction by having created hundredth of thousands jobs, probably with as many in indirect jobs, and generating the bulk of Cambodia's foreign currency earnings.

10. Cambodia's garment industry has recorded impressive export performance, with overall garment exports rising from just over US\$26 million in 1995 to just over US\$1.6 billion in 2003. This amounted to almost 80% of total Cambodian exports, and Cambodia's garment exports represented 0.74% of total global garment exports by value. In 2003, exports to the US broke through the billion-dollar barrier for the first time at US\$1.1 billion, and exports to the EU surpassed US\$407 million in 2003; the two markets accounting for over 95% of total exports. The wages earned by garment industry employees and related remittances have had a significant impact in raising the living standards of Cambodian women and the poor rural households that they support.⁴

11. However, the global market environment is in a transitional stage with the ending of quotas – at the end of December 2004 – Vietnam membership in the WTO is expected in 2007, and these changes will create new challenges for the garment industry. The quota premium cost competitive advantage will disappear and although Cambodia will continue to enjoy some preferential market access coupled with Cambodia's image as a venue for investment with corporate social responsibility, suppliers offering lower costs through higher productivity levels and shorter lead times will gain the advantage.

12. It should be emphasized that the position of Cambodia's garment industry is unique.
- This is a pre-eminent sector accounts for around 12% of GDP, almost 80% of exports, and 65% of manufacturing sector employment, yet the garment sector is built essentially on the basis of the quota system and relatively small comparative advantages in terms of labor cost and labor standards.
 - Offshore owners that also have garment units in other countries and who carry out all marketing and financing decisions essentially dominate the sector. Few domestic investors have taken a significant interest in the industry, for reasons that are unclear.
 - Few backward linkages exist and, therefore, lead times are almost exclusively based on imported materials, resulting in extended and unreliable delivery times.
 - Labor productivity in the garment industry is among the lowest of the competing countries.
 - Cambodia has no major unique market cost position, and although labor compliance is a positive feature, the industry is likely to need to continue to depend on preferential market access for the foreseeable future. During that period of reliance, the Cambodian garment industry needs to become more competitive in terms of cost reduction and delivery times or sections of the industry will be stagnated.

⁴ For example in Prey Veng and Svay Rieng, many farm families were kept afloat by the remittances that their daughters sent from their work. There is no doubt that many poor families stay just above the poverty line, or at least fall only a little below, because of the garment jobs.

13. How the sector responds to the market changes will depend on the strategies of offshore investors and of the Government. Field survey work indicates that the majority of factory managers in Cambodia appear to be adopting a “**wait and see**” position, while the decisions of offshore investors are likely to respond more quickly to global developments in the garment industry. With regard to government policies, with bureaucrats well known for delaying shipments or orders, significant reforms are called for in order to prevent garment business moving away from Cambodia as the industry’s competitiveness steadily declines.

14. If improvements are not made, then the numbers of direct and indirect workers in the garment industry will fall sharply, and the economy will be seriously damaged. It is anticipated that the Government will want to ensure that this situation does not arise and that positive progress are being made.

15. Box 1 draws together the main findings of all the analysis to date in strengths, weaknesses, opportunities and threats (SWOT) framework within the sector.

Box 1: Garment Sector SWOT Analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> - Some acquired know-how and experience in the industry, including within the semi-skilled labor force - Strong offshore investors with technical and commercial know-how and capital resources - Current preferential regimes in terms of quota and duty-free access – to the US, EU, Canada, Australia, New Zealand and Norway - Large pool of unskilled cost-effective labor available from the rural areas to support expansion of the industry if required - Large levels of exports and experience in the export markets - Positive market image, especially in the area of labor utilization and compliance 	<ul style="list-style-type: none"> - Industry heavily focused on cut, make and trim (CMT) garment manufacture, with all major decisions across the board taken off-shore - Lack of inter-industry linkages and few serious subcontractors, and policy impediments to backward linkage development - No Cambodian lead investors in the industry - Low level of human resource development and low skill base resulting in low productivity and higher than necessary costs - Shortage of skilled middle-management/shop floor supervision/skilled workers - Heavy use of expatriate supervisors leading to culture and communication gaps - Seriously low levels of local value added, and low levels of technology as well - Longer lead times than competitors - High levels of official and unofficial transactions costs, especially in the import/export processes - High costs of power and other utilities
Opportunities	Threats
<ul style="list-style-type: none"> - Potential to enhance the productivity of the labor force through training and better human resource practices - Potential in the EU market as former Eastern European members of the EU become less competitive and potential in the US market, especially if preferential access to this market can be enhanced - The establishment of an EPZ and investment in backward linkages - Regional integration with ASEAN countries and benefits of WTO membership 	<ul style="list-style-type: none"> - Performance of competitor countries, such as China, Bangladesh, Vietnam, etc. - 90% foreign owned coupled with unwillingness of local investors to enter the garment sector - Phasing out of preferential market access agreements - Possible instability resulting from labor disputes and the high costs resulting from certain provisions in the labor law

C. Where Do We Want to Be?

16. The vision for the sector is “**to create an environment in which the Cambodian garment industry can develop and sustain export competitiveness and diversify its offer in niche markets, to retain greater value within the country, and to empower employees by fairly distributing the benefits.**”

17. The key objective of the vision and all the measures proposed to achieve it will be to continue to increase exports, improve productivities, and generate new jobs. The export target for 2010 is set at US\$2.6 billion (Table 1) and will involve some movement away from the low value-added woven garment sector towards higher value-added knit, cut and sew garments and knitwear garments. Employment in the industry will then be increased.

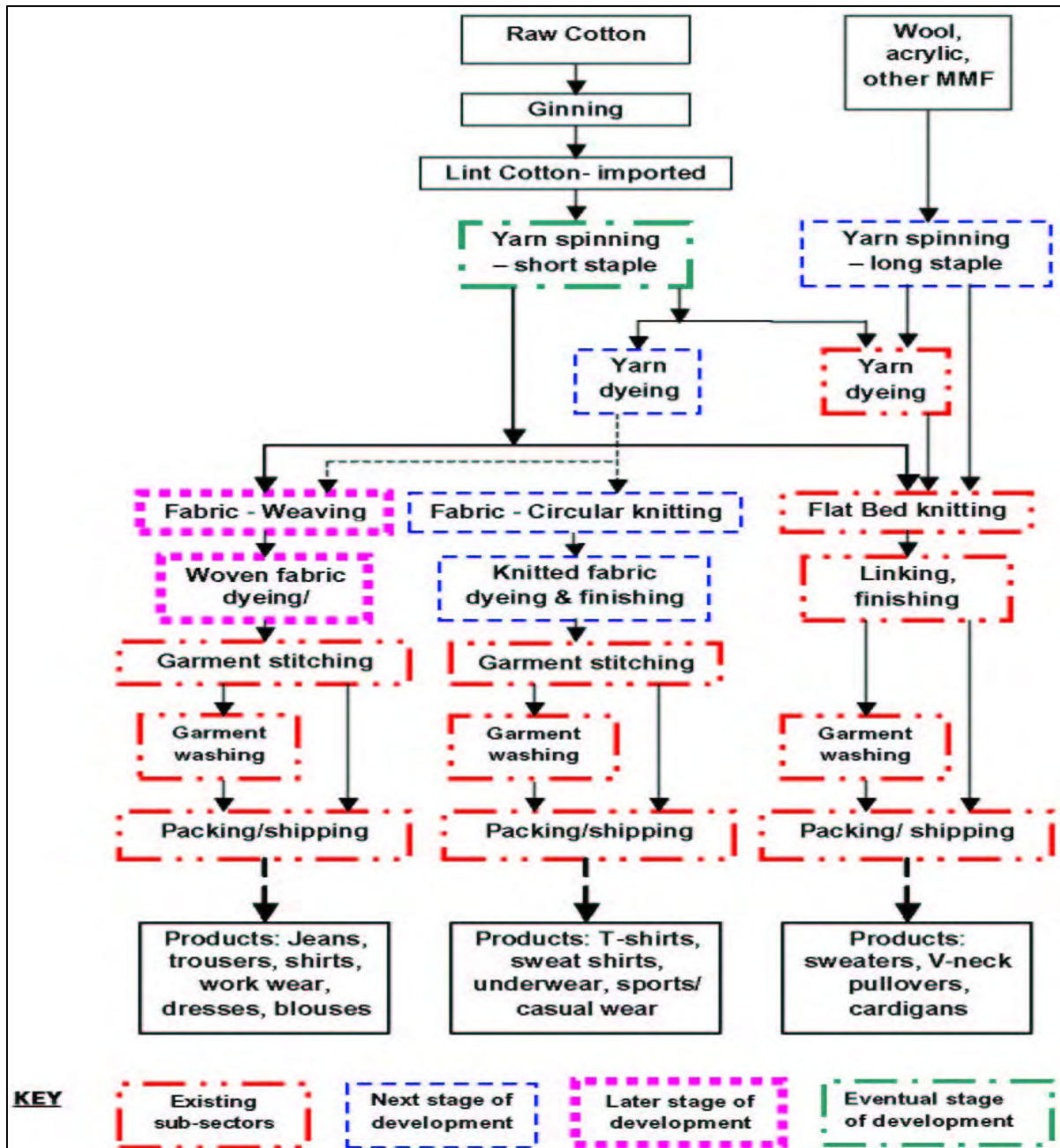
18. Currently, the industry is in the position of low value added within the woven garment sub-sector. It is expected that the industry will move away from the low value-added woven garment sector towards higher value-added knit, cut and sew garments and knitwear garments.

Table 1: Target Exports for 2010

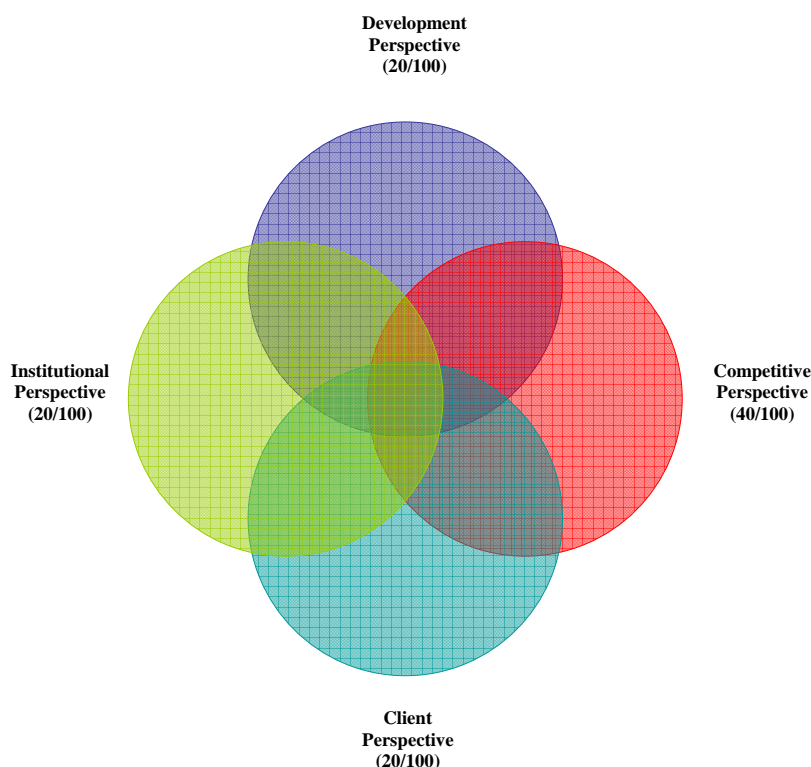
	2003	2010
Garment exports (US\$ in million)	1,540	2,600
Of which:		
1. woven garments	980 (64%)	950 (42%)
2. knit cut and sew garments	350 (23%)	750 (33%)
3. knitwear garments	210 (13%)	550 (25%)
Share of global foreign trade in garments (%)	0.74	0.80
Local value added (US\$ million approximation)	490 (32%)	1,100 (42%)
Employment (persons)	230,000	294,000

19. Figure 1, next page, presents a summary of the various positions that the Cambodian garment industry takes in the overall textile and garment value chain. It identifies the existing sub-sectors, as well as those sectors expected to be developed in the next stage, in later stages, and at the final stage of industry development.

Figure 1: Cambodia’s Position in the Textile and Garment Industry
&
Sector Future Value Chain



D. The Way Forward (3-5 years)



20. A new strategy is required for the garment industry as the quota system ends. The sector is on the verge of either further development or stagnates.

21. The Cambodian Garment Industry Development Strategy (Development Strategy) should focus on addressing the competitiveness of the industry and on developing policies and actions to address key weaknesses and to harness key opportunities. The Development Strategy must recognize the cross-sectorial nature of the proposed policy measures and actions and should focus on all aspects of the garment industry cluster. A set of actions in a Strategic Plan must be developed, with clearly defined and delegated tasks to ensure that outlined actions and policies are properly implemented.

22. Broader macroeconomic and infrastructure investment impediments need to be addressed simultaneously with proposed garment industry reforms to guarantee success. If only the garment industry takes corrective action in accordance with the new strategy but policy framework remains unchanged, the impact will be limited.

23. The seven major elements of the Cambodian Garment Industry Development Strategy are presented forthwith. These have been developed from the analysis carried out in the TA project – Cambodia’s Garment Industry: Meeting the Challenges of the Post-Quota Environment – and from the findings of related studies. Each element of the Development Strategy is given a specific time frame: short-term – 6 months; medium-term 6 months – 2 years; long-term - > 2 years. Then concludes with the outline of a mechanism to begin and implement the reform process.

24. Figure 2 presents the elements of the Development Strategy and the recommended institutional framework to implement it. The framework builds on the core vision, and calls for a cross-sectoral mechanism coordinated by Ministry of Commerce, to implement the Strategic Action Plan.

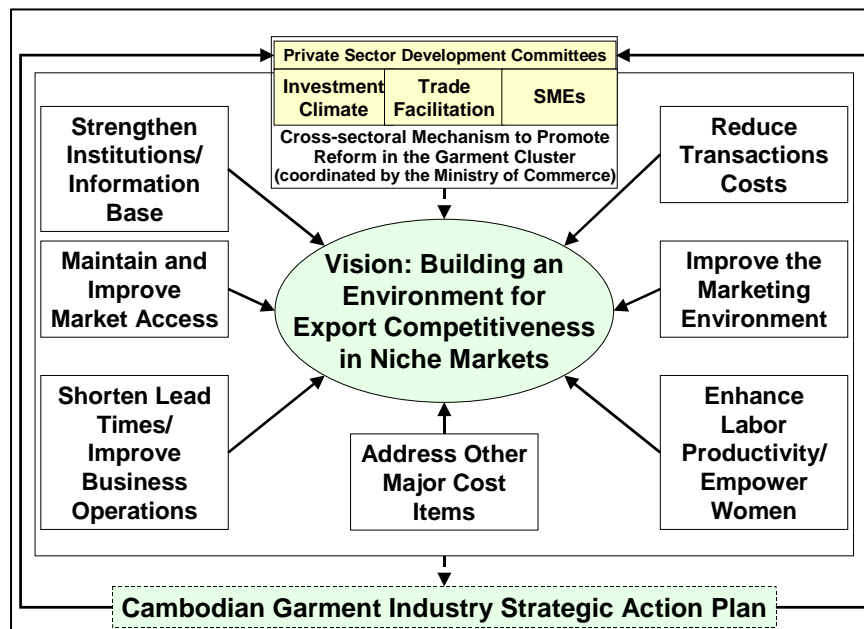


Figure: 2

E. Summary of Strategic Objectives

25. **Strengthen the necessary institutions and build an information base** – an important element of the Development Strategy will involve bringing key stakeholders into the development and implementation of actions and policies to enhance the competitiveness of the garment sector.

26. **Maintain and improve market access** – there is considerable evidence that close partnerships between the public and private sectors, in the form of immediate negotiations and lobbying, could play an important role in capturing for the sector more favorable market access to the major markets. Ultimately, market access is one important key to the garment industry’s successful performance.

27. **Reduce transaction costs** – the reforms required are significant with regard to the costs of doing business, bureaucratic delays and unofficial costs that damage the image that the country presents to buyers and investors.

28. **Shorten lead times and improve business operations** – a critical element of the Development Strategy must involve improvements in the manner in which business operates and also creating an environment that is conducive to the reduction of lead times, which are already important and will become more so in the future. This element of the overall Development Strategy is complex and complicated and addresses a number of critical constraints. First, the need to deepen the supply chain to build greater value-added and reduce lead times, and second, the need to attract local investors into the garment industry and in the

supply of inputs and ancillaries; and third, the need to leverage existing resources in the garment industry.

29. **Improve the marketing environment** – among garment buyers globally, the label “Made in Cambodia” has become synonymous with labor compliance and quality. However, beyond this relatively small group of buyers, the prevailing image of Cambodia in the global market-place is generally not a positive one, and does not reflect the reality of Cambodia as a suitable location for garment production with high levels of compliance with international labor conventions. In addition, as is evident from analysis of export markets, Cambodia remains highly dependent on the US and EU markets.

30. **Enhance labor productivity and empower women** – the largely female workforce is the backbone of the garment sector; however, low levels of labor productivity will increasingly become a major constraint to the growth and competitiveness of garment companies in Cambodia. The overriding need is to establish a comprehensive skills development program to improve motivation and productivity levels.⁵

31. Box 2 describes in detail of the action and measure of the Cambodian Garment Industry Development Strategy.

Box 2: Elements of the Cambodian Garment Industry Development Strategy

Action	Measure
1. Strengthen Institutions and Build an Information Base	<ul style="list-style-type: none"> - Establish a high-level comprehensive policy reform and donor coordination mechanism - Strengthen GMAC - Strengthen training institutions and employee organizations - Develop an information and analytical base on the Cambodian garment industry/information base on international market data - Developing and supporting a sustainability strategy for the ILO Garment Sector project
2. Maintain and Improve Market Access	<ul style="list-style-type: none"> - Support efforts to enhance market access to the US market - Support efforts to reform the EU market access scheme - Identify new market channel and opportunity❶
3. Reduce Transactions Costs	<ul style="list-style-type: none"> - Explore short-term measures to remove unofficial payments - Provide full support in the medium-long term to the ambitious reforms supported by the World Bank and other donors
4. Shorten Lead Times and Improve Business Operations	<ul style="list-style-type: none"> - Carry out an investment promotion drive, including approaches to potential Cambodia investors - Promote investments in backward linkage development, possibly through forming a “Garment Industry Investment Fund” - Integrate SMEs into the garment industry cluster through reforms in tax policies, investment rules, and removal of other SME impediments - Establish cluster within the industrial estate to reduce transportation and communication❶ - Strengthen supply chains through closer regional integration - Accelerating the development of export processing zones

⁵ Some of the elements of such program are being addressed through two Pilot Projects under the ADB TA Project (Annexes 6 and 7) – Cambodia’s Garment Industry: Meeting the Challenges of the Post-Quota Environment, October 2004, Introduction, Conclusions, and Recommendations.

Action	Measure
5. Improve the Marketing Environment	<ul style="list-style-type: none"> - Implement a marketing plan to promote the Cambodian garment label - Carry out an ongoing and sustained export promotion campaign
6. Enhance Labor Productivity and Empower Women	<ul style="list-style-type: none"> - Provide financial support to train garment industry employees - Address the various issues related to the Labor Law⁶ - Develop programs to assist displaced garment industry workers and job seekers to find employment in other sectors - Intensify efforts to introduce improved practices with regard to human resource practices and working conditions - Develop a comprehensive human resource development plan for the garment industry - Consider the establishment of a Cambodian garment design institute - Create opportunities for the development of female entrepreneurs by providing general education, home economic information, business law, and specialized skills❶
7. Address Other Major Cost Items	<ul style="list-style-type: none"> - Address the extremely high cost of electricity - Reduce unofficial costs in transporting a container through Sihanoukville Port - Transparency in the actual amount of fees charge that the exporters shall pay❶

❶Comments from participants in the second National Symposium held in August 29, 2005.

F. Resources Mobilization

32. Required resources – financial and human capital – are considerable since the strategy focuses on institutional (public/private) capacity building, public and private partnership building and urban/rural capacity building to develop clusters, backward linkage to increase value retention and value addition. The aim is to dovetail and coordinate technical activities with the Development Partner Coordination Matrix: the SME Development Framework (2005-2010).

⁶ According to GMAC's President, today, there are 900 Unions among 270 garments enterprises in Cambodia. Government-Private Sector Forum, Phnom Penh, June 21, 2006.

Annex 1 Work Plan and Management Framework for the Garments and Textiles Sector

Vision	To create an environment in which the Cambodian garment industry can develop and sustain export competitiveness and diversify its offer in niche markets, to retain greater value within the country, and to empower employees by fairly distributing the benefits.					
Perspective	Development					
Strategic Objective: enhance labor productivity and empower women						
Initiatives	Responsible and Accountable Institutions	Resources to be Allocated	Additional Resources Required	Implementation Timeframe	Targets	Impact Measures
<ul style="list-style-type: none"> - Address the various issues related to the Labor Law - Consider the establishment of a Cambodian garment design institute - Intensify efforts to introduce improved practices with regard to human resource practices and working conditions - Develop a comprehensive human resource development plan for the garment industry 	NECC, GMAC, Labor Unions, and ILO with line ministries	HR resources and financial and political capital	Donor countries (DCs), international development agencies (IDAs), and practitioners e.g., China, Japan, ASEAN, EU, US, WB, IMF, IFC/MPDF, ADB, UNDP, ITC, AusAID, USAID, NZAid, GTZ, DFID, AFD, etc...	TBD by NECC at its first plenary session	TBD by NECC at its first plenary session	TBD by NECC at its first plenary session

Annex 2 Work Plan and Management Framework for the Garments and Textiles Sector

Vision	To create an environment in which the Cambodian garment industry can develop and sustain export competitiveness and diversify its offer in niche markets, to retain greater value within the country, and to empower employees by fairly distributing the benefits.					
Perspective	Competitive					
Strategic Objective: price competitiveness; lead time; consistent quality and reliability; and labor compliance						
Initiatives	Responsible and Accountable Institutions	Resources to be Allocated	Additional Resources Required	Implementation Timeframe	Targets	Impact Measures
<ul style="list-style-type: none"> - Explore short-term measures to remove unofficial payments - Provide full support in the medium-long term to the ambitious reforms supported by the World Bank and other donors - Promote investments in backward linkage development, possibly through forming a “Garment Industry Investment Fund” - Integrate SMEs into the garment industry cluster through reforms in tax policies, investment rules, 	NECC, GMAC, Labor Unions, and ILO with line ministries	HR resources and financial and political capital	Donor countries (DCs), international development agencies (IDAs), and practitioners e.g., China, Japan, ASEAN, EU, US, WB, IMF, IFC/MPDF, ADB, UNDP, ITC, AusAID, USAID, NZAid, GTZ, DFID, AFD, etc...	TBD by NECC at its first plenary session	TBD by NECC at its first plenary session	TBD by NECC at its first plenary session

Annex 2 Work Plan and Management Framework for the Garments and Textiles Sector

<p>and removal of other SME impediments</p> <ul style="list-style-type: none"> - Strengthen supply chains through closer regional integration - Accelerating the development of export processing zones - Address the extremely high cost of electricity - Transparency in the actual amount of fees charge that the exporters shall pay 						
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Annex 3 Work Plan and Management Framework for the Garments and Textiles Sector

Vision	To create an environment in which the Cambodian garment industry can develop and sustain export competitiveness and diversify its offer in niche markets, to retain greater value within the country, and to empower employees by fairly distributing the benefits.					
Perspective	Client					
Strategic Objective: maintain and improve market access and the marketing environment						
Initiatives	Responsible and Accountable Institutions	Resources to be Allocated	Additional Resources Required	Implementation Timeframe	Targets	Impact Measures
<ul style="list-style-type: none"> - Support efforts to enhance market access to the US market - Support efforts to reform the EU market access scheme - Identify new market channel and opportunity - Implement a marketing plan to promote the Cambodian garment label - Carry out an ongoing and sustained export promotion campaign 	NECC, GMAC, Labor Unions, and ILO with line ministries	HR resources and financial and political capital	Donor countries (DCs), international development agencies (IDAs), and practitioners e.g., China, Japan, ASEAN, EU, US, WB, IMF, IFC/MPDF, ADB, UNDP, ITC, AusAID, USAID, NZAid, GTZ, DFID, AFD, etc...	TBD by NECC at its first plenary session	TBD by NECC at its first plenary session	TBD by NECC at its first plenary session

Annex 4 Work Plan and Management Framework for the Garments and Textiles Sector

Vision	To create an environment in which the Cambodian garment industry can develop and sustain export competitiveness and diversify its offer in niche markets, to retain greater value within the country, and to empower employees by fairly distributing the benefits.					
Perspective	Institutional					
Strategic Objective: strengthen institutions and build an information base						
Initiatives	Responsible and Accountable Institutions	Resources to be Allocated	Additional Resources Required	Implementation Timeframe	Targets	Impact Measures
<ul style="list-style-type: none"> - Est. a high-level comprehensive policy reform and donor coordination mechanism - Strengthen GMAC, training institutions, and employee orgs. - Develop an information and analytical base on the Cambodian garment industry and information base on international market data - Developing and supporting a sustainability strategy for the ILO Garment Sector project 	NECC, GMAC, Labor Unions, and ILO with line ministries	HR resources and financial and political capital	Donor countries (DCs), international development agencies (IDAs), and practitioners e.g., China, Japan, ASEAN, EU, US, WB, IMF, IFC/MPDF, ADB, UNDP, ITC, AusAID, USAID, NZAid, GTZ, DFID, AFD, etc...	TBD by NECC at its first plenary session	TBD by NECC at its first plenary session	TBD by NECC at its first plenary session

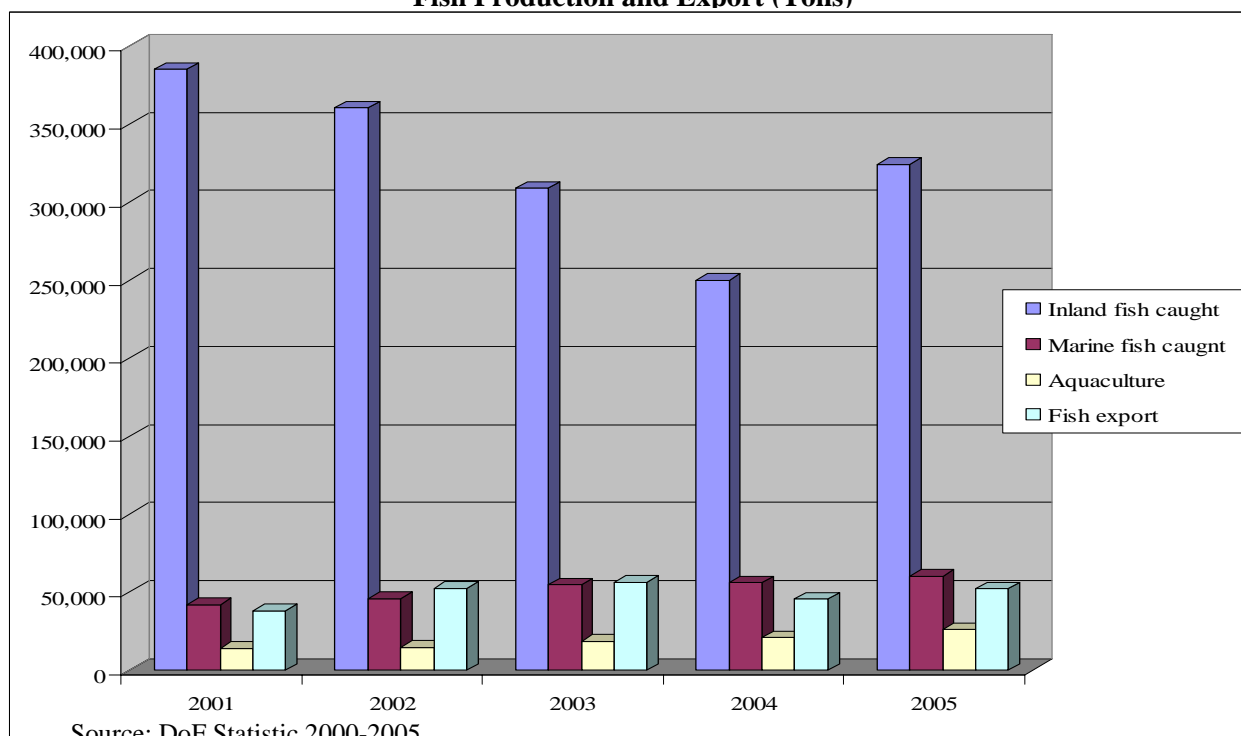
Fisheries Sector¹

A. The Context

1. Cambodia is the fourth largest producer of inland fishery capture in the world. This analysis is intended to use in a strategy for sustainable fishery industries in Cambodia. The export potential of fishery products is assessed, and measures to be undertaken proposed in order to overcome the present constraints.

Figure 1: Present Situation of Cambodia's Fisheries Sector

Fish Production and Export (Tons)



- Production and Consumption

- Inland fish dominates in the total fish catch
- Per capita consumption is 40 kg per annum

- Income

- Income from the fishery constitutes 10% of total household income for the country (World Bank, 2006)

- Employment

- Approximately 4 million people – or 29% of the country's population – are dependent on direct and indirect income from fish resources²

¹ Based in part from report and study; The Inland and Marine Fisheries Trade of Cambodia, Oxfarm America and Cambodia Fisheries Sector Information Design Initiative, EDC/UNESCAP, Final Report March 15, 2002.

² Mr. Nao Thuok, Director General of the Dep't of Fisheries at MAFF

- **Export**
 - Volume of fish exports is about 56,400 tons per year with value of over US\$40 million
- **GDP**
 - Fisheries sector accounts for more than 11.4% of GDP
- **Diversity**
 - Cambodia has a variety of over 500 freshwater and 476 marine fish species

2. The total landing of fish and fishery products in Cambodia comprise marine and freshwater species (Refer to Figure 1 page 16). The bulk of the landings (allowable catches) up to 88%, come from inland fisheries. However, due to poor infrastructure, nearly 50% of the landings are not suitable for human consumption as fresh fish. Instead, these are processed into lower quality fish sauce and dried fish for the domestic market. Through better management of fisheries resources, the country should be able to market more fish and fish products available for domestic consumption (which provides food security), and also to expand further into the export market.

3. Sustainable management of fishery resources is a prerequisite to the development of the sector and to the developmental considerations that are addressed in this National Export Strategy. Already, there exists a threat to Cambodia's fishery resources due to extensive fishing and environmental degradation. Nevertheless, improved resource management is not enough. There are additional issues to be addressed to turn this sector into a competitive performer.

B. Where Are We Now? – An Assessment

4. The value of live, fresh and processed fish exports for both freshwater and marine fish was estimated more than US\$40 million in 2003 with export of 56,400 tones, which represented about 25% of the total fish landing. It is estimated that one half of the total are exported illegally. It is further estimated that 75% of exports are delivered to Thailand as fresh, chilling and semi-processed products, and another 15% to 20% are exported to Vietnam.

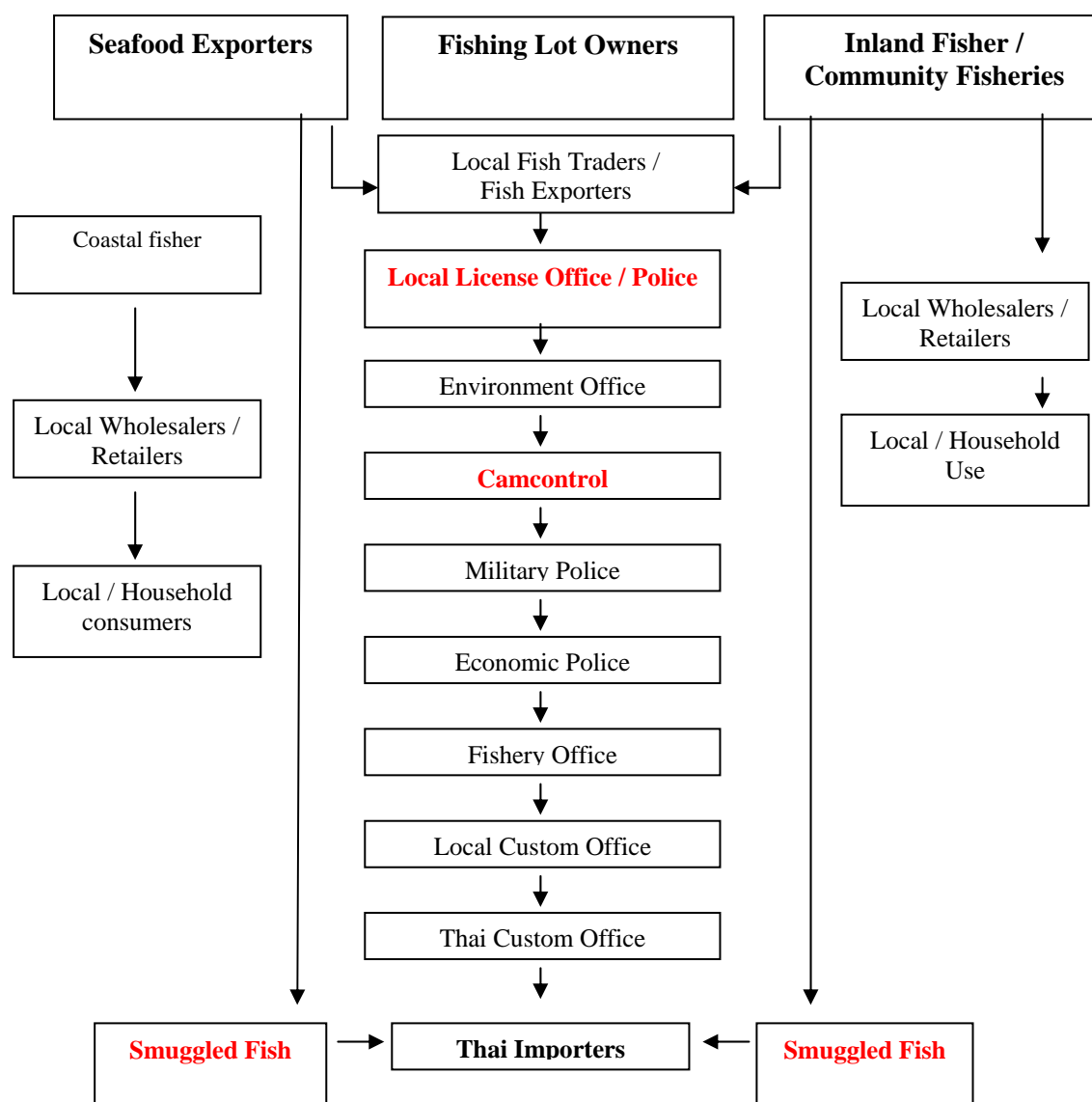
5. Trade is about business, and business is about taking risk. Such risk is only viable if taken within a transparent and predictable business operating environment. The export of both inland and marine fish has been legislatively controlled by the Department of Fisheries through the state monopoly company, KAMFIMEX for more than two decades. Thus, competitive fisheries markets were hindered by the participation of state-owned enterprises, several joint-venture companies controlled by high-ranking government officials, and market monopolies such as provincial distributorships.

6. These constraints was a thing of the past; now that, the state sanctioned monopoly had been dismantled coupled with the passing of the Fisheries Law³, however it's premature to pronounce the positive impact from these reforms.

³ Fisheries Law adopted by the National Assembly on March 31, 2006, covers all saltwater and freshwater fisheries prescribes heavy penalties (fine/jail time) for illegal fishing or for misappropriation or destruction of wet land in conservation areas and fisheries resources. Dep't of Fisheries, MAFF, 2006.

7. The current national value chain for export is still too complex. The most complicated component of the fish marketing system in Cambodia is the distribution channel (Figure 2) – supply chain – where many transactions take place before fish and fish products reach the consumer or export market.

Figure 2: Sector Current Value Chain



Source: Reproduced from Cambodia Fisheries Sector Information Design Initiative, EDC/UNESCAP, Final Report March 15, 2002.

8. Therefore, incremental measures must be taken to dismantle these impediments and constraints in order to improve the competitive aspects of the fisheries sector; in light of, its significant potential to alleviate rural poverty and sustain long-term economic growth. Three (3) typical impediments and constraints⁴ are reiterated hereunder. If removed,

⁴ Updated from Fisheries Sector Information Design Initiative, EDC/UNESCAP, Final Report March 15, 2002 pp. 14-16.

reformed/reinforced, and/or reduced? This would lead to more income and higher returns for fishermen and induce investment in aquatic production and fish processing.

- **Regulatory and enforcement responsibilities of various government agencies need clarification:** i) there is no public schedule of charges for the services/approvals provided by the several ministries directly or indirectly involved; and ii) conflicting reporting and licensing requirements inhibit the free flow of market information between government agencies, market participants, and NGOs interested in promoting competitive markets, sustainable fisheries development, and environmental responsibility.
- **Complexity and lack of transparency in administrative procedures inhibits sector development:** i) many requirements cause unnecessary delays and create apprehension on the part of businesses, traders, fishermen, wholesalers, retailers, transporters, brokers, and processors; and ii) these requirements create "opportunities" for government agents to request or demand un-receipted expediting fees and other un-receipted payments.
- **Enforcement of fisheries policies appears arbitrary:** i) community-based organizations must be created through a bottom-up with top-down, rather than top-down approach only; and ii) often reported that the governors of several provinces are choosing to issue their own regulations concerning fisheries resources that contradict the Prime Minister's decrees, or to disregard the decrees issued by the central government altogether.

9. Box 1 draws together the main findings of all the analysis to date in strengths, weaknesses, opportunities and threats (SWOT) framework within the sector.

Box 1: Fisheries Sector SWOT Analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> - Cambodia has a vast freshwater and marine aquatic resources with high biodiversity and ecosystem diversity - Increase supply from aquaculture - Market access (i.e., U.S, Australia, China and other GSP granting countries) - There is a strong and increasing demand in fish consumption domestically and internationally - The institutional understanding of, and support for, the fisheries sector has increased in recent years and there is a growing collaboration between government and the NGOs to address constraints facing the sector - Government is placing greater emphasis on wider participation by the private sector 	<ul style="list-style-type: none"> - Ambiguities of regulatory and enforcement responsibilities of various government agencies - High export taxes 10% and dual taxation policy - Remoteness and poor transportation infrastructure (i.e., from catch to market) and high costs of power and other utilities, e.g., ice, cold storage etc. - Inadequate, cumbersome and expensive credit facilities - Low level of human resource development and low skill base - Poor market information
Opportunities	Threats
<ul style="list-style-type: none"> - Renewed government commitment to support development of aquaculture sector which provides new prospects for more supply of fish and value addition - Synergy among international aid agencies to assist development of private sector involved in fisheries (i.e., World Bank, EU, ADB, etc.) - Joint public-private sector initiative to establish and develop cross border transportation and joint economic development with Thailand and Vietnam to develop an exchange market along the major border trading posts - Improve fish processing through reducing in both physical and value loss, e.g., improve fish handling, modern processing technology, best practice in icing and storage - Improve packaging, hygienic, trading facilities, and quality assurance procedures 	<ul style="list-style-type: none"> - Increase in fishing effort and use of illegal fishing gears lead to falling catches - Poor handling practices of fish and fish products - Ecological change, due to conversion of flooded forest to dry season rice and the associate use of pesticides, dam development in the upstream countries, and silt's deposited in the rivers, lakes, etc... - There is an alarming trend of using insecticides in commercial processing of traditional products and rising food quality standards for international market.

Source: Reproduced from the “New Sources of Growth” study commissioned by the MoC funded by the World Bank, May 2005.

C. Where Do We Want to Be?

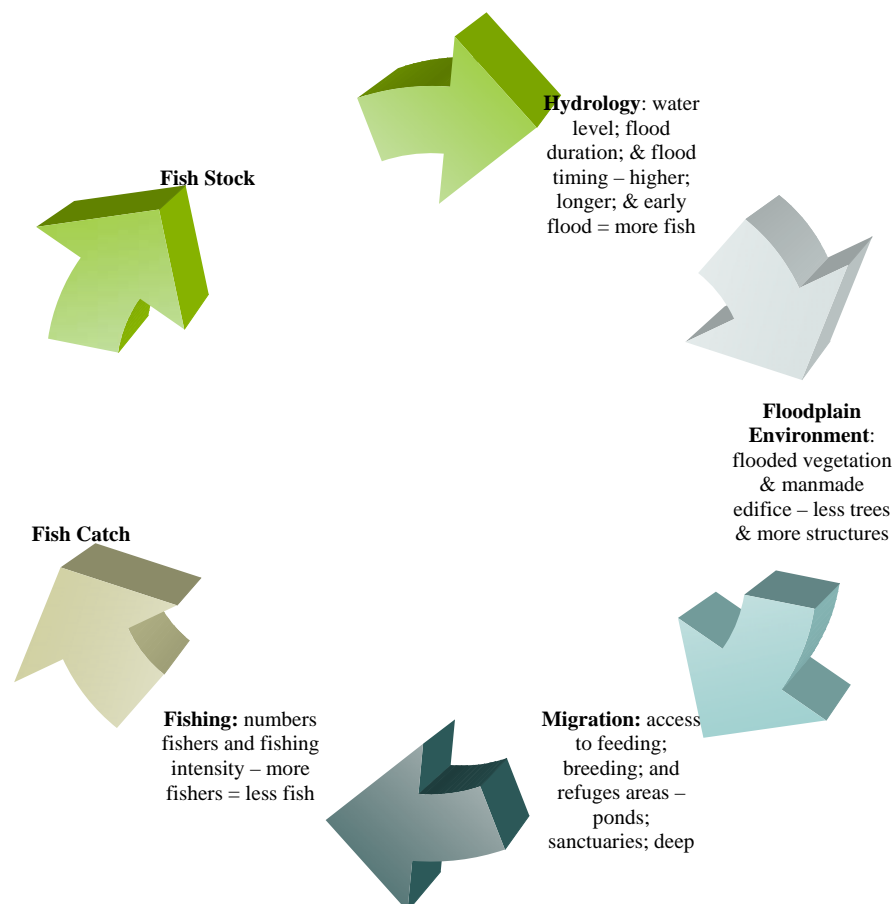
10. Our vision is “to achieve sustainable and equitable economic growth and to reduce poverty among the rural population through sustainable development of fisheries sector, stimulated through improve handling and quality standard, value addition, creation, retention, and distribution by strengthen public-private sector consultative framework.”

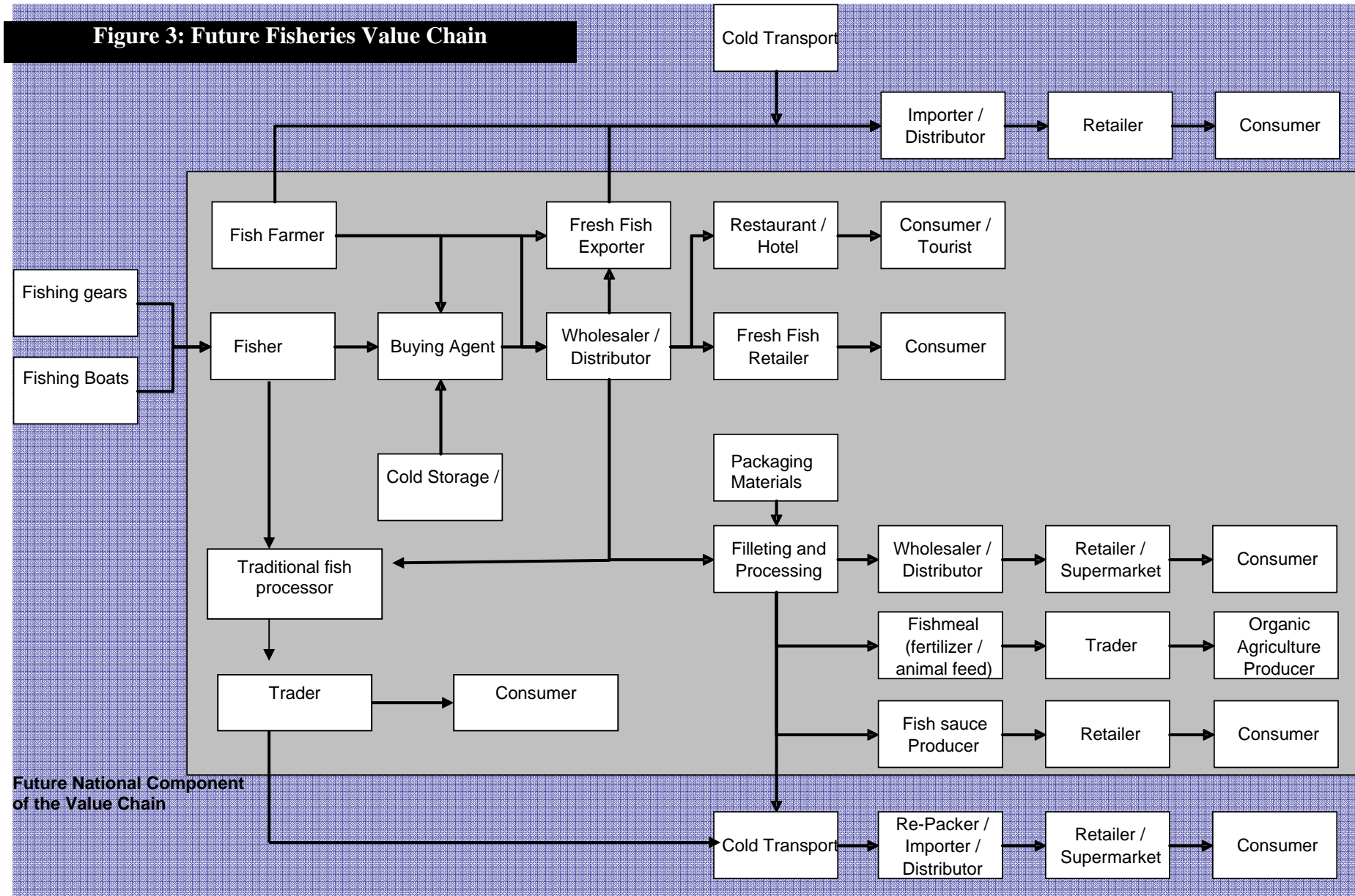
11. To realize this vision policies/actions within the framework of public private partnership need to be taken, but not limited to are:

- to improve fishery resources and sustainable management in order to maintain/strengthen sector comparative advantage (Diagram 1);
- to increase transparency of regulations, fees and license agreements;
- to improve accessibility to permits and licenses;
- to upgrade fisheries infrastructure and fishing gears, adopt modern processing and improve production system to increase supply/production, to widen product diversification and enhance quality of the fisheries sector's offer, whether for domestic consumption or export;
- to strengthen and develop quality assurance, regulations, labeling and monitoring and surveillance system for fish and fish products;
- to establish an international accredited laboratory to ensure international recognition of analyzing and testing result, in compliance with safety requirements, both for the domestic and the export markets;
- to train fishermen, fish farm operators and fish processors in matters relating to sustainability, handling, modern production/processing techniques, and quality assurance; and
- to develop an integrated/sophisticated fisheries marketplace and market driven value chain (Refer to Figure 3 next page) by dismantling invasive government institution(s) and policy structures that were designed during the years when Cambodia functioned within a command structure economy.

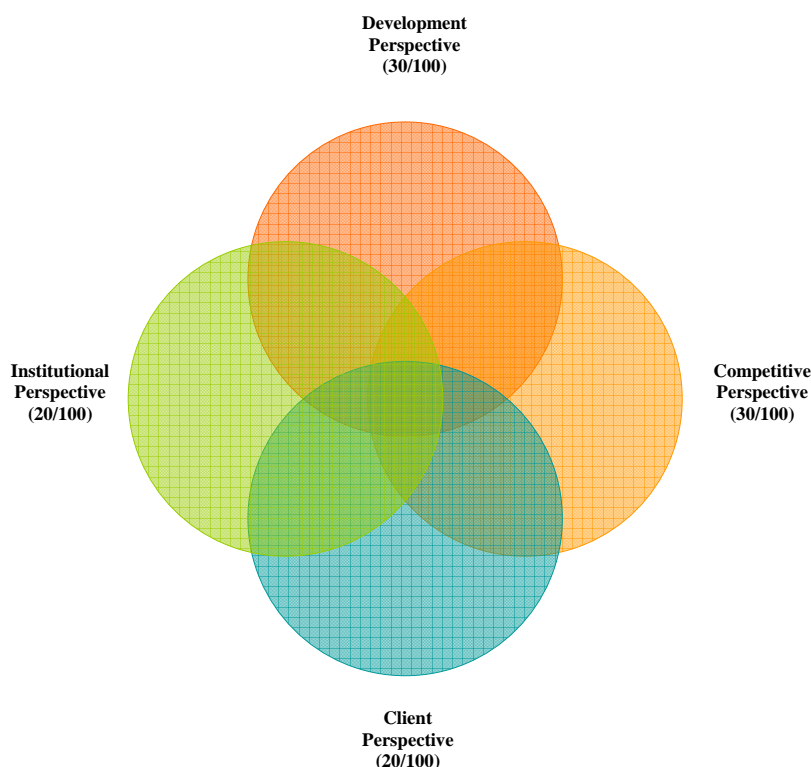
Diagram 1: Variables which are crucial to ensure sustained fish catch

Source: www.worldfishcenter.org





D. The Way Forward (3-5 years)



1. The Development Perspective (strategic weighting 30/100)

12. Particular attention will be given to:

- improve the livelihoods of poor rural households;
- contribute to employment generation;
- contribute to food security throughout the country;
- contribute to foreign exchange earnings; and
- contribute to economic development and national prosperity.

In order to maintain and improve that contribution, it has to be better management of fisheries resources and development of productive capacity through aquaculture and better management of post-harvest fisheries.

2. The Competitive Perspective (strategic weighting 30/100)

13. Border-In considerations and priorities:

- increase value addition within sector through improve handling and storage, production technology, and quality assurance;
- promote and facilitate the creation of an association to organize a highly fragmented sector, encourage business alliances, clustering, build competency in production techniques and instill an export culture based on competitiveness not just comparativeness; and

- training and awareness campaign on the opportunities to be gained from aquatic farming, resources conservation, and promote investment (local/foreign) in the sector directed toward processing and value addition.

14. Border considerations and priorities:

- strengthen current quality infrastructure and introduce quality certification program;
- develop cold storage infrastructure at affordable prices; and
- facilitate and equalize medium- to long-term leasing of fishing lots for fish farming activity, particularly in the Great Lake region; and
- eliminate unnecessary official interventions.

15. Border-Out considerations and priorities:

- organize local fisher (small-scale) for eventual participation in international market through collaboration and participation in the supply chain in export;
- establish an information collection and dissemination of market requirements and standards for fish and fish products within the public and private sectors;
- overseas commercial representatives to obtain and disseminate market information and to promote Cambodian fish products abroad; and
- promoting and national branding specific Cambodian fishes and fish products.

3. The Client Perspective (strategic weighting 20/100)

16. Client priority:

- focus on current fisher to enhance capacity of TAC with a range of other stakeholders involved in the sector's value chain e.g., boat and fishing gears suppliers, ice producers, processors, exporters, traders and freight forwarders, etc...

17. Implications for sector support services:

- focus on technical information (MAFF) and awareness-creation (MoC);
- micro-finance scheme targeting small scale fishermen (MEF);
- establishment of Quality Assurance infrastructure to strengthen quality management techniques (MAFF) and to oversee and enforce quality certification requirements;⁵ and
- focus on productivity, training, technical know-how, HACCP, GMP, SSOP awareness- and capacity-building, entrepreneurship, cluster development and management.

4. The Institutional Perspective (strategic weighting 20/100)

18. Implications for the sector's Trade Support Network:

- among other mandates, greater coordination between and among public and private sectors, and the trade support network, e.g., MoC, MAFF, MIME, MEF, MoE, sector associations and agencies providing support services such as training/workshop on how to prevent the depletion of fishery resources by not catching brood stock or small fish

⁵ Based on GTZ/EU reports on implication for Cambodia of automatic adoptions of CODEX Alimentarius food standard and an action plan for implementation – MIME, MAFF, and MoC.

and understanding the existing threat of fishery resources and how to improved the resources management, etc...

19. Implications for Strategy Coordination and Management:

- Dep't of Fisheries (DoF) of MAFF to take the lead, with particular emphasis on supporting the creation of the sector association and clustering in collaboration and coordination with line ministries and private sector.

E. Summary of Strategic Objectives

20. Out of the population of 13.5 million, approximately 4 million Cambodians (29% of the population) derive their living directly and/or indirectly from fisheries sector. One can imagine the incremental positive reform to increase; efficiency, productivity, and exports [formal] within this sector will have tremendous impact on rural job creation and poverty reduction. Conservation project to protect biodiversity and sustainable economic development around the Tonle Sap provides not only the source of freshwater fish, but other natural endowments for boosting tourism, non-intrusion agriculture production surrounding this natural treasure.

21. In summary the objectives are:

- to revitalize the fishery resources from depletion;
- reduce unofficial payments to authorities through improving transparency and enforcement;
- manage and conserve fisheries resources and its biodiversity;
- strengthen and develop quality assurance for fish and fish products and establish modern sophisticated laboratory to ensure conformity with safety and sanitation guidelines, both for the domestic and the export markets; and
- build capacity in handling and storage, processing, marketing, and develop niche market for direct exports.

F. Resources Mobilization

22. Required resources – financial and human capital – are considerable; what's more, it is essential to have the political will and support at the highest level of the Government. The strategy calls for public institutional reform, public/private capacity building, public and private partnership building, and cluster development, vertical linkage to increase value addition, value creation, value retention, and value distribution. Collaborating and coordinating technical activities with the Development Partner Coordination Matrix: the SME Development Framework (2005-2010), to insure resources get allocate to activities/initiatives where the impacts are on job creation, balanced-gender, poverty alleviation, and rural development.

Annex 1 Work Plan and Management Framework for Fisheries Sector

Vision	To achieve sustainable and equitable economic growth and to reduce poverty among the rural population through sustainable development of fisheries sector, stimulated through improve handling and quality standard, value addition, creation, retention, and distribution by strengthen public-private sector consultative framework.					
Perspective	Development					
Strategic Objective: management of fisheries resources and development of productive capacity through aquaculture, better management of post-harvest fisheries, and conservation of natural resources and biodiversity						
Initiatives	Responsible and Accountable Institutions	Resources to be Allocated	Additional Resources Required	Implementation Timeframe	Targets	Impact Measures
<ul style="list-style-type: none"> - Address the various issues related to the Fisheries Law - Intensify efforts to introduce improved practices with regard to natural resources conservation and fish stock conditions - Develop a comprehensive human resource development plan for the fisheries industry 	NECC, Dep't of Fisheries, and IFR ^① with line ministries	HR resources and financial and political capital	Donor countries (DCs), international development agencies (IDAs), and practitioners e.g., China, Japan, ASEAN, EU, US, WB, IMF, IFC/MPDF, ADB, UNDP, ITC, AusAID, USAID, NZAid, GTZ, DFID, AFD, etc...	TBD by NECC at its first plenary session	TBD by NECC at its first plenary session	TBD by NECC at its first plenary session

① IFR^① (Inland Fisheries Research and Development Institute) chartered by the Department of Fisheries of MAFF with sustainable development of inland fisheries in Cambodia.

Annex 2 Work Plan and Management Framework for Fisheries Sector

Vision	To achieve sustainable and equitable economic growth and to reduce poverty among the rural population through sustainable development of fisheries sector, stimulated through improve handling and quality standard, value addition, creation, retention, and distribution by strengthen public-private sector consultative framework.					
Perspective	Competitive					
Strategic Objective: developing supply chains from fishermen/fish farmers to trader to consumer						
Initiatives	Responsible and Accountable Institutions	Resources to be Allocated	Additional Resources Required	Implementation Timeframe	Targets	Impact Measures
<ul style="list-style-type: none"> - Promote investments in vertical linkage possibly through forming a “Fisheries Industry Investment Fund” - Integrate SMEs into the fisheries industry cluster through reforms in tax policies, investment rules, and removal of other SME impediments - Developing supply chains, , - Promote/brand specific Tonle Sap fish/products 	NECC, Dep’t of Fisheries, and IFREDI with line ministries	HR resources and financial and political capital	Donor countries (DCs), international development agencies (IDAs), and practitioners e.g., China, Japan, ASEAN, EU, US, WB, IMF, IFC/MPDF, ADB, UNDP, ITC, AusAID, USAID, NZAid, GTZ, DFID, AFD, etc...	TBD by NECC at its first plenary session	TBD by NECC at its first plenary session	TBD by NECC at its first plenary session

Annex 3 Work Plan and Management Framework for Fisheries Sector

Vision	To achieve sustainable and equitable economic growth and to reduce poverty among the rural population through sustainable development of fisheries sector, stimulated through improve handling and quality standard, value addition, creation, retention, and distribution by strengthen public-private sector consultative framework.					
Perspective	Client					
Strategic Objective: facilitate market access and competent in marketing						
Initiatives	Responsible and Accountable Institutions	Resources to be Allocated	Additional Resources Required	Implementation Timeframe	Targets	Impact Measures
<ul style="list-style-type: none"> - Support efforts to enhance market access post-WTO - Identify market channel and opportunity - Implement a marketing plan to promote the Cambodian fish and fish products - Carry out an ongoing and sustained export development campaign 	NECC, Dep't of Fisheries, and IFRReDI with line ministries	HR resources and financial and political capital	Donor countries (DCs), international development agencies (IDAs), and practitioners e.g., China, Japan, ASEAN, EU, US, WB, IMF, IFC/MPDF, ADB, UNDP, ITC, AusAID, USAID, NZAid, GTZ, DFID, AFD, etc...	TBD by NECC at its first plenary session	TBD by NECC at its first plenary session	TBD by NECC at its first plenary session

Annex 4 Work Plan and Management Framework for Fisheries Sector

Vision	To achieve sustainable and equitable economic growth and to reduce poverty among the rural population through sustainable development of fisheries sector, stimulated through improve handling and quality standard, value addition, creation, retention, and distribution by strengthen public-private sector consultative framework.					
Perspective	Institutional					
Strategic Objective: build an information base and cluster of fishermen/fish farmers and processors						
Initiatives	Responsible and Accountable Institutions	Resources to be Allocated	Additional Resources Required	Implementation Timeframe	Targets	Impact Measures
<ul style="list-style-type: none"> - Develop an information and analytical base on the fisheries industry and information base on international market data - Enhancing and supporting a sustainability strategy for the Aquaculture of Indigenous Mekong Fish Species project 	NECC, Dep't of Fisheries, and IFRReDI with line ministries	HR resources and financial and political capital	Donor countries (DCs), international development agencies (IDAs), and practitioners e.g., China, Japan, ASEAN, EU, US, WB, IMF, IFC/MPDF, ADB, UNDP, ITC, AusAID, USAID, NZAid, GTZ, DFID, AFD, etc...	TBD by NECC at its first plenary session	TBD by NECC at its first plenary session	TBD by NECC at its first plenary session

Organic Agriculture Sector¹

A. The Context

1. The Royal Government of Cambodia (RGC) has stated policy of agriculture development that emphasizes food security for all citizens of the nation and sustained growth in agricultural production, processing and marketing. In order to reduce poverty the RGC has developed a strategy that works toward high sustainable economic growth, human resource development and sustainable use of the country's natural resource.

2. There are significant market opportunities, today, for organic products in local markets and in major developed countries as domestic organic production lags behind demands. Although this gap is likely to decrease over the long term, some export opportunities will remain and at the same time the market for organic foods is also growing in developing countries including Cambodia. It is believed that Cambodian smallholder farmers could take advantage of potential market opportunities since it has a number of comparative advantages for producing and supplying organic agro-products, e.g., rice, vegetables, fruits, cashew nut, etc. It is widely acknowledged that the organic agriculture can make significant and positive contributions to the environment and rural community socioeconomic development.

3. Numerous studies/surveys have been written on the state of Cambodian rice production, (the need to modernize farming practice, invest in milling capacity, build adequate infrastructure, e.g., irrigation, transport, storage/silo, farmers cooperative and the collection of paddy rice, eradicate illegal fees, corruption, informal border trade, small holder farming vs. commercial holding, develop marketing/branding, etc...). But, facts remain that Cambodia is a large producer of rice: 4.1 million MT (paddy) in an average of 10 years from 1996-2005 (Table 1) and about 5.9 million MT (paddy) in 2005-2006 (Refer to Table 2 page 31), and a host of others subsidiary crops (Refer to Table 3 page 32).

Table 1: Average of Rice Crop Production, 1996-2005

Description	Unit	Wet season	Dry season	Avg. 10 Years
Cultivated area	Ha	1,637,409	274,841	2,232,772
Yield	T/Ha	1.822	3.224	2.000
Production	T	3,274,736	849,136	4,123,873

Source: Reproduced from Annual Conference on Agriculture, Forestry and Fisheries (March 29-31, 2006), Annex 7. Ha = Hectare, T = ton

4. Milling capacity and quality, infrastructure needs to send grain to the market, trade support network are deficient and underdeveloped. Hence, direct exports of fully processed Cambodian rice (conventional and organic) can only be built up gradually and prudently, for

¹ Reproduced from MoC and WB report – New Sources of Growth, Trade, and Poverty “Provincial/Regional Diagnostic Trade and Integration Study: Private Sector Development in Rural Cambodia, May 31, 2005. IF FOR TRADE REFORM MoC, RGC, UNDP, ITC “Capacity Building for Pro-Poor Trade Reforms” (CMB/02/GOI/A/JX/99 and CMB/02/009/A/01/99) and ITC Export-led Poverty Reduction Programme (INT/29/74) Supply Capacity Component, Organic Agriculture and Marketing Organic Certification of Rice Production Compiled Report of Internal Control System Training and Certification Organic Farming and Marketing Program Recommendations, May 2004. Diversified Agriculture Report, April 2003. MoC/WB report – Toward a Private Sector-Led Growth Strategy for Cambodia Volume 1: Value Chain Analysis, by GDS, LLC, June 2003.

it to become competitive over time, and for the country to be able to handle the volume the market demand. The single rice mill capable of producing for export – the Angkor Kasekam Roongroeung mill – has demonstrated the potential for Cambodian organic rice strains, especially those sought out by Asians living abroad. The company is currently exporting to China, Hong Kong, Australia, Germany, Italy, France, and the United States.

5. It is therefore, crucial then that trading relationships with neighboring countries Vietnam and Thailand² be formalized to maximize the impact of socio-economic growth in the rural areas. Whereas the Thai and Vietnamese have captive markets globally in conventional rice, then, there are plenty of reasons for Cambodian farmers to leave some processing capacity to them, and in turn, seek to increase value-added in other blocks in the national value-chain while prospecting for new markets in organic varieties.

6. Recent studies by the ITC and other agencies confirm that certain “niche” markets offer significant opportunities for Cambodia in organic produce, including organic rice, soy bean and cashew nut. International demand for organic rice exceeds available supply.

Table 2: Area and Rice Production, 2005-2006

	Province/Town	Population	Cultivated (ha)	Harvested (ha)	Yield	Production
01	Banteay Meanchey	794,410	205,432	203,165	2.071	420,843
02	Battambang	1,016,734	238,760	236,320	2.553	603,221
03	Kampong Cham	1,885,335	219,512	215,548	2.940	633,720
04	Kampong Chhnang	525,411	119,818	119,721	2.148	257,188
05	Kampong Speu	745,730	85,106	85,013	2.220	188,770
06	Kampong Thom	694,857	156,074	153,185	2.099	321,534
07	Kampot	610,642	121,621	121,621	2.408	292,831
08	Kandal	1,261,297	97,375	96,955	3.592	348,234
09	Koh Kong	199,413	9,110	8,995	2.340	21,044
10	Kratie	342,582	37,988	36,501	2.709	98,887
11	Mondolkiri	43,648	15,949	14,914	1.797	26,796
12	Phnom Penh City	1,355,934	6,059	6,059	3.645	22,088
13	Preah Vihear	156,427	31,163	30,658	2.074	63,600
14	Prey Veng	1,053,642	309,977	299,337	2.999	897,854
15	Pursat	435,313	91,770	91,717	2.157	197,797
16	Rattanakiri	124,509	23,147	22,750	1.767	40,197
17	Siem Reap	881,803	189,032	189,032	1.716	324,470
18	Preah Sihanouk Town	216,219	12,040	12,000	2.800	33,600
19	Stung Treng	106,790	23,014	21,430	2.629	56,331
20	Svay Rieng	544,174	148,819	148,719	1.777	264,213
21	Takeo	912,543	251,737	250,788	3.118	781,895
22	Oddar Meanchey	100,278	44,956	44,956	1.718	77,222
23	Kep Town	39,011	2,921	2,921	2.382	6,958
24	Pailin Town	33,951	2,150	2,150	3.203	6,886
Total		14,080,653	2,443,530	2,414,455	2.479	5,986,179

Source: Reproduced from Annual Conference on Agriculture, Forestry and Fisheries (March 29-31, 2006)
Annex 6 B, ha = hectare, Yield = ton per hectare

² The Cambodian Development Resource Institute (CDRI) estimates that almost ½ million tones of paddy rice were smuggled across the Thai and Vietnamese borders in 2002. In 2004, traders on the Cambodian side of the border were receiving US\$135 per tone of paddy rice from Vietnamese buyers, who have been seeking increasingly large quantities. These buyers collect the product, transport it down the Mekong River and pay all the informal costs necessary to get the product into Vietnam.

Table 3: Subsidiary & Industrial Crops Production, 1996 - 2005

Description	Unit	10 Years Average
Maize		
- Planting area	Ha	71,102
- Production	T	156,165
Yellow Maize		
- Planting area	Ha	44,878
- Production	T	121,561
Cassava		
- Planting area	Ha	17,594
- Production	T	208,233
Sweet Potatoes		
- Planting area	Ha	8,630
- Production	T	32,508
Vegetables		
- Planting area	Ha	36,715
- Production	T	193,360
Mung Bean		
- Planting area	Ha	34,646
- Production	T	23,243
Peanut		
- Planting area	Ha	12,913
- Production	T	11,777
Soy bean		
- Planting area	Ha	48,334
- Production	T	59,143

Source: Reproduced from Annual Conference on Agriculture, Forestry and Fisheries (March 29-31, 2006).
Annex 9, Ha = hectare, T = Ton

7. Cambodia produces an estimated 50,000 tons/year³ of raw cashew nuts (RCN = “nuts in shell”), a significant number for a country of Cambodia’s size, although small possibly 5-10%, in terms of the world production. Planted area has increased markedly in recent years, in response to good export prices. The country has only one commercial processor, relatively small-sized, and most of Cambodia’s cashews are exported informally, in unprocessed form as RCN, to Vietnam where the processing industry is very well developed and efficient. Cambodia thus captures only a very small share of the ultimate value-added to the consumer product, little employment or economic multiplier effects are generated, and very little if any revenue enters the national treasury. Cashew nuts of Cambodian origin are re-imported in processed kernel form. When prices are right, RCN from Thailand are sometimes transported from Srer Ambel port by road to Kampong Cham, for re-export to Vietnam.

8. A number of local and foreign interests have recently looked at the cashew processing industry as a potential investment, but for reasons of Cambodia’s difficult business environment, as yet no substantive commitments have been made.

9. Organic cashew nuts represent a significant opportunity as a niche market for Cambodian products, as is being promoted by the Ministry of Commerce and other government agencies. Modern organic approaches also provide the only credible route to

³ Official MAFF figures are 30,000 t/yr. This study estimates at least 50,000 t/yr, based on triangulation of statements by major traders. Source: Andrew Mc. Naughton et al., 2005.

agro-ecosystem sustainability for Cambodia. However care must be taken not to assume that Cambodian cashew orchards are pesticide free just because farmers are poor. Cambodia has very severe pesticide misuse problems in its agriculture, and the cashew sub-sector is no exception.

10. For instance, today, evidence of pesticide use (sprayers and empty bottles, mostly diazinon, from Vietnam and Thailand) in several orchards, even when the proprietors claimed not to use them. One cashew orchard in Kampong Cham has organic certification under American NOP standards, but there is reason to believe that their compliance post-inspection has been less than what might be desired. Creating an organic cashew industry in Cambodia will require the same degree of organizational support and institutional development as has begun in the organic rice sub-sector. Existing technical capacity in the Integrated Pest management program is well suited to assist such a development.⁴

B. Where Are We Now? – An Assessment

11. There are various initiatives being undertaken by the Government, NGOs and others in the organic agriculture sector, but constraints remain including, but not limited to.

- Market opportunity is limited to those producing areas with good infrastructure and with developed export markets in Vietnam and Thailand.
- Informal competition from the juggernaut agricultural sectors in Vietnam/Thailand comes through Cambodia's porous borders, at excessively low prices, making local produce less cost-competitive, e.g., milled rice imports at cheaper prices from more sophisticated miller from the same are a disincentive to the Cambodian producer who has to compete with lower economies of scale and inferior tools, equipment, and facilities.
- There are few modern irrigation systems. The majority of arable fields are still rain fed, this in turn hampers farmer/producer's productivity.
- Legacy of the Democratic Kampuchea's regime cause farmer/producer not to trust or engage in cooperative system which would have results in economies of scale among small scale farmer/producer.
- Lack of good planting material and information sharing due to absence of institutional and research facilities and scarcity and high cost of capital (land, credit and finance, etc...).

Table 4: An Example of a Value Chain for Organic Agriculture

Production		Transportation
Pre-Harvest	Post-Harvest	Shipping & Customs Clearance
- Land preparation	- Threshing	- Transportation
- Seeds	- Drying	- Port charges
- Transplanting	- Milling	- Vessel loading
- Organic fertilizer & compost	- Packaging	- Customs clearance
- Irrigation	- Porter/Market fees	- Shipping
- Weeding	- Levies/service	
- Harvesting		

Source: Reproduced from MoC/WB report – Toward a Private Sector-Led Growth Strategy for Cambodia Volume 1: Value Chain Analysis, by GDS, LLC, June 2003.

⁴ The Cambodian Cashew Industry “Assessment of Opportunities and Constraints for Rural Development and Export Revenue Generation”. GOPA/GTZ RDP Program Kg. Thom & Kampot, September 2005.

12. The current state of infrastructure represents a significant problem, if not the only.⁵ Trade financing is expensive and virtually no special incentives or investment available to farmers that are contemplating export development and/or value-addition. There are few, today, foreign direct investment in the sector. The complexity of the product value chain can range from as few as 5 and as many as 25 or more activities. For example, (Refer to Table 4 page 36) a generic value chain for organic agriculture can have as many as 18 process categories clustered under the three major value adding activities, namely production, post-harvest activities; and transport/shipping/customs clearance.

13. **Organic rice sub-sector** – from the supply chain analysis, however, suggests that the organic rice sub-sector in Cambodia has the potential to be competitive against Thailand, a major rice exporter in the world market (Table 5). However, a number of market-based and administrative barriers to competitiveness continue to hinder the development of this sub-sector, particularly in the context of attracting adequate investments in the quality and advanced commercial milling. In this context, the critical bottleneck is in the processing rather than production side of the organic rice value chain.

Table 5: Benchmarking Rice Production Costs –Between Cambodia and Thailand

Per Hectare	Cambodia		Thailand		Cost Differential
	US\$/hectare	% of Total	US\$/hectare	% of Total	
1 Land preparation	\$26.50	16%	\$26.09	11%	2%
2 Seed	7.75	5%	6.02	3%	22%
3 Transplanting	37.50	22%	63.36	27%	-59%
4 Fertilizer/manure	48.53	29%	15.77	7%	208%
5 Ag chemicals		0%	2.48	1%	
6 Harvesting	15.00	9%	61.94	26%	-24%
7 Drying	6.25	4%	8.48	4%	-74%
8 Milling	22.83	14%	33.04	14%	-69%
9 Interest payment	3.84	2%	3.38	1%	12%
10 Rent	0	0%	16.32	7%	
TOTAL	\$168.20	100%	\$236.87	100%	
Yield/hectare (tons)	1.87		2.09		

Source: Reproduced from MoC/WB report – Toward a Private Sector-Led Growth Strategy for Cambodia Volume 1: Value Chain Analysis, by GDS, LLC, June 2003.

14. In addition, administrative costs associated with importing inputs and exporting procedures continues to dampen the overall competitiveness of organic rice in the export market (Refer to Box 1 next page). While these administrative barriers are not unique or isolate to the organic rice sub-sector, the potential for expanding the foreign exchange earnings capability from exporting; to support the development of the Cambodian economy will hinge on a range of administrative reforms to facilitate trade and encourage investment in

⁵ For instance, today, the single rail road system in the country is from the bygone era of the French Colonial.

the organic agriculture sector, which should help increase and strengthen overall competitiveness, quality, and quantity of exports.⁶

Box 1: Administrative and Market Barriers to Competitiveness

	Critical Issues	Impact
Business Environment	<ul style="list-style-type: none"> - High import clearance charges - Lack of regulatory enforcement - Poor access to finance - High export clearance charges - Lack of certification 	<ul style="list-style-type: none"> - High cost of fertilizer - Large unofficial outflow of paddy to Vietnam and Thailand - High production costs, low yield rates, poor quality or inadequate use of agricultural inputs reduces the competitiveness of export organic rice - Investments in expanding milling capacity are discouraged
Supply Chain	<ul style="list-style-type: none"> - Lack of investment in commercial milling capacity - Absence of business and technical support infrastructure 	<ul style="list-style-type: none"> - Deficit in milling capacity and quality - High cost of support services - Poor on-farm labor skills
Infrastructure	<ul style="list-style-type: none"> - Uncompetitive energy pricing policy - High cost of electricity - High cost of diesel 	<ul style="list-style-type: none"> - High milling cost - High transplanting cost and high milling cost for self-generating electricity

Source: Reproduced from MoC/WB report – Toward a Private Sector-Led Growth Strategy for Cambodia Volume 1: Value Chain Analysis, by GDS, LLC, June 2003.

15. **Organic cashew sub-sector** – the cashew industry faces similar suite of constraints familiar by all the enterprises in the Cambodian business environment: high energy and transport costs; expensive capital (underdeveloped financial institutions); ineffective extension support; poor market intelligence; high regulatory costs; and unpredictable unofficial transaction costs. In that same context – previously discussed in organic rice, the critical bottleneck is also in the processing rather than production side value chain.

16. This factor affects both producers and processors. For example, select quality cashew kernels command significant price premiums per kilogram over less desirable grades (size, wholeness, color). Yield of large whole kernels is dependant on the skill of the workers and on the quality of the raw material. This makes it especially important to the processor to have the best quality inputs of RCN, either by selecting at the point of purchase, or by drying and selecting afterwards. The transportation time from Cambodian trader to factory drying-floor is a matter of only a few days, so spoilage is not a problem, and doing the drying and grading themselves gives the processors a measure of quality control.

17. However, the Vietnamese processing operations who buy most of Cambodia’s cashew crop are mostly state-owned factories, with a situation of over-capacity, and priorities on keeping labor fully-employed and earning export revenues (more important than making normal corporate profits). This explains the willingness of the Vietnamese buyers for buying all grades of Cambodian RCN. They also enjoy a position of nearly complete monopsony with respect to the Cambodian crop, due primarily to, Cambodia processing capacity is very

⁶ Cambodia has neither the policy nor the mean to subsidize its farmers. For this sector to grow and contribute to the overall economy and poverty alleviation all hands must be in the private sector.

small and inefficient, and the nearest other significant possible channel or buyer is India, which has a large competitive handicap in the market due to longer distance transport costs. These and others considerations are incorporated into the price offered by the Vietnamese buyers to Cambodian traders for the RCN.

18. Accordingly, Cambodia's cashew industry, like almost all of its agricultural sub-sectors, may be described as having a very poor competitive position in the global market, with limited and inefficient processing capabilities, a monopolistic external market for its product, and significant business environment constraints.

1. Opportunities for Cashew Nut

1.1. Increase planting areas

19. Cambodia's climate is favorable for cashew nut farming, with its monsoonal rainfall pattern and recurring drought, to which cashews are fairly tolerant. Cashew trees grow well on sandy and relatively infertile soils which are unfavorable for most other cash crops. Farm production of RCN in Cambodia has already expanded from approximately 35,000 tons per year in 2001 (MAFF) to perhaps 50,000 t/yr (this study), in 2005. This is an increase of almost 50% within only 4 years.

20. Cambodia has more than 10 million hectares of secondary degraded forest mainly unused at present, largely due to forest industry regulation and land tenure regime problems. Cashew and other high-return tree crops, bamboo plantations, and improved forage

average yield / ha	t	0.6	
RCN price / t	\$	540	(average 2001 - 2005)
purchase of land	\$	-200 / ha	
purchase of seedlings	\$	-60 / ha	
interest payments	\$	-234	18 % / year, 5 years until 1. harvest)
total investment	\$	-494	
balance 1. harvest	\$	-170	\$ 324
balance 2. harvest	\$	154	\$ 324

grazing systems are well suited to many of these areas. Land in remote areas is relatively cheap to buy, and offers a good return under cashew production.

21. The key constraints on effective utilization will be: i) slow reforms to regime under the land law governing economic concessions, including the tax loopholes and environmental impact assessment; ii) the need for guidelines for performance covenants between private and public sectors, to govern concession investment plans; and iii) development of land capability analysis and land use planning capabilities at the commune and provincial levels, to facilitate appropriate allocation of production zones.

1.2. Value addition by cashew processing

22. Increased value-added processing of Cambodian commodities is a key element of agricultural development policy. In the case of cashews, the nearly 50,000 tons exported annually as RCN represent a loss of up to 3,000 direct jobs in processing factories (100 people can process around 6 tons/day). Switching the supply chain for RCN from export to domestic destinations would provide an opportunity to force the trade into the formal sector, allowing it to contribute its legitimate share of taxes to the national treasury. Such a move would require political will at top level of the Government, given the dichotomy of the vested interests in the trade at the border.

23. In any case, it is not possible to attract the necessary investment without appropriate profit incentives being made available to the international or local private sector. The playing field can be made somewhat more level by policy initiatives, for example subsidized credit; it is also the key entry point for effective public-private partnerships in developing the cashew sub-sector. Given such desiderata, there remains a potential advantage to the investor in processing capacity, in that a processing plant “behind the border” would be free of the export transactions costs (formal and informal) on the raw material. Cashew kernels are less than 25% of the RCN weight, so these savings could well be enough to allow an efficient processor to compete successfully with the Vietnamese, on price offered to farmers for RCN.

24. There would also be the opportunity to consolidate the supply chain, through contracting directly with farmers and/or farmer associations, a gross benefit of 2-5% just on removing the middleperson’s small margins. Having the plant much closer to the farm will also provide an opportunity for processing cashew apple, a very perishable commodity now mostly wasted. Revenues from sales of cashew nut shell liquid, and energy cost savings from using waste shells as fuel, add to the benefits.

25. Cambodian RCN productivity can also be enhanced by synergies with increased domestic processing capacity. Domestic processors have every incentive to assist “their” contract farmers and possibly selected traders, as partners in the supply chain, to become reliable suppliers of a better product. This is the natural evolution of supply chains, where mutual confidence reduces transaction costs and increases predictability⁷.

1.3. RCN - Value addition behind the farm gate

26. In the present system, the incentives for most farmers push toward minimal investments and low quality output:

- communications between processor and producer are impaired by the long supply chain, masking price signals which might induce quality improvements behind the farm gate;
- as is the case for most agricultural commodities, cashew prices vary from year to year, farmers are therefore hesitant to make annual cash investments in irrigation, soil fertility, and pest management, in the face of possible significant losses; and
- modern, high-yielding, and more reliable cultivars of cashew are available, and some Cambodian farmers are adopting some of them, but most farmers do not have information about, or access to, these resources.

27. These constraints need to be addressed if the Cambodian cashew industry is to develop. Even in the unfortunate case that new investment in processing capacity fails to materialize, the informal export value of the present cashew production is on the order of US\$35 million to US\$50 million per year and the output is expanding. Small improvements to productivity will have significant benefit if applied across the sub-sector.

1.4. Finished products

28. Almost all of the secondary processing (roasting) of cashew kernels is done in the industrialized countries. Roasted cashew products are luxury goods consumed directly or

⁷ ACIAR report on value chain analysis in developing countries.

incorporated into tertiary products (e.g., baked goods, confectionary products). Their diverse uses and specifications require close integration between roaster and tertiary user.

29. An important exception to this rule is the case of Thailand, where almost the entire domestic requirement (including the tourism industry) for roasted cashew kernels is met by small-scale producers operating with business development assistance from the Thai government, mostly under the “one-village, one product” scheme. Cashews are often used in Khmer and the other Asian cuisines usually offered in Cambodian tourism destinations. Many tourists are aware of the importance of buying local products where possible (convenient), and this is probably a significant market opportunity for small enterprise development in Cambodia as well.

30. Box 2 below – draws together the main findings of all the analysis to date in strengths, weaknesses, opportunities and threats (SWOT) framework within the sector.

Box 2: Organic Agriculture Sector SWOT Analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> - Large and productive arable land with low population density (72 inhabitants per km²) - Market access, e.g., China and other GSP granting countries, WTO, ASEAN AISP, and “EU Everything but Arms” - Extensive under-utilized capacity to add value, e.g., organic rice, nuts, fruits, etc... - Making conversion to organic farming for export market relatively more profitable than conventional method of farming due to arable land are still virgins, not affected by chemical substances - Growing demands and premium prices for organic products - Opportunity to intensify organic production - Financial support available at commune level to farmers producing organic agriculture 	<ul style="list-style-type: none"> - Inadequate farming experience, improper handling of crops, branding practices - No commercial incentives to improve quality for domestic market - Lack of property right, grossly inadequate enforcement of land legislation and regulations - Poor infrastructure and market information - Lack of inter-industry/sector linkages and few facilities and/or silo, and policy impediments to vertical linkage within the sector - Urgent need to develop and rehabilitate/modernize irrigation systems - Inadequate, cumbersome and expensive credit facilities (limited intermediate-, short- and long-term facilities) - No FDI lead investors in the organic agro-business
Opportunities	Threats
<ul style="list-style-type: none"> - Organic agriculture and agro-processing under Government consideration to become “lead” industry for export market, e.g., organic rice to EU under EBA, China early harvest, etc... - Government priority to strengthen trade facilitation system is underway - Domestic production of seed provides new value retention and development of organic rice to meet increases export market demands - Environmental/health concerns stimulating worldwide demand for organic products - Synergies among donors and international aid agencies to assist development of rural private sector, e.g., World Bank, EU, ITC, AQIP, GTZ, AFD, CIRAD, etc... 	<ul style="list-style-type: none"> - Performance of competitor countries in organic agriculture (i.e., Thailand, Vietnam, and the Philippines) - GMO crops enter the production supply chain - Proliferation of chemical fertilizers, pesticides, insecticides, and other dangerous chemical among the illiterate farmers/producers - Land speculation lock-out productive arable land in vicinity of major urban areas - Smuggling and predatory practiced by those with political power/connection depress demand for domestic production and discourage innovation in modern farm practice - Few entrepreneurs venture into the sector

Source: Reproduced from the “New Sources of Growth” study commissioned by the MoC funded by the World Bank, May 2005.

C. Where Do We Want to Be?

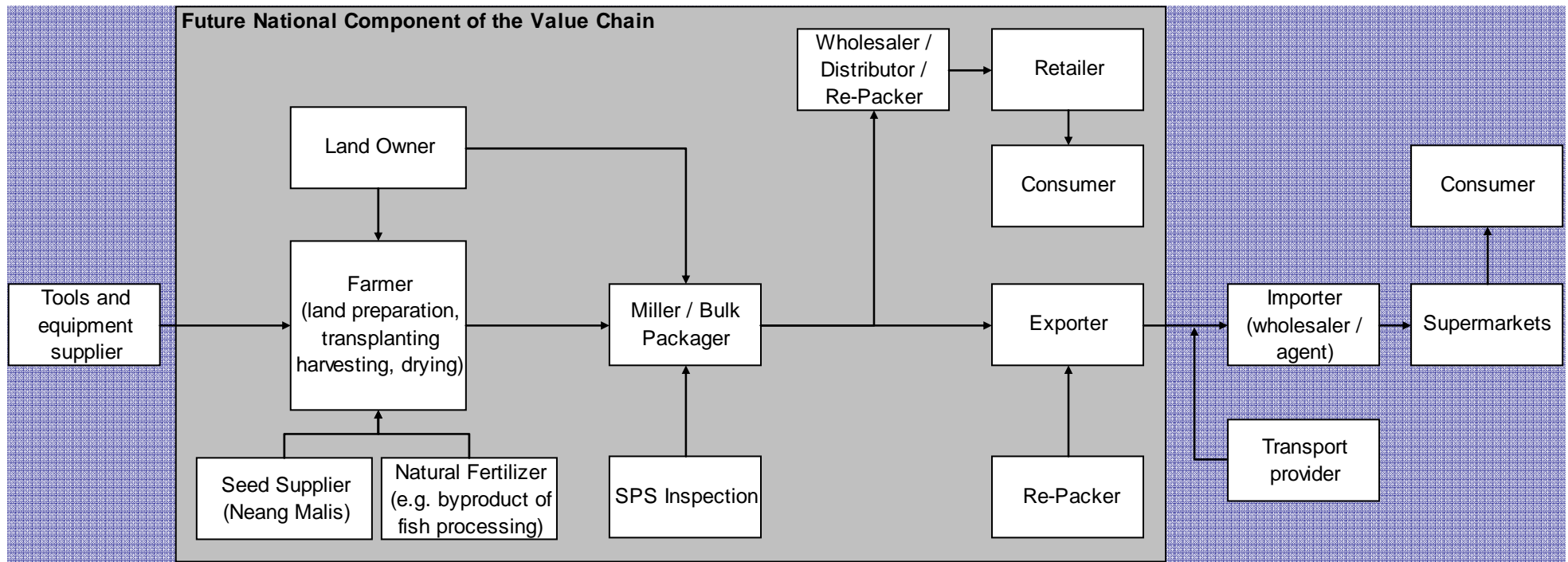
31. Our vision is **“to develop the organic agriculture sector to generate employment opportunities for the rural areas and to alleviate poverty among the rural land-less population and improve the well-being of farmers.”**

32. To realize this vision policies/actions within the framework of public private partnership need to be taken, but not limited to are:

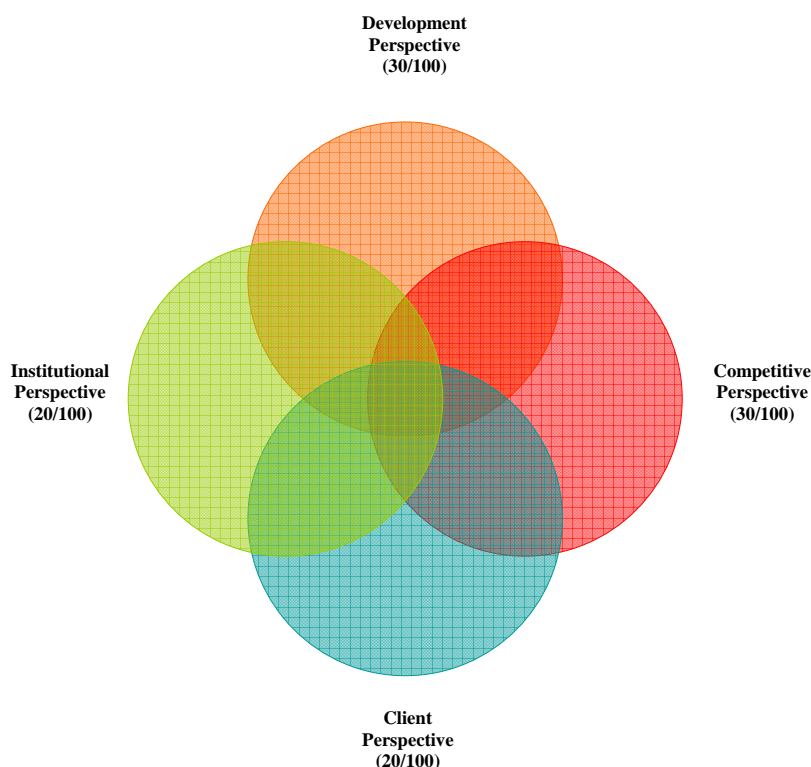
- to improve soil fertility and natural resources management in order to maintain/strengthen sector comparative advantage;
- to develop quality assurance, regulations, labeling and monitoring and surveillance system for organic products;
- to establish an international accredited laboratory to ensure international recognition of analyzing and testing result, in compliance with safety requirements, both for the domestic and the export markets;
- to train farmers and processors in matters relating to sustainability, pre- and post-harvest, modern production/processing techniques, handling and quality assurance;
- to increase the production of high quality organic agriculture (rice, cashew nut, etc...) grown according to internationally recognized organic standards;
- to stimulate local processing of organic agriculture which meets high quality standards in milling, labeling, and packaging;
- consolidate the local market and further develop existing and new export markets; and
- to develop an integrated/sophisticated agro-products marketplace and market driven value chain (Refer to Figure 1 next page) by strengthening public and private institutions in farm extension service, dismantling invasive government institution(s), and administrative structures that are existed to prevent trade more than to facilitate trade and the development of export.

33. Fundamental to achieving this vision and strategy is land tenure and the introduction of irrigation systems that will enable growers to utilize available arable land 100% of the time, as opposed to using the land for a single season only. With secured property right and modern irrigation systems, it will not only enhance farmer opportunity in organic agriculture, but also allow farmer to diversify into other sectors such as horticulture and sericulture that have a higher component of value retention.

Figure 1: The Future Organic Agriculture Value Chain



D. The Way Forward (3-5 years)



34. Incremental steps must be taken to improve the competitive strength of the country's agricultural sector in general, in light of, its integration into world trade. Three sorts of measures⁸ are reiterated herewith that would lead to more secure income and higher returns for farmers and rural based processing.

- Immediate effort to provide market stimulus in the form of an effective export development and promotion vehicle. A proactive approach to build production targeted at export opportunities.
- Cluster development to enhance the entire supply chain by undertaking longer term targeted farmer support in the form of a program that addresses need for infrastructure, credit, inputs, and marketing which can be replicated to other sectors.
- Public/Private Partnership led value-added diversified agriculture production projects need to be developed for implementation by private investors, aid donors, and regional authorities or any combination of thereof.

1. The Development Perspective (strategic weighting 30/100)

35. Focus on medium and long-term income and employment generation; prepare local farmers (small-scale) for eventual participation in international market through agriculture's cluster. Particular attention will be given to:

- improve the livelihoods of poor rural households;

⁸ These projects are in line with the "enterprise incubator" recommendations in the "IF Diagnostic and Competitiveness study" and its matrix of TA recommendations, and are intended to act as catalysts for developing a thriving private sector in agro-business.

- contribute to rural employment generation;
- contribute to food security throughout the country;
- contribute to foreign exchange earnings; and
- contribute to economic and socioeconomic development and national prosperity.

2. The Competitive Perspective (strategic weighting 30/100)

36. Border-In considerations and priorities:

- increase value addition and retention within sector through improve post-harvest handling and storage, processing technology, and reducing leakages, e.g., increase usage of local production inputs, such as seeds and natural fertilizer;
- strengthen production and quality assurance methods through proactive and extension services;
- promote the creation of sector association by advocating competitiveness, productions and export culture, and develop clustering among small-scale producers; and
- competency and entrepreneurship development training focuses on productivity and quality.

37. Border considerations and priorities:

- strengthen current quality infrastructure and introduce quality certification program;
- develop cold chain infrastructure and grain silo at affordable prices;
- facilitate and equalize medium- to long-term land concession for commercial plantation;
- reduce unnecessary procedures, regulations and corruption; and
- improve communication along the supply chain.

38. Border-Out considerations and priorities:

- organize local farmers/processors (small-scale) for eventual participation in international market through collaboration and participation in the supply chain in export;
- establish an information collection and dissemination of market requirements and standards for organic agro-products within the public and private sectors;
- overseas commercial representatives to obtain and disseminate market information and to promote Cambodian agro-products abroad; and
- promoting and national branding specific Cambodian agro-products, e.g., long grain Neang Malis.

3. The Client Perspective (strategic weighting 20/100)

39. Client priority:

- focus on current farmers/processors and, other stakeholders that are directly involved, such as buyer agents, millers, wholesaler/distributors, and retailers.

40. Implications for sector support services:

- improvement in availability and accessibility of information; the trade support network is currently not equipped to provide a regular flow of reliable and timely information; focus

- on technical information such as seed quality, production methods, fertilizers and equipment, and on market needs and export opportunities;
- enable small-scale farmers to expand and enhance operations by improving accessibility to micro-finance; the trade support network is currently not in a position to meet demand for micro-finance in all regions; collateral requirements are too high to be met by small farmers; interest rates are too high to enable small farmers to retain reasonable profits; and
 - train and enable farmers to meet international standards, specifically Sanitary and Phytosanitary regulations within the multilateral trading system.

4. The Institutional Perspective (strategic weighting 20/100)

41. Implications for the sector's Trade Support Network:

- among other mandates, greater coordination between and among public and private sectors, and the trade support network, e.g., MoC, MAFF, MIME, MEF, MoE, sector associations, research centers, and agencies providing support services such as training/workshop on how to prevent the proliferation of chemical fertilizers, pesticides and insecticides, and other harmful chemical substances to human, animal, and the environment.

42. Implications for Strategy Coordination and Management:

- Dep't of Agronomy and Agriculture Land Improvement (DAALI) and Dep't of Agricultural Extension (DAE) of MAFF to take the lead, with particular emphasis on supporting the creation of the sector association and clustering in collaboration and coordination with line ministries and private sector.

E. Summary of Strategic Objectives

43. All assessments made by donors and practitioners, today, emphasize the need for agricultural diversification, increase and improve productivity, and agribusiness. There is also a unanimous agreement that this represents one of the best ways of developing the country, for over 80% of populations are farmers or subsistence farmers. Few development measures would reach the rural population in Cambodia as much as taking organic production into higher value crops – organic agriculture – and adding value to agriculture outputs. Particularly, as income from some alternative organic crops are many times per hectare than from conventional crops.

44. However, the strategy in recognition of the merit and limit potential, for market share and market penetration, of the organic products/produces coupled with long and arduous process to obtain international organic certification. Thus, this paper neither advocates nor politicalizes for abandoning or even reducing conventional farming. For Cambodia to compete in the post-WTO world, being geographically sandwiched between two agriculture juggernaut (Thai/Vietnamese), organic agriculture is the mean not the end to insure Cambodian do benefits from globalization.

45. In summary the objectives are:

- to create and expand available opportunities post-WTO;

- to increase income and employment for small scale farmers/peasants;
- to enhance value creation/addition and capture greater value retention within the organic agriculture sector;
- to strengthen the production of high quality organic crops which the country has a clear and present comparative and competitive advantage, and according to internationally recognized organic standards;
- to encourage and support efforts to maintain and improve soil fertility through crop rotation and integrated pest management;
- entrepreneurship development training and supply side capacities building;
- to develop niche markets for export of organic agribusiness; and
- affordable capital for cropping loans to allow farmers to prepare land, undertake timely plantings and devote labor on a fuller time basis.

F. Resources Mobilization

46. There are a number of donors and practitioners programs (Box 3) being implemented and/or planned which seek to work with selected farmers in provinces and regions. Such programs could provide improvements in infrastructure in the form of water, road access, silo and drying areas, farm machinery and paddy processing equipment.

47. Additional technical and financial resources are crucial at this development stage as the strategy is focusing on competency development and simultaneously conversion to organics farming. Institutional capacity (public/private), public sector's reform, and private and public partnership are the prerequisites for the development and strengthening of this sector, which is the country rural life line. Dovetailing and coordinating technical activities with the Development Partner Coordination Matrix: the SME Development Framework (2005-2010), is essential.

Box 3 Sector Development – out of 20 organizations (14 donors and 6 practitioners) 10 are working in the agriculture or agribusiness sector.⁹

- 10 in the agriculture or agribusiness sector
- 4 in the rice sub-sector
- 3 in fruits and vegetables sub-sector
- 4 in the fisheries sub-sector
- 5 in food safety sub-sector
- 9 in the garment sector
- 5 in the handicraft sector
- 7 in the finance sector
- 4 in the silk sector

⁹ PSD in Cambodia: A Review of Potential Gaps, Overlaps, and Conflicts, Table 3: Sectors by Donors and Practitioners, MPDF April 2005.

Annex 1 Work Plan and Management Framework for Organic Agriculture Sector

Vision	To develop the organic agriculture sector to generate employment opportunities for the rural areas and to alleviate poverty among the rural land-less population and improve the well-being of farmers.					
Perspective	Development					
Strategic Objective: focus on medium and long-term income and employment generation; prepare local farmers (small-scale) for eventual participation in international market through agriculture's cluster						
Initiatives	Responsible and Accountable Institutions	Resources to be Allocated	Additional Resources Required	Implementation Timeframe	Targets	Impact Measures
<ul style="list-style-type: none"> - Address the various issues related to the land tenure - Intensify efforts to introduce improved practices with regard to organic agriculture, arable land fertility conditions, and natural resources conservation - Develop a comprehensive human resource development plan for the agro-industry 	NECC, Dep't of Agriculture Extension, Dep't of Agronomy and Land Improvement, and CARDI ^① with line ministries	HR resources and financial and political capital	Donor countries (DCs), international development agencies (IDAs), and practitioners e.g., China, Japan, ASEAN, EU, US, WB, IMF, IFC/MPDF, ADB, UNDP, ITC, AusAID, USAID, NZAid, GTZ, DFID, AFD, etc...	TBD by NECC at its first plenary session	TBD by NECC at its first plenary session	TBD by NECC at its first plenary session

① CARDI (Cambodian Agriculture Research and Development Institute)

Annex 2 Work Plan and Management Framework for Organic Agriculture Sector

Vision	To develop the organic agriculture sector to generate employment opportunities for the rural areas and to alleviate poverty among the rural land-less population and improve the well-being of farmers.					
Perspective	Competitive					
Strategic Objective: developing supply chains from farm to fork						
Initiatives	Responsible and Accountable Institutions	Resources to be Allocated	Additional Resources Required	Implementation Timeframe	Targets	Impact Measures
<ul style="list-style-type: none"> - Promote investments in vertical linkage possibly through forming a “Agro-Industry Investment Fund” - Integrate SMEs into the agro-industry cluster through reforms in tax policies, investment rules, and removal of other SME impediments - Developing supply chains, e.g., Organic Standard, etc... - Promote/brand specific, e.g., Neang Malis long grain, Kampot Black Pepper, etc... 	NECC, Dep’t of Agriculture Extension, Dep’t of Agronomy and Land Improvement, and CARDI with line ministries	HR resources and financial and political capital	Donor countries (DCs), international development agencies (IDAs), and practitioners e.g., China, Japan, ASEAN, EU, US, WB, IMF, IFC/MPDF, ADB, UNDP, ITC, AusAID, USAID, NZAid, GTZ, DFID, AFD, etc...	TBD by NECC at its first plenary session	TBD by NECC at its first plenary session	TBD by NECC at its first plenary session

Annex 3 Work Plan and Management Framework for Organic Agriculture Sector

Vision	To develop the organic agriculture sector to generate employment opportunities for the rural areas and to alleviate poverty among the rural land-less population and improve the well-being of farmers.					
Perspective	Client					
Strategic Objective: facilitate market access and competent in marketing						
Initiatives	Responsible and Accountable Institutions	Resources to be Allocated	Additional Resources Required	Implementation Timeframe	Targets	Impact Measures
<ul style="list-style-type: none"> - Support efforts to enhance market access post-WTO - Identify market channel and opportunity - Implement a marketing plan to promote the Cambodian organic agribusiness - Carry out an ongoing and sustained export development campaign 	NECC, Dep't of Agriculture Extension, Dep't of Agronomy and Land Improvement, and CARDI with line ministries	HR resources and financial and political capital	Donor countries (DCs), international development agencies (IDAs), and practitioners e.g., China, Japan, ASEAN, EU, US, WB, IMF, IFC/MPDF, ADB, UNDP, ITC, AusAID, USAID, NZAid, GTZ, DFID, AFD, etc...	TBD by NECC at its first plenary session	TBD by NECC at its first plenary session	TBD by NECC at its first plenary session

Annex 4 Work Plan and Management Framework for Organic Agriculture Sector

Vision	To develop the organic agriculture sector to generate employment opportunities for the rural areas and to alleviate poverty among the rural land-less population and improve the well-being of farmers.					
Perspective	Institutional					
Strategic Objective: build an information base and cluster of fishermen/fish farmers and processors						
Initiatives	Responsible and Accountable Institutions	Resources to be Allocated	Additional Resources Required	Implementation Timeframe	Targets	Impact Measures
<ul style="list-style-type: none"> - Develop an information and analytical base on the agro-industry, organic specifics, and information base on international market data - Enhancing and supporting a sustainability strategy for the Integrated Pest Management project, AQIP, APIP, etc... - Collaborating with ECOSORN project 	NECC, Dep't of Agriculture Extension, Dep't of Agronomy and Land Improvement, and CARDI with line ministries	HR resources and financial and political capital	Donor countries (DCs), international development agencies (IDAs), and practitioners e.g., China, Japan, ASEAN, EU, US, WB, IMF, IFC/MPDF, ADB, UNDP, ITC, AusAID, USAID, NZAid, GTZ, DFID, AFD, etc...	TBD by NECC at its first plenary session	TBD by NECC at its first plenary session	TBD by NECC at its first plenary session

Silk Sector

A. The Context

1. Several international market surveys and pilot projects have identified the Cambodian silk sector as one the potential for exports to generate income and contribute to poverty alleviation. It is the sector where Cambodian (artisans) has positive added- and retained-value. The hand-woven silk industry is characterized by a strong skills base and a long traditional culture and heritage. For the sector to become internationally competitive, however, improvements must be made to increase productivity, strengthen quality and design techniques, and the supporting institutional structures.

2. Actual and potential markets for Cambodian silk/silk products, today, can be segment as: local Khmer; high-end and low-end tourist market;¹ and sophisticated export market. The following are pertinent to be considered.

- Local enterprises involved in the export of silk products have reached a turnover to the tune of US\$4 million during 2004 (unofficial figures) and provided approx. 40% added-value. The most common destinations were and still are US, EU (mainly France, Italy, Germany, and Switzerland), Singapore, and Australia. The main product includes plain silk fabric, scarves, and hand bags.² Although the export figures are not impressive, thousands of artisans and their families depend on the silk sector for their livelihood.
- A sharp increase in tourist arrivals in recent year significantly boosted sales of silk fabric.
- Oftentimes high-end tourist market received most of the public attention. It is, in reality, the local fashion industry soaks up the greater proportion of the sector's volume. By one estimated, 70% of fabric is used domestically for satisfying local demand, while the other 30% of fabric is used to meet demand by tourists (silk fabric being a typical Khmer souvenir that tourists like to buy), and by Cambodian expatriates.³
- Cambodia competes with four giant silk producers in Asia region (China, India, Vietnam, and Thailand), that are actively marketing and exporting silk products to markets in which Cambodia has already captured a share.⁴
- Expanding the silk sector, from where it's today, means improved and strengthened capacity and competency in; sericulture, processing (yarn/wet), external sourcing, fabric production, and marketing and distribution.

3. Most export markets that offer high potential are already open. For instance, the EU, apart from origin imports access for silk products using Azo-Free Dyes requirements and technical standards, export is subject to the EBA zero duty, and there are no quotas. In the US market, Cambodian exports of silk fabrics and silk products will normally fall into the categories of handloom products and traditional items. This means they attract zero duty treatment while not being subject to remaining quota restraints. Both Singapore and Hong

¹ Shop likes Sobbhana, Artisans D'Angkor, etc...

² "Investment Feasibility for Central Silk Dyeing Facility Centre in Cambodia", prepared by GTZ/Cambodian Silk Forum, July 2005, p. 3.

³ Ibid.

⁴ Apparel and Fashion (Silk Fashion), page 295, by JETRO 2001.

Kong markets are duty free. Silk fabrics entering Korea will normally be subject to 13% custom duties, while scarves, ties and handkerchiefs are rated 8%. Korea also imposes a 10% VAT rate on imports.⁵

4. The initial thrust forward is to: i) focus on further penetrating existing markets with particular emphasis on the US, EU, Japan since these represent an immediate- and long-term prospects and export opportunity; ii) increase domestic production of raw silk yarn by expanding on PASS initiative into commercial scale – two (2) tracts approach, sericulture, in Northwestern and Eastern regions; iii) diversify external sourcing of raw silk yarn; and iv) developing an integrated supply chain from mulberry farm to product and marketing.

B. Where Are We Now? – An Assessment

5. The silk sector does not meet the international market demands and requirements, today, in terms of quality, volume, and time to market. Further, the production cycle – from sericulture to marketing and distribution – has major critical areas that need to be addressed, e.g., dyeing and weaving center, yarn standardization/quality assurance, design center for “best practice”, entrepreneurialism culture, etc...

6. There are ongoing efforts to improve the sector performance with various capacities building programs in trade support institutions being provided by donors, and practitioners in conjunction with the Government policy⁶, to promote the sector as part of Khmer culture and tradition.

7. The sector has received substantial level of technical support during the past 5-10 years, often via NGO country’s programs. AFD (Agence France de Developpement) has been supporting the sector since 2002 (until end of 2006) through its PASS project (Project d’Appui au Secteur de la Soie), the EU supported the weavers through the PRASAC project from 1995 to 2002 and its current ECOSORN 2006-2010⁷ (in sericulture, yarn production, design, and marketing), ITC through its EPRP supports weavers and the product and market development side through technical assistance to the Cambodian Silk Forum and the Cambodian Craft Network, and MDPF/IFC works exclusively with Craft Network in export facilitation.

8. But in 2004, donors and practitioners came to realize that their supporting activities were fragmented and misguided or poorly coordinated, leading to numerous duplication of effort in the same areas, and issues and opportunities, which led to reduced scalability, in turn, had little impacts on poverty reduction in those areas, where these projects were implemented.

9. Recap analysis of baseline, production capacities, and consumption confirm the following.

– **Economic effect** – throughout, it is estimated that around 21,450 households are making a living from the silk sector (excluded design and marketing), 19,000 of whom are

⁵ “Cambodia and WTO: A Guide to Business”, Ministry of Commerce, 2005.

⁶ Ministry of Rural Development mandated by the Prime Minister to create Cambodian Silk Board.

⁷ ECOSORN (2006-2010) Economic and Social Relaunch of North-West Provinces in Cambodia.

organized in informal and formal weaving groups, around 1,950 in sericulture and 500 in silk processing. Together they produce fabrics with retail value of approximately US\$10 million. Of this, about US\$4 million is exported, either directly or through tourism (PASS 2005 & PRASAC 2001).

- **Current cocoon/silk yarn production** – from all sources (Khmer Silk Villages, Golden Silk, etc...) is in the range of 50 – 60 tons for cocoon, and raw silk yarn approximately 11 – 15 tons per annum in 2005 (Refer to Figure 1 next page).
- **Current consumption of silk yarn** – from all sources range from 85, 150, to 400 tons per annum, is depend on who reports one is referring to (Refer to Table 1 next page) This meant the country produces only a fraction (2%) of its silk thread needs (golden thread), while it imports 98% of its silk thread needs (white thread) from China and Vietnam. Hence, supply capacity is inadequate when compared to existing international demand for silk/silk products. It is essential, therefore, production capacity be expanded to exploit opportunities and develop the sector further.
- **Potential cocoon/silk yarn production** – inconclusive and/or no data available...
- **Current capacities of silk fabrics production** – in all clusters are 390,520 meters (mixed of plain 78.2% and ikat fabrics 21.8%). With few exceptions, Cambodian producers of silk/silk products are unable to meet buyer requirements relating to supply regularity, lead-times, quality and capacity limitations, product development and marketing, and most of the country's design infrastructure is neither internationally competitive nor sufficiently innovative (Refer to Table 2 next page).
- **Potential capacities of silk fabric production** – inconclusive and/or no data available...
- **Region most suitable for mulberry tree cultivation** – are in the northwestern region in *Oddar Meanchey* and *Preah Vihear* provinces and eastern region in *Prey Veng*, *Kampong Cham*, *Kratie*, *Stung Treng*, *Rattanakiri*, and *Mondulakiri* provinces.⁸
- **Import** – dominate by only four importers (all located in Phnom Penh – Banteay Srey, Meng Kong, Yeay Kim, and Cheat Tieng) silk yarn imported from Vietnam are of medium quality and the characteristics vary from lot to lot. With present situation, the quality assurance of yarn cannot be expected to improve at the local level anytime soon. Hence, alternative sourcing of raw silk yarn should be of urgent consideration along with the opening of competition into the cross border trade of silk yarn.
- **Sector Development** – out of 20 organizations (14 donors and 6 practitioners) only 4 – AFD⁹ and UNDP (donors) and GTZ and IFC/MPDF (practitioners) are working in the silk sector.¹⁰
 - 10 in the agriculture or agri-business sector
 - 4 in the rice sub-sector
 - 3 in fruits and vegetables sub-sector
 - 4 in the fisheries sub-sector
 - 5 in food safety sub-sector
 - 9 in the garment sector
 - 5 in the handicraft sector
 - 7 in the finance sector

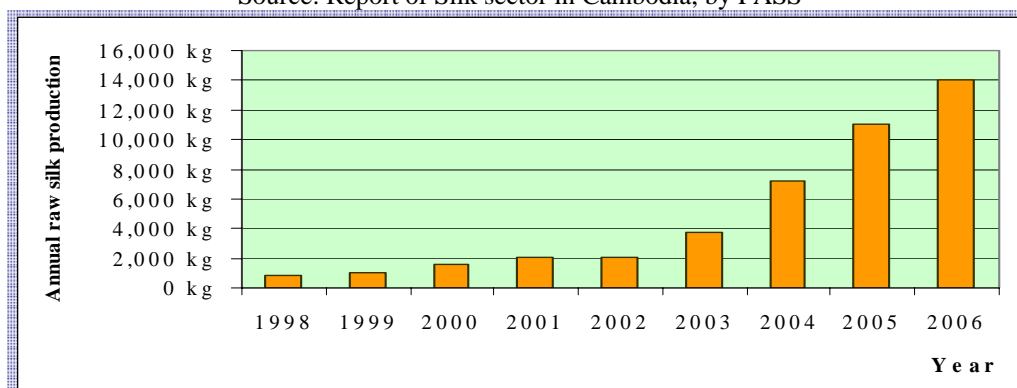
⁸ Based on Mekong River Commission soil mapping and detailed information is limited. Data can be used for regional planning purposes only. Detail soil analysis by expert agronomist is necessary to pinpoint the accuracy of where the cultivation and/or plantation should be located for maximum yield per hectare.

⁹ AFD with its PASS project is no longer active in the sector as of December 2006.

¹⁰ PSD in Cambodia: A Review of Potential Gaps, Overlaps, and Conflicts, Table 3: Sectors by Donors and Practitioners, MPDF April 2005.

Figure 1: Annual Raw Silk Production

Source: Report of Silk sector in Cambodia, by PASS

**Table 1: Silk Yarn Consumption**

Name of Cluster		Total Silk Yarn Supplied (kilos) in 2004	%
1	Koh Dach	12,264	14.36
2	Prek Changkran	11,960	14.00
3	Phnom Srok	830	0.97
4	Phnom Penh	2,800	3.27
5	Prek Anteah	11,540	13.51
6	Takeo	46,000	53.86
7	Total	85,394	100

Source: "Investment Feasibility for Central Silk Dyeing Facility Center in Cambodia", prepared by GTZ/Cambodian Silk Forum, July 2005, page 17.

Table 2: Fabric Production

Name of Cluster	Total Fabric Production in meters (2004)	Fabric type
Koh Dach	237,168	Plain silk
Prek Changkran	30,600	Ikat and plain
Phnom Srok	2,368	Plain silk
Phnom Penh	36,000	Ikat and plain
Prek Anteah	66,720	Plain silk
Takeo	17,664	Only plain-40% looms Ikat and plain-60% looms
Total	390,520	

Source: "Investment Feasibility for Central Silk Dyeing Facility Centre in Cambodia", prepared by GTZ/Cambodian Silk Forum, July 2005, page 18.

10. Box 1 below – attempt to simplify the chronicle of the sericulture from mulberry cultivation to silk product development and marketing.

Box 1: Sericulture		
Chronicle of Sericulture – Silk Yarn Production – Silk Fabric		
Production	Supply Chain	Actor
Sericulture	1. Mulberry Cultivation (a) land concession/existing plot (b) suitable soil (c) plottage (d) plant variety (e) irrigation/drainage	Farmer/Breeder
Sericulture	2. Raising Silkworm / Cocoon Production (a) silkworm variety (b) rearing house (c) mounting device (d) insect control (e) antiseptic practice (f) cocoon drying	Farmer/Breeder
Processing (yarn)	3. Cocoon Reeling (a) sorting (b) de-flossing (c) cooking (d) reeling (e) skeins/warping	Artisan
Processing (wet)	4. Raw Silk Yarn (a) de-gumming (b) bleaching (c) dyeing (d) Warping	Artisan
External Sourcing	5. Import Raw Silk Yarn (a) Vietnam (b) China (c) Others	Importer
Fabric Production	6. Weaving (a) traditional handloom for ikat silk (b) modernized handloom for plain silk (c) semi-auto loom for plain silk (d) sarong, hol, phamuong, and kroma	Artisan (Les Soiries de Mekong – Banteay Chhmar La Passerelle – Takeo)
Product Development & Marketing		
Production and Distribution	7. Design & Marketing (a) home textiles & interior decorators (b) fashion & accessories (c) modern clothing articles, e.g., suit, dress, skirt, shirt, blouse, tie, suspender, boxer, etc... (d) traditional clothing articles, e.g., sarong, hol, phamuong, kroma, etc... (e) domestic market (f) tourist market (indirect export) (g) export market (Japan, EU, US, etc...)	Entrepreneur (Coulers d'Asie Hagar Design Kashaya Silk Lotus Pond Orange River Sobbhana Artisans D'Angkor Others)
Source: Assessment of feasible technology in Silk Yarn reeling for value addition in post-cocoon processing in Cambodia, GTZ 2006.		

11. Box 2 below – draws together the main findings of all the analysis to date in strengths, weaknesses, opportunities and threats (SWOT) framework within the sector.

Box 2: Silk Sector SWOT Analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> - Cambodian silk industry with handlooms is well equipped to handle small orders with short delivery schedules and 60% of fabric is used within the country and 40% by tourist and expatriate Cambodians. - The country produces unique type of ikat and silk fabrics, which are recognized by other silk weaving countries. - Being a natural fiber, silk enjoys increased patronage in the highly ecological and environmental conscious world. - Silk is exclusive and considered a luxury item; it would therefore enjoy the support from the upper strata and growing middle class. - Hand woven silks are extremely popular in the west and export markets are wide open with no threats of quota like other fibers. - Silk is only less than 0.2% of the total textile fiber production and this percent share is expected to decrease with steep increase in production of other fibers. This situation would maintain an increase in demand for natural silk. - With light weight silk becoming popular for dress material, showing continuous demand in export market. 	<ul style="list-style-type: none"> - The silk industry in Cambodia in all sectors of production is highly decentralized and it is also as a cottage industry activity. - The decentralized nature of the industry has failed to attract the attention of business and commercial banks, resulting in poor financial support to the activity. - Dyers do not have the capacity to invest to adopt new technologies. The obsolete and outdated equipment used does not permit quality production and efficiency for cost control. - Being a highly labour intensive activity associated with poor technology cost control and quality control are difficult. - The high pricing of raw silk is a major problem in controlling costs. - Exporting enterprises are not positioned to the demand of innovative design and color combination and this could be a serious drawback in the ever changing trends and tastes in the export market.
Opportunities	Threats
<ul style="list-style-type: none"> - Silk as a natural fiber is more acceptable in both domestic and export markets. Cambodian silk industry rising to the occasion to provide a viable alternative to Vietnam silk. - Silk is one of the specialty products which enjoy a minimum level of continuous demand worldwide if quality is ensured. - The domestic consumption of silk is estimated to cross from 200 to 300 tons in the next five years. If quality aspects are kept in view it may increase tremendously. - Silk product export is on a steady increase, with conversion cost being very high in the western countries, tremendous opportunities exists in the export of silk products. - Labor is inexpensive and there is room to improve inefficiencies in the supply and production chain. 	<ul style="list-style-type: none"> - The inability of the silk industry to react to the changing needs in terms of quality in the domestic and export markets is a major area of concern. - Increasing awareness of quality in the international market could pose a serious threat unless appropriate interventions to meet the requirements are implemented. - The basic producers being financially weak may not be in a position to face the stiff challenges of the market in the coming years and with market demand for “better and better quality products at lower prices” is bound to exert a lot of pressure on the entire production activity. - Heavy dependence on imported silk yarn for exports is risky because any change in Vietnam’s policy could jeopardize Cambodian silk activity and exports.

C. Where Do We Want to Be?

12. Our vision is “to position Cambodia’s silk sector as a highly competitive export sector that combines art, tradition, and innovation to which expands the value addition, value creation, value retention and value distribution, thereby creating employment opportunities and balanced-gender that contributes to poverty alleviation, particularly in the rural and less advantage areas”.

13. It is essential then, direct linkages from farmer/breeder to artisan to marketer are enhanced and strengthened. This will significantly improve income generation prospects for all stakeholders along the supply chain and remove the need for the unnecessary intermediaries – who adds minimal value to the process, but retains a large share of the profits. This may, in turn, will attract farmer/breeder, artisan, and entrepreneur into the sector.

14. One of the critical success factors (CSFs) however, for instance, is the ability of weavers – where the country has clear advantage in added-value – to become self-sustained. This means that they have to become independent of the middleman who adds minimal value to the supply chain. But without the middleman, weavers would have difficulty raising the necessary funding to purchase the yarn – a vicious circle that weavers cannot break resulting in less earnings and therefore less working capital for innovation and expansion.

15. To realize the vision set forth above policies/actions within the framework of public private partnership need to be taken, but not limited to (Box 3).

Box 3: Strategy’s Focus

Objectives	
Sericulture and Yarn Processing	<ul style="list-style-type: none"> - Facilitate access to low cost financing and land titles - Strengthening the establishment of mulberry plantation formed by PASS - Enhance and increase the capacity of both mulberry plantations and silk worm breeding output via expanding/modifying on PASS approach - Continue to improve yarn quality the “golden Khmer silk yarn” as a premium product - Enhance the competency and skills of yarn producers - Continue to introduce appropriate modern tool/equipment of the silk yarn producers
Fabric Production	<ul style="list-style-type: none"> - Continue to work with weavers association or community - Empower weavers to start using modern/semi-automatic looms - Continue to enhance capacity and competency in weaving techniques - Enhance capacity and competency in dyeing technique - Create the structural organization of quality control assurance and standardization, and create awareness within the weaver communities
Silk Industrial Regulation	<ul style="list-style-type: none"> - Training on Standard, Metrology, Testing, and Quality (SMTQ) - Advocate the Protected Geographic Indication on Cambodia’s Golden Silk yarn, e.g., “Pure Khmer Silk Product” - Advocate the Cambodian Silk Quality Assurance Label “Cambodian Quality Label.”
Market and Product Development	<ul style="list-style-type: none"> - Establish strategic business alliances among and between silk network and/or associations

Source: adopted from “The Silk Sector in Cambodia” reported by PASS.

Figure 2: Current Value Chain of the Silk Sector

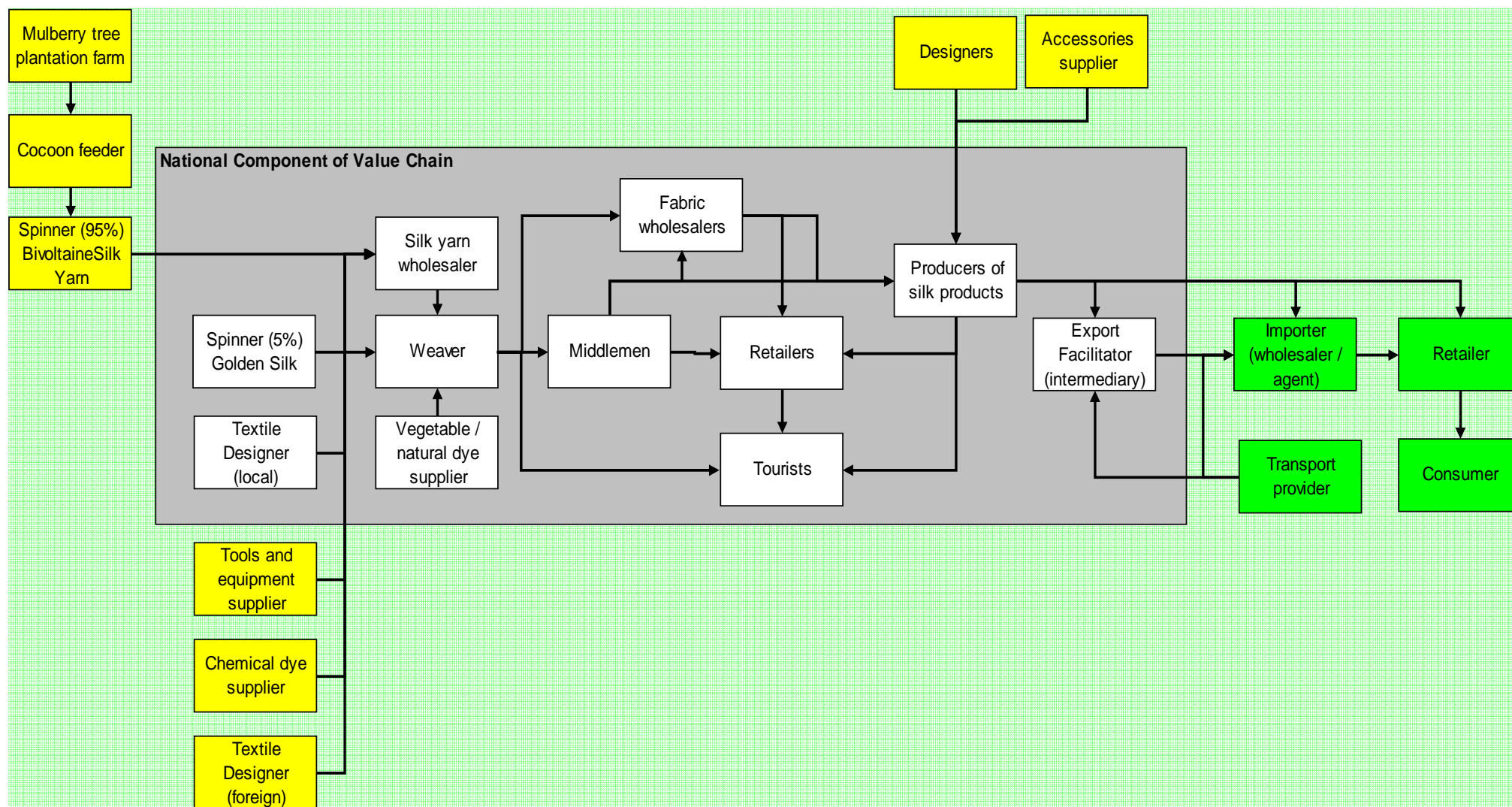
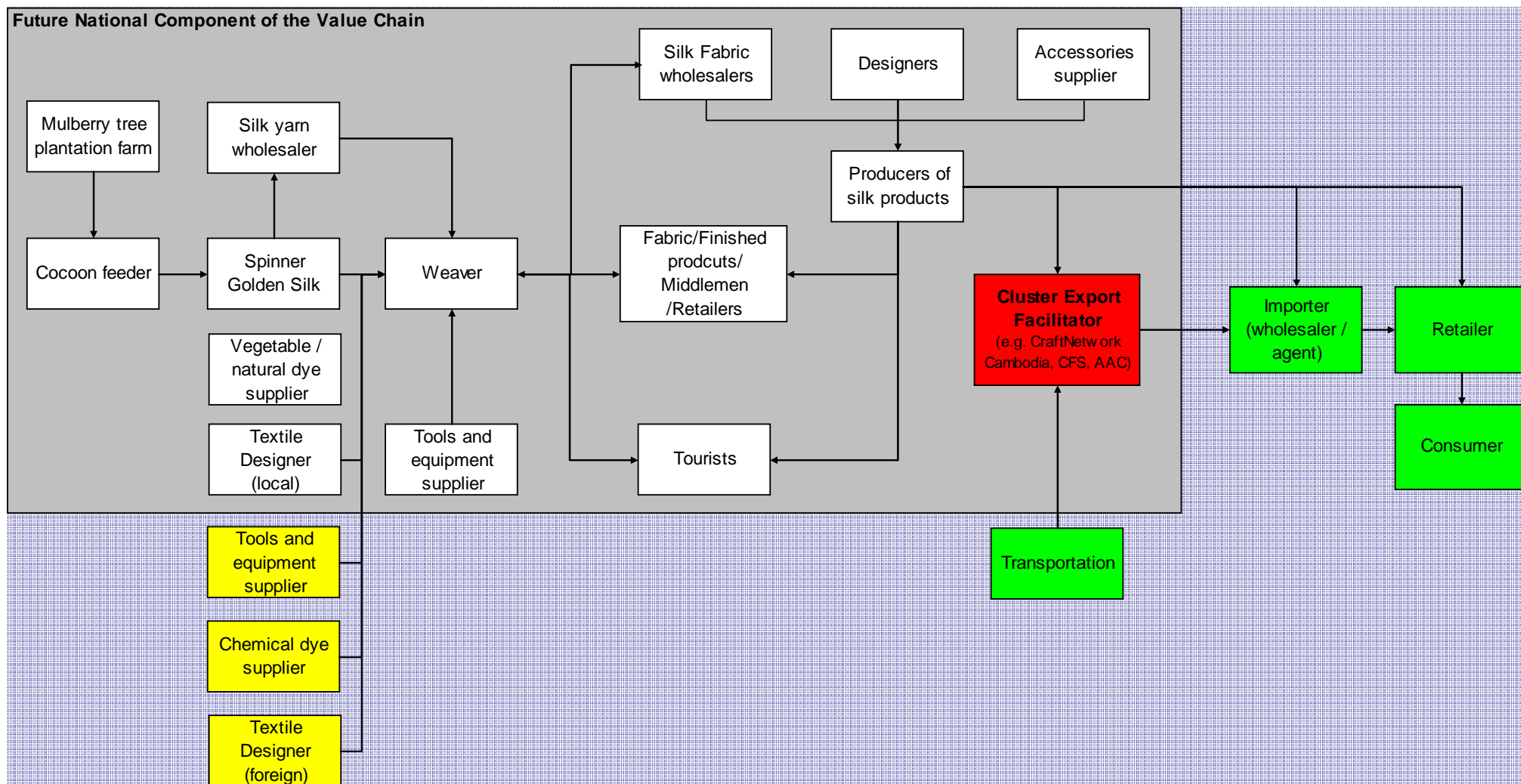
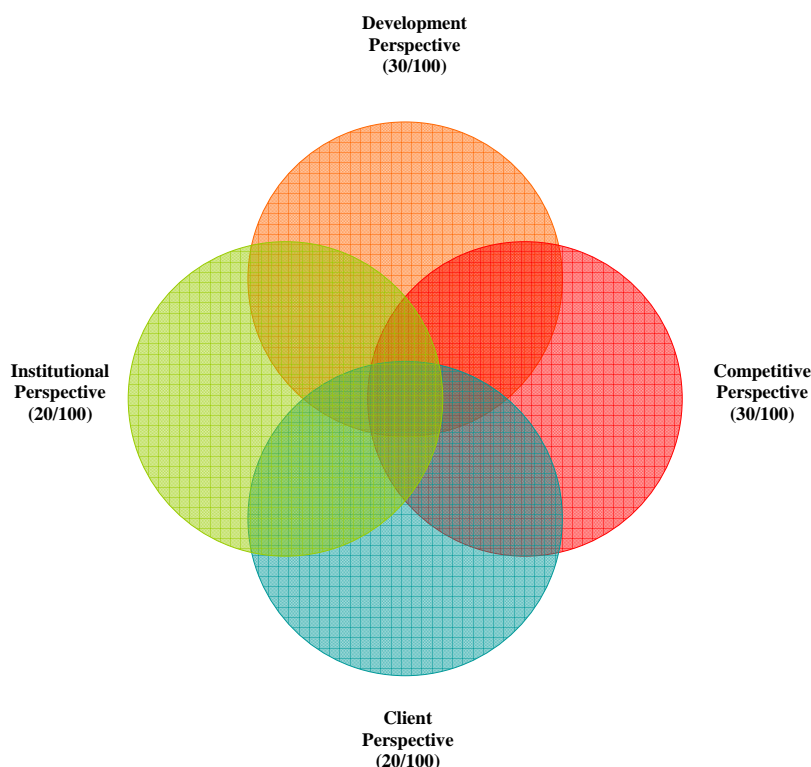


Figure 3: Future Value Chain of the Silk Sector



D. The Way Forward (3-5 years)



16. Incremental steps must be taken to improve the competitive strength of the country's unique silk sector, in light of, its integration into world trade. Three sorts of measures¹¹ are reiterated herewith that would lead to more secure income and higher returns for farmers/breeders, artisans, and entrepreneurs.

- Immediate effort to provide market stimulus in the form of an effective export development and promotion vehicle. A proactive approach to build production targeted at export opportunities.
- Cluster development to enhance the entire supply chain by undertaking longer term targeted farmer/breeder and artisan support in the form of a program that addresses need for infrastructure, credit, inputs, and marketing which can be replicated from/to other sectors.
- Public/Private Partnership led value-added diversified sericulture production projects need to be developed for implementation by private investors, donors, practitioners, and regional authorities or any combination of thereof.

1. The Development Perspective (strategic weighting 25/100)

17. Focus on medium and long-term poverty reduction, income and employment generation; prepare local farmers/breeders and artisans (small-scale) for eventual participation in international market through sericulture's cluster. In addition to the existing locations where Khmer silk is currently being produced, sustainable development of

¹¹ These projects are in line with the "enterprise incubator" recommendations in the "IF Diagnostic and Competitiveness study" and its matrix of TA recommendations, and are intended to act as catalysts for developing a thriving private sector in agro-business.

sericulture in the northwestern region, namely in, *Oddar Meanchey* and *Preah Vihear* provinces and eastern region in *Prey Veng*, *Kampong Cham*, *Kratie*, *Stung Treng*, *Rattanakiri*, and *Mondulakiri* provinces. Particular attention will be given to:

- improve the livelihoods of poor rural households;
- contribute to rural employment generation;
- promote the participation of women entrepreneurs;
- contribute to foreign exchange earnings; and
- contribute to economic and socioeconomic development and national prosperity.

2. The Competitive Perspective (strategy weighing 25/100)

18. Border-In considerations and priorities:

- increase value addition, creation, retention, and distribution within sector through improve productivities by division of labor within the supply chain; farmer/breeder’s tasks, i.e., mulberry cultivation...cocoon production; crafter’s tasks, i.e. reeling...weaving; and product developer/marketer’s tasks, i.e., design...marketing;
- strengthen production quantity and quality assurance methods through proactive and extension services;
- promote the creation of sector association by advocating competitiveness, productions and export culture, and develop clustering among small-scale producers;
- competency and entrepreneurship development training focuses on productivity and quality;
- promote intellectual property rights; and
- facilitate access to micro-finance.

19. Border considerations and priorities:

- strengthen current quality infrastructure and introduce quality certification program;
- develop infrastructure linking tourist and silk production villages;
- facilitate and equalize medium- to long-term land concession for commercial plantation;
- reduce unnecessary procedures, regulations and corruption; and
- improve communication along the supply chain.

20. Border-Out considerations and priorities:

- organize farmers/breeders, artisans, and marketers for eventual participation in international market through collaboration and participation in the supply chain in export;
- establish an information collection and dissemination of market requirements and standards for silk products within the public and private sectors;
- overseas commercial representatives to obtain and disseminate market information and to promote Cambodian silk products abroad; and
- promoting and national branding specific Cambodian hand woven pure silk product through the “100 % Khmer Golden Silk” and “Cambodian Quality” brand.

3. The Client Perspective (strategic weighting 25/100)

21. Client priority:

- focus on current farmers/breeders and weavers, other stakeholders that are directly involved, such as buyer agents, wholesaler/distributors, and retailers.

22. Implications for sector support services:

- improvement in availability and accessibility of information; the trade support network is currently not equipped to provide a regular flow of reliable and timely information; focus on technical information such as mulberry plan quality, cocoon production methods, fertilizers and equipment, and on market needs and export opportunities;
- enable small-scale farmers/breeders and artisans to expand and enhance operations by improving accessibility to micro-finance; the trade support network is currently not in a position to meet demand for micro-finance in all regions; collateral requirements are too high to be met by small farmers/breeders and artisans; interest rates are too high to enable small farmers/breeders and artisans to retain reasonable profits; and
- train and enable farmers/breeders and artisans to meet international standards, specifically in dyeing technique and prohibition within the multilateral trading system.

4. The Institutional Perspective (strategic weighting 25/100)

23. Implications for the sector's Trade Support Network:

- among other mandates, greater coordination between and among donors, practitioners, public and private sectors, and the trade support network, e.g., MoWA, MoC, MRDP, MIME, MEF, MoE, sector associations, research centers, and agencies providing support services such as training/workshop on how to increase productivity, meet market's demand in quantity and quality, entrepreneurship development training, etc...

24. Implications for Strategy Coordination and Management:

- Ministry of Woman Affairs and Ministry of Commerce to take the lead, with particular emphasis on supporting the creation of the sector association and clustering in collaboration and coordination with line ministries and private sector.

E. Summary of Strategic Objectives

25. All assessments made by donors and practitioners, today, emphasize the need for revitalize, increase and improve productivity, and competitiveness of the silk sector. There is also a unanimous agreement that this represents one of the best ways of developing the country, for over 80% of populations are farmers or subsistence farmers. Few development measures would reach the rural population in Cambodia as much as taking mulberry and cocoon production into higher value commodities – Khmer Golden Silk – and adding value to sericulture outputs.

26. However, the strategy in recognition of the merit and limit potential, for domestic production and market share, of the 100% Khmer Golden Silk coupled with long and arduous process to obtain international certification. Thus, this paper advocate for a dual approach to the sector development which is increasing and strengthening domestic yarn production and a diversify sources of yarn importation. For Cambodia to compete in the post-WTO world, being geographically sandwiched between two agriculture juggernauts (Thai/Vietnamese), sericulture is the mean not the end to insure Cambodian do benefits from globalization.

27. In summary the objectives are:

- to create and expand available opportunities post-WTO;
- to increase income and employment for small scale farmers/breeders and artisans;
- to enhance value creation/addition and capture greater value retention within the sericulture sector;
- to strengthen the production of high quality silk fabric which the country has a clear and present comparative and competitive advantage;
- to encourage and support efforts to maintain and improve soil fertility through crop rotation and integrated pest management;
- entrepreneurship development training and supply side capacities building;
- to develop niche markets for export of Khmer Golden Silk; and
- affordable capital for plantation loans to allow farmers to prepare land, undertake timely plantings and devote labor on a fuller time basis.

F. Resources Mobilization

28. There are a number of donors and practitioners programs (Box 4) being implemented and/or planned which seek to work with selected farmers/breeders, artisans, and marketers in the capital, provinces, and regions. Such programs should be incorporated into the ITC/EPRP silk sub-sector SWAP – Sector-wide Strategy for the Cambodian Silk sector draft March 2006 – which is currently being lobbied by the Ministry of Woman Affairs with the potential donors.

29. Institutional capacity (public/private), public sector’s reform, and private and public partnership are the prerequisites for the development and strengthening of this sector, which has tremendous positive impact on poverty reduction and balanced-gender. Dovetailing and coordinating technical activities with the Development Partner Coordination Matrix: the SME Development Framework (2005-2010), is essential.

Box 4 Sector Development – out of 20 organizations (14 donors and 6 practitioners) 10 are working in the agriculture or agribusiness sector.¹²

- 10 in the agriculture or agribusiness sector
- 4 in the rice sub-sector
- 3 in fruits and vegetables sub-sector
- 4 in the fisheries sub-sector
- 5 in food safety sub-sector
- 9 in the garment sector
- 5 in the handicraft sector
- 7 in the finance sector
- 4 in the silk sector

¹² PSD in Cambodia: A Review of Potential Gaps, Overlaps, and Conflicts, Table 3: Sectors by Donors and Practitioners, MPDF April 2005.

Annex 1 Work Plan and Management Framework for Silk Sector

Vision	To position Cambodia's silk sector as a highly competitive export sector that combines art, tradition, and innovation to which expands the value addition, value creation, value retention and value distribution, thereby creating employment opportunities and balanced-gender that contributes to poverty alleviation, particularly in the rural and less advantage areas.					
Perspective	Development					
Strategic Objective: focus on medium and long-term income and employment generation; prepare local farmers/breeders, artisans, and marketers (small-scale) for eventual participation in international market through sericulture's cluster						
Initiatives	Responsible and Accountable Institutions	Resources to be Allocated	Additional Resources Required	Implementation Timeframe	Targets	Impact Measures
<ul style="list-style-type: none"> - Address the various issues related to the land tenure - Intensify efforts to introduce improved practices with regard to sericulture, arable land fertility conditions, and natural resources conservation - Develop a comprehensive human resource development plan for the silk-industry 	NECC, and Cambodian Silk Board, MoWA, MoC with line ministries	HR resources and financial and political capital	Donor countries (DCs), international development agencies (IDAs), and practitioners e.g., China, Japan, ASEAN, EU, US, WB, IMF, IFC/MPDF, ADB, UNDP, ITC, AusAID, USAID, NZAid, GTZ, DFID, AFD, etc...	See Silk Sector Wide Strategy 2006-2010 LOGFRAME Finale Draft June 2006	See Silk Sector Wide Strategy 2006-2010 LOGFRAME Finale Draft June 2006	See Silk Sector Wide Strategy 2006-2010 LOGFRAME Finale Draft June 2006

Annex 2 Work Plan and Management Framework for Silk Sector

Vision	To position Cambodia's silk sector as a highly competitive export sector that combines art, tradition, and innovation to which expands the value addition, value creation, value retention and value distribution, thereby creating employment opportunities and balanced-gender that contributes to poverty alleviation, particularly in the rural and less advantage areas.					
Perspective	Competitive					
Strategic Objective: developing supply chains from mulberry farm to design and marketing						
Initiatives	Responsible and Accountable Institutions	Resources to be Allocated	Additional Resources Required	Implementation Timeframe	Targets	Impact Measures
<ul style="list-style-type: none"> - Promote investments in vertical linkage possibly through forming a “Silk-Industry Investment Fund” - Integrate SMEs into the silk-industry cluster through reforms in tax policies, investment rules, and removal of other SME impediments - Developing supply chains - Promote/brand specific, e.g., 100% Khmer Golden Silk 	NECC, and Cambodian Silk Board, MoWA, MoC with line ministries	HR resources and financial and political capital	Donor countries (DCs), international development agencies (IDAs), and practitioners e.g., China, Japan, ASEAN, EU, US, WB, IMF, IFC/MPDF, ADB, UNDP, ITC, AusAID, USAID, NZAid, GTZ, DFID, AFD, etc...	See Silk Sector Wide Strategy 2006-2010 LOGFRAME Finale Draft June 2006	See Silk Sector Wide Strategy 2006-2010 LOGFRAME Finale Draft June 2006	See Silk Sector Wide Strategy 2006-2010 LOGFRAME Finale Draft June 2006

Annex 3 Work Plan and Management Framework for Silk Sector

Vision	To position Cambodia's silk sector as a highly competitive export sector that combines art, tradition, and innovation to which expands the value addition, value creation, value retention and value distribution, thereby creating employment opportunities and balanced-gender that contributes to poverty alleviation, particularly in the rural and less advantage areas.					
Perspective	Client					
Strategic Objective: facilitate market access and competent in marketing						
Initiatives	Responsible and Accountable Institutions	Resources to be Allocated	Additional Resources Required	Implementation Timeframe	Targets	Impact Measures
<ul style="list-style-type: none"> - Support efforts to enhance market access post-WTO - Identify market channel and opportunity - Implement a marketing plan to promote the Cambodian silk-industry - Carry out an ongoing and sustained export development campaign 	NECC, and Cambodian Silk Board, MoWA, MoC with line ministries	HR resources and financial and political capital	Donor countries (DCs), international development agencies (IDAs), and practitioners e.g., China, Japan, ASEAN, EU, US, WB, IMF, IFC/MPDF, ADB, UNDP, ITC, AusAID, USAID, NZAid, GTZ, DFID, AFD, etc...	See Silk Sector Wide Strategy 2006-2010 LOGFRAME Finale Draft June 2006	See Silk Sector Wide Strategy 2006-2010 LOGFRAME Finale Draft June 2006	See Silk Sector Wide Strategy 2006-2010 LOGFRAME Finale Draft June 2006

Annex 4 Work Plan and Management Framework for Silk Sector

Vision	To position Cambodia's silk sector as a highly competitive export sector that combines art, tradition, and innovation to which expands the value addition, value creation, value retention and value distribution, thereby creating employment opportunities and balanced-gender that contributes to poverty alleviation, particularly in the rural and less advantage areas.					
Perspective	Institutional					
Strategic Objective: build an information base and cluster of farmers/breeders, artisans, and marketers						
Initiatives	Responsible and Accountable Institutions	Resources to be Allocated	Additional Resources Required	Implementation Timeframe	Targets	Impact Measures
<ul style="list-style-type: none"> - Develop an information and analytical base on the silk-industry, Golden Silk specifics, and information base on international market data - Enhancing and supporting a sustainability strategy for the Integrated Pest Management project, AQIP, APIP, etc... - Collaborating with ECOSORN project 	NECC, and Cambodian Silk Board, MoWA, MoC with line ministries	HR resources and financial and political capital	Donor countries (DCs), international development agencies (IDAs), and practitioners e.g., China, Japan, ASEAN, EU, US, WB, IMF, IFC/MPDF, ADB, UNDP, ITC, AusAID, USAID, NZAid, GTZ, DFID, AFD, etc...	See Silk Sector Wide Strategy 2006-2010 LOGFRAME Finale Draft June 2006	See Silk Sector Wide Strategy 2006-2010 LOGFRAME Finale Draft June 2006	See Silk Sector Wide Strategy 2006-2010 LOGFRAME Finale Draft June 2006

Tourism Sector

A. The Context

1. The tourism sector has been recognized worldwide as a major trade engine for sustainable growth, socioeconomic development and poverty alleviation, actor and promoter of the conservation of natural and cultural heritage, and as a harbinger of peace and friendship. It is an industry that is global in size, local in character, with the capacity to mobilize resources (public/private), shape rapid, deep, and wide contributions to Cambodia urban and rural socioeconomic development, and – most importantly – contribute to poverty reduction. While the country targets 3 millions tourists by 2010, its travel industry desired the Government to invest in projects which improve tourism infrastructures to increase length of stay, and the civil society want the economic benefits to channel down to those at the bottom end of the economic ladder. For Cambodia, there is an urgent need to develop and promote, the Kingdom, as the “*destination*”, not just Angkor Wat, Siem Reap province, Phnom Penh, and Sihanoukville.

2. In general the investment cycle in the tourism sector, in particular natural and cultural, is shorter than some other industries, since in most cases, it only requires packaging and/or repackaging of existing attractions and services or simply filling out missing components and proper management practices to perfect the experience/product – tourism are moving away from products towards experiences. But there’s draw back. The tourism industry, in today Cambodia, is based almost entirely on shared natural and cultural heritage resources – which are limited and fragile¹ – and has important implications for tourism development.

3. It is therefore, crucial to recognize that Cambodia’s tourism sector is a place-dependent industry. In other words, tourism activity in the Kingdom is mainly to be developed from the natural, cultural, and historical resources found in archaeological sites around the country. The value of these resources, however, arises from the local environments for which they exist, not to be confused with the artificial and/or recreate environments.²

4. Active participation of local communities in or adjacent to these natural, cultural, and historical assets can contribute to conservation by transforming the local community’s relationship with these resources from predatory practice to protective activity secured by income and annuity derived from hosting tourists.

B. Where We Are Now? – An Assessment

5. Since the early nineties, when the country embarked on free market and open-air policies, improved security and infrastructure, tourism grew at a remarkable rate. The number

¹ For instance Preah Vihear, Banteay Chhmar, Koh Ker, Phnom Kulen, **Angkor**, Beng Mealea, Preah Khan, Angkor Borei, etc... these are main monuments in Cambodia, Ministry of Culture and Fine Arts.

² A situation recently emerged in China was the concern about “killing the goose that lays the golden egg.” Visitors and tour operators all expressed and were fairly consistent in warning about the necessity to improve the archeological, heritage, and cultural conservation and preservation practices around the country. Tourist will reject paying good money to visit a fabricated cultural heritage and/or piles of ancient stones. ADB GMS Tourism Sector Strategy Vol. 1 Final Report June 30, 2005.

of tourist arrivals increased from 368,000 in 1999 to a milestone over one million visitors in 2005 (Figure 1), generating an excess of US\$800 million for the local economy, excluding leakage, and sustained over 150,000 jobs. Growth is expected to continue with an average of 30%-40% in the coming years.



Figure 1

6. Cambodia, present day, has no direct long haul flight connections with the world.³ All flights to/from Cambodia must make a transit in cities like: Bangkok, Thailand; Singapore, Singapore; Ho Chi Minh City, Vietnam, etc. Cambodia attracts four main types of leisure tourist markets:

- as part of a medium or long haul multi-destination tour program, which normally includes – Vietnam, Thailand, Singapore, Malaysia, Hong Kong, and some other nearby regional destination;
- Cambodia, and principally the temples of Angkor, sold as an add-on to a nearby single destination program – this is principally Thailand, but it also includes other destinations;
- Cambodia sold in the region as a single destination, in a short-haul program; and
- Cambodia sold as a single destination for medium and long-haul individual tourists, often includes adventure or backpackers program.

7. The following tables provide a snapshot of Cambodia's current tourism profile in contrast with its neighboring countries (Refer to Tables 1, 2, & 3 next page):

³ At this writing Cambodia has no national flag carrier to serve either domestic or international flight within/to/from the country.

Table 1: Length of Stay and Expenditures of International Visitors, 2004

GMS Countries	Vol. of Intl. Tourists	Avg. stay/days	T. Tourist Days	Avg. Exp. per Day (US\$)	T. Exp. (US\$ Million)
Cambodia	1,055,202	6.3	6,647,773	87.0	587.4
Lao PDR	500,000	3.8	1,900,000	85.0	161.5
Myanmar	241,948	7.0	1,693,566	86.9	147.2
Thailand	11,277,000	8.0	90,216,000	100.0	9,021.6
Vietnam	2,554,000	8.0	20,432,000	80.0	1,634.6

Table 2: Employment Generation Effects, 2003

GMS Countries	Dir. Tourism Empl.	Indir. Tourism Empl.	T. Tourism Empl.
Cambodia	32,500	67,500	100,000
Lao PDR	17,000	5,000	22,000
Myanmar	-	-	-
Thailand	1,411,000	439,000	1,850,000
Vietnam	220,000	450,000	670,000

Table 3: Leakage and Income Effects, 2004

GMS Countries	T. Output / Tourism (US\$ millions)	Forex Leakage Multiplier	Forex Leakage (US\$ millions)	Dir. + Indir. Income X	Est. Income / Int. Tourism (\$US millions)
Cambodia	924.9	0.40	370.0	0.60	555.9
Laos	189.8	0.40	75.9	0.60	113.9
Myanmar	301.9	0.40	120.8	0.60	181.2
Thailand	15,781.5	0.035	552.4	0.965	15,229.1
Vietnam	3,749.1	0.35	1,312.2	0.65	2,436.9

8. Despite the double digits growth in tourist arrival into the Kingdom since 1993, except the turmoil in 1997, empirical observation has shown however that, *laissez faire and/or Government intervention*, in tourism development in Cambodia does fulfill its objectives or benefits trickle down to those at the bottom end of the economic ladder.⁴

9. For instance, early unofficial estimated of international tourism to Cambodia in 2005 probably generated over US\$1.3 billions in output, US\$800 millions in domestic income, US\$139 million in government revenue, and sustained over 150,000 jobs,⁵ yet the largeness of this is aggregated in few urban areas (Phnom Penh, Siem Reap, and Sihanoukville) and a handful of well-oiled/connected enterprises are the primary beneficiaries. The wealth's distribution of these benefits to those in greatest need – disadvantaged groups such as the poor farmer, women, children, and ethnic communities are very minimal.⁶ Extraordinary

⁴ New Sources of Growth, Trade and Poverty "Provincial/Regional Diagnostic Trade and Integration Study: Private Sector Development in Rural Cambodia", Final Report May 2005. WB/MoC.

⁵ Based on the assumption of 40% leakage, real rate however, which cannot be confirmed or denied, is more in the range of 65-70% of the aggregated output. The volume and pattern of international tourism activity generates additional demand for goods and services (outputs). This demand is either met by producing more of these goods and services domestically or by importing (leakage) if the local production capacity is constrained. To reduce leakage and capture more shares of the international tourists, it's necessary to develop a competitive broad-based economy that can meet most of the requirements of international tourism demand at the domestic level.

⁶ Sources and data are from Ministry of Tourism Statistical Report 2005, ABD GMS Tourism Sector Strategy Vol. 1 Final Report June 30, 2005, and Draft National Export Strategy 2006-2008.

economic leakage (import) levels of tourism expenditures (40% or more), weak and/or non existence economic linkages between tourism and other sectors of the economy especially at the provincial and local level, and the absence of appropriate enabling policies are some of the main factors/forces behind the imbalance in the distribution of wealth and benefits of tourism. “Sadly, the country may benefits from globalization, but the people do not get to keep the profits of globalization.”

1. National Government Tourism Development Strategy and Policy

10. The Government policies for tourism sector are based on three basic principles; (a) the development of tourism should be sustainable, anchored in the rich cultural heritage, history, and the exquisite nature of Cambodia’s terrain, but more importantly, development that contributes to poverty reduction; (b) active and creative promotion of tourism to make Cambodia a preferred “Culture and Nature” tourist destination in the region and the rest of the world; and (c) apart from increased tourist arrivals, increase in the number of days tourist stay, and the amount they spend, in the country and diversify their destinations. In addition, conscious efforts will be made to ensure that appropriate benefits of tourism go to people living in the vicinity of tourist destinations, both to reduce poverty and improve their livelihoods. (*Excerpt from National Strategic Development Plan 2006 – 2010, for Tourism Sector, approved at the meeting of the Council of Ministers on 01/27/06.*)⁷

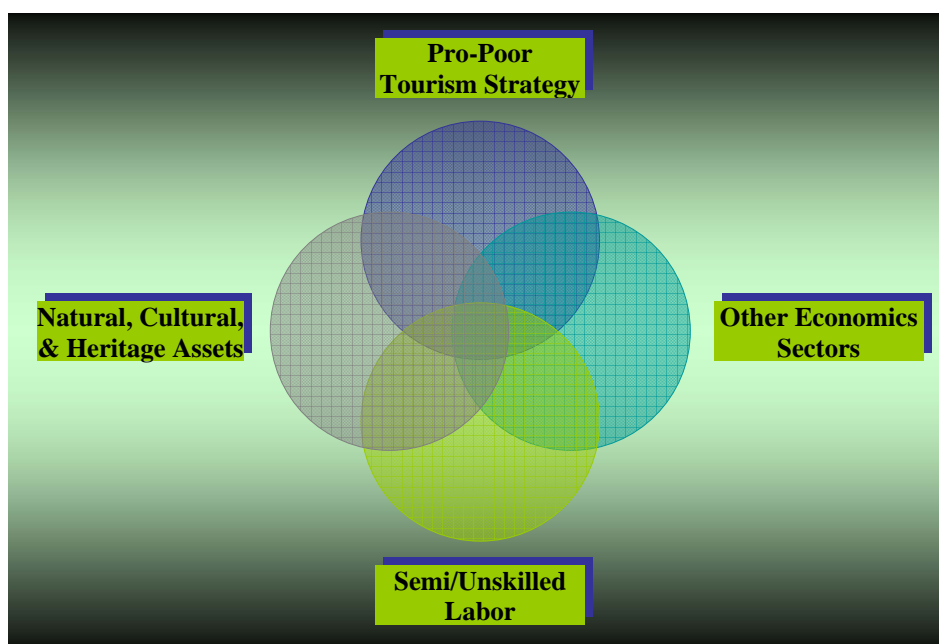


Figure 2: Pro-Poor Tourism Strategy

11. Accordingly the national strategy for tourism development builds upon three pillars (Refer to Figure 2 above).

- The linkage between the employment of semi-skilled and unskilled labor in the tourism industry and urban, rural, coastal and high-land tourism areas with large concentrations of persons living at/below the poverty line.

⁷ Ministry of Planning and Tourism Taskforce for Poverty Alleviation, 2006.

- The linkage between natural, cultural, and historic tourist attractions and the location of poor rural and high-land communities making it possible to move and host tourists to these areas.
- The linkage between tourism and the opening up of new markets for – domestic – farm, handicraft and other products and commodities arising from improvements in access and social/commercial infrastructure.

2. Government Policy for Pro-Poor, Equitable Tourism and Poverty Alleviation

12. The issue of poverty eradication in Cambodia is extremely urgent. The Millennium Development Goals (MDGs) adopted by the United Nations Millennium Summit in September 2000 are supported and reflected in the Government's policies and strategies.⁸ The first MDGs is to eradicate extreme poverty by half between the years 1990–2015, i.e., the proportion of people who suffer from hunger (the common formula is to reduce by half the number of people living on less than US\$1 a day). Hunger introduces a critical dimension in the fight to eradicate poverty because it influences and limits people's productivity and hindrance upon labor ability to realize its full potential capabilities.

13. The Government recognize that the tourism sector has myriad advantages over other traditional productive sectors, e.g., agriculture and light manufacturing industries for pro-poor initiatives, especially in areas rich with natural and cultural assets because:

- customers (tourists) come to the destination, so it's a reversed-export;
- tourism is relatively labor intensive (semi/unskilled and balanced-gender);
- Cambodia has few other suitable exportable commodities and products;⁹ and
- tourism is a commodity; tourist can use and enjoy assets that the poor often have access to – natural resources, cultural assets, etc...

14. Although the concept of pro-poor/equitable tourism is relatively of recent phenomena, the idea of an approach to provide opportunities for the poor is concrete and doable.¹⁰ Tourism is pro-poor and balanced if and when it provides:

- equitable and fair distribution of economic gain and sustainable human development;
- generating and sustaining employment, especially to the bottom end of the economic ladder;
- small/medium-sized enterprise (SME) opportunities;
- other social security benefits, i.e., improved access to clean water, sanitation, communications, roads (access to markets), improved health and education services, protection and preservation of natural and cultural resources; and

⁸ "Rectangular Strategy" for Growth, Employment, Equity, and Efficiency, first cabinet meeting of the Third Legislature of the National Assembly at the Office of the Council of Ministers chaired by the Prime Minister. Phnom Penh, July 16, 2004.

⁹ Garment and Tourism Sectors contributes almost 50% of the country GDP and make up almost 2/3 of current export with the world.

¹⁰ Community Based Tourism is being implemented in Rattanakiri and Stung Treng provinces by the Mekong Tourism Development Project, ADB and Ministry of Tourism.

- local opportunities and capacities for involvement in decision-making process which allows the poor to improve and control their lots through access to tourists and tourism enterprises.

15. There's a new trends of consumers/travelers: maturing, educated, and independent travelers; “bourgeois bohemians” who spend freely for uplifting experiences; who seek to nourish body, mind, and soul; and intangible value for the money. They travel independently looking for charming, for areas rich in activities where it is easy to integrate with the local community and enjoy the experience of a lifetime, i.e., cultural activities, adventure, explorations, archaeological, and educational (religious and/or otherwise) experiences. These travelers cherish this kind of one in a lifetime experiences and happy to spend time and money if, at the same time, they are contributing to environmental conservation, social development, poverty alleviation, and heritage and cultural preservation.¹¹

C. Where Do We Want to Be?

16. The vision is to have **“a sustainable and competitive tourism industry that contribute to national poverty alleviation and improve the well-being of all citizens driven by a vibrant and innovative choice destination.”**

17. To realize this vision policies/actions within the framework of public private partnership need to be taken, but not limited to are:

- to establishes special support and training programs in the area of micro and small business formation, basic skills training, sanitation (cleanliness, hygiene, and pollution), financing, and partnerships with medium to larger scale tourism service providers in towns and cities (Phnom Penh, Siem Reap and Sihanoukville), and the neighboring countries;
- to provide the framework for the people to engage in businesses and in direct employment opportunities in the lodgings, tourist guide, land and water transportation, cultural and natural protected area management, silk and handicraft production, etc...;
- to develop a sound, professional, profitable and sustainable tourism industry;
- to offer diversified products by creating linkages with other economic sectors for maximum mutual benefit;
- to enhance Cambodia's international image and increase Cambodian citizens' understanding of the social benefits of tourism; and
- to extend tourist's average length of stay, and promotes good governance.

18. These will be achieved, though not exclusively, through tourism cluster/infrastructure development approach, (Refer to Figure 3 next page), tourism sector 4-Gears model¹² (Refer to Figure 4 next page), cross sector support services (Refer to Figure 5 page 73), and capture additional value within the national value chain (Refer to Figure 6 page 74), by linking existing sectors, such as agriculture, horticulture, silk, and handicrafts with the tourism sector, and by promoting the development of tourism packages such as for example:

¹¹ Why Services Matter, Redefining Tourism Strategy – Trade Forum/Executive Forum 2005, ITC Geneva.

¹² Adopted from Executive Forum ITC, Geneva, 2005.

- natural cluster – includes undated forest, wildlife sanctuaries, national park, zoos, historical and heritage sites, etc...;
- coastal cluster – includes coastal area, coral reef, pristine beach, island and submarine adventure, etc...;and
- art and culture cluster – includes museums, art galleries, theater, music, dance, festivals, religious activities, silk weaving, and handicrafts, etc...

Figure 3: The Tourist's Destination Cluster

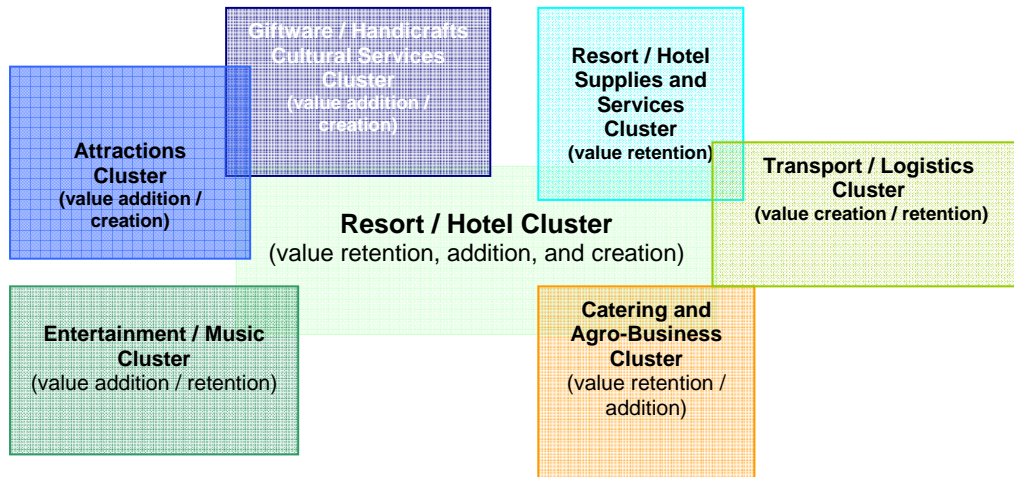


Figure 4: Tourism Sector 4 Gears

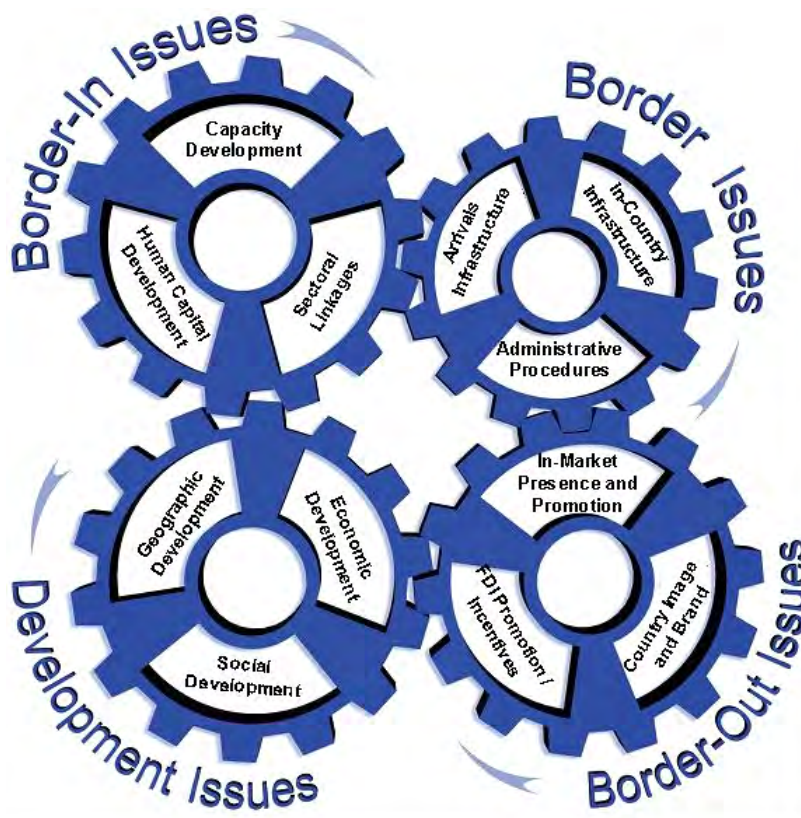


Figure 5: Cross Sector Support Services for National/Provincials

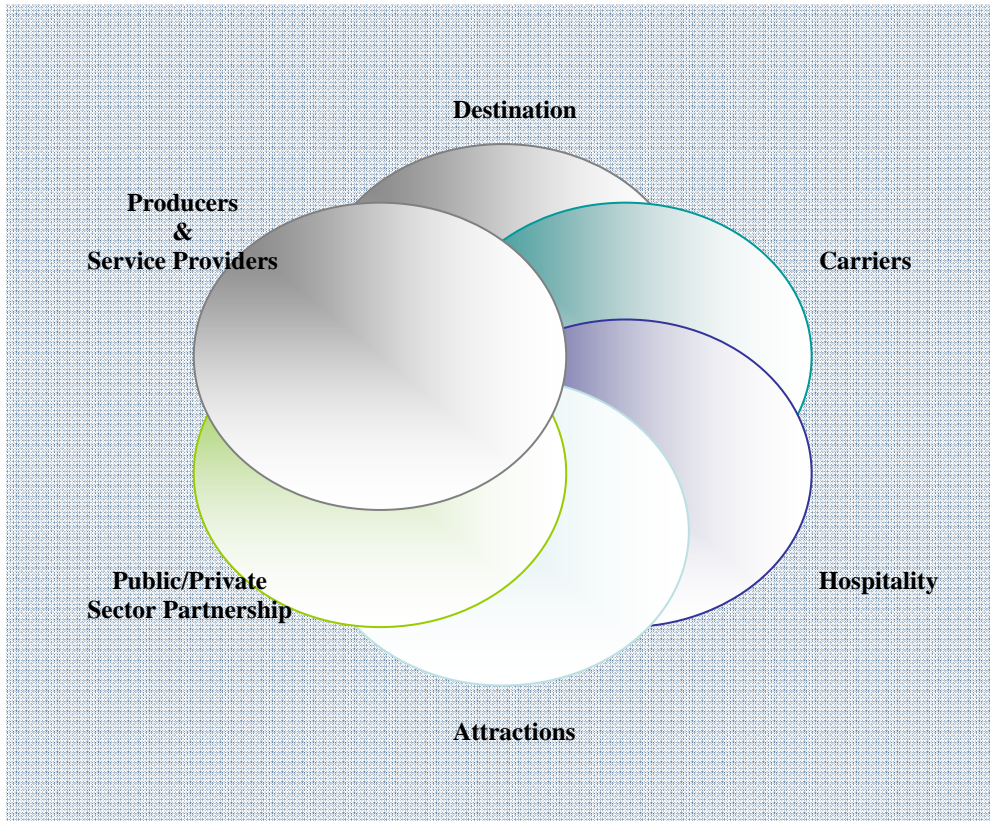
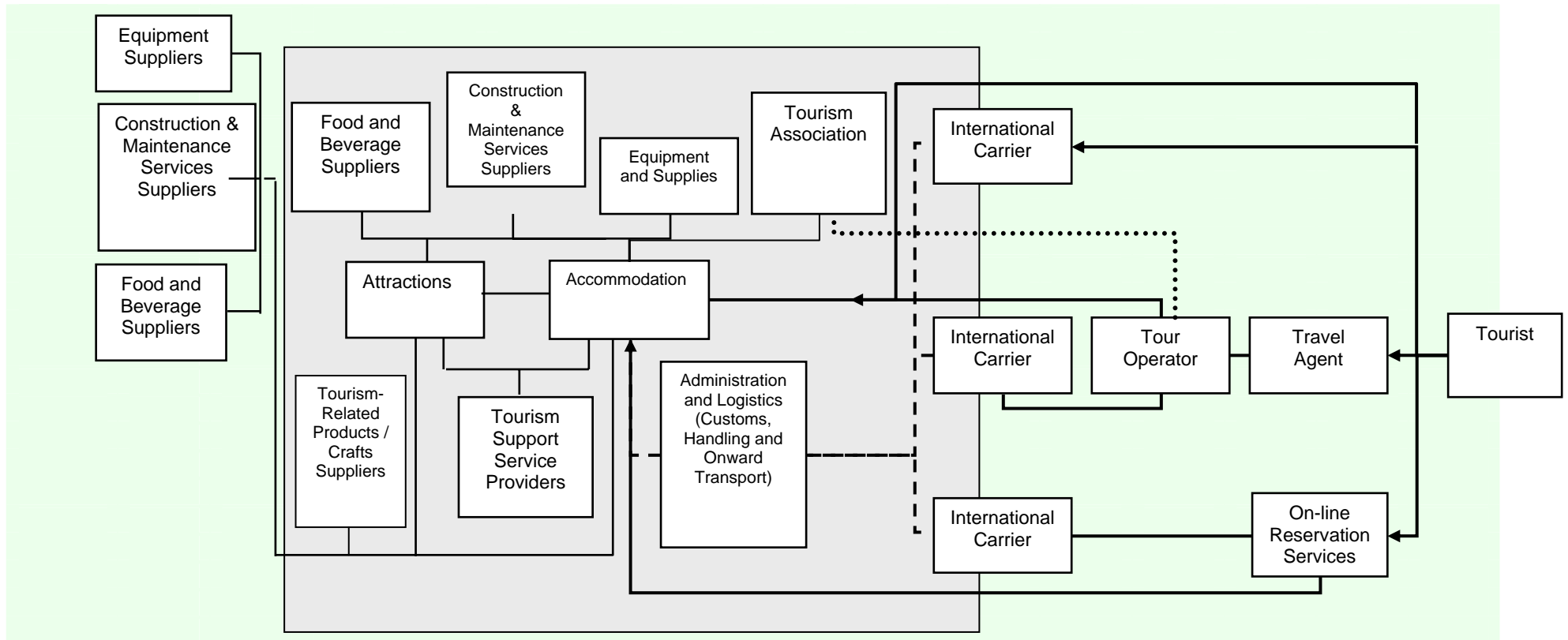
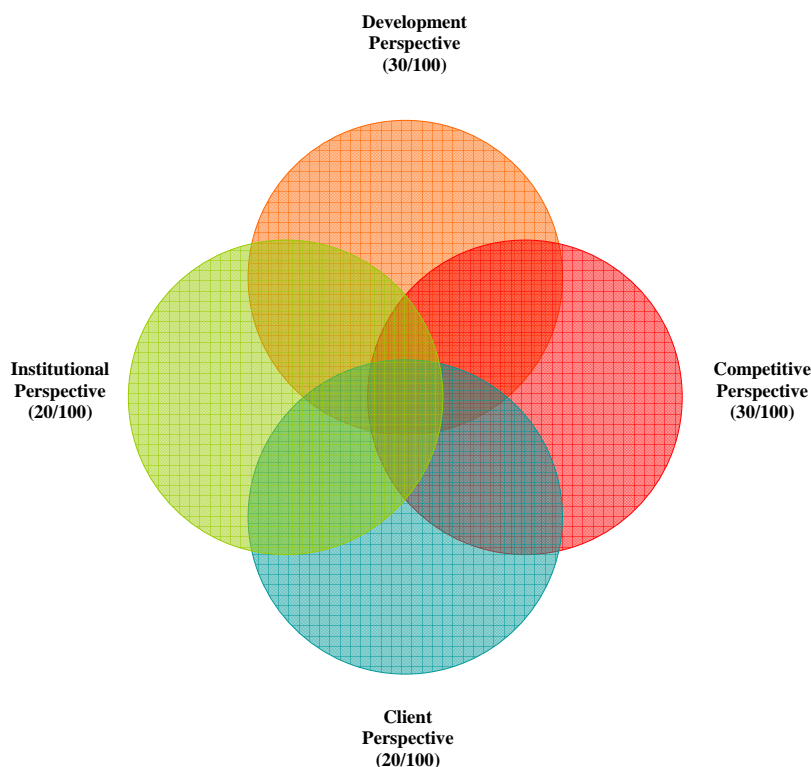


Figure 6: Generic Tourism Value Chain



D. The Way Forward (3-5 Years)



19. To be effective tourism development strategy must be “owned” by both the public and private sector. Facilitating ways and means for the tourist to interact directly with the community to reduce leakage, (**adding-, creating-, and retaining-value**) and to effectively delivered economic and other social benefits (**distributing-value**) directly to the people at large.

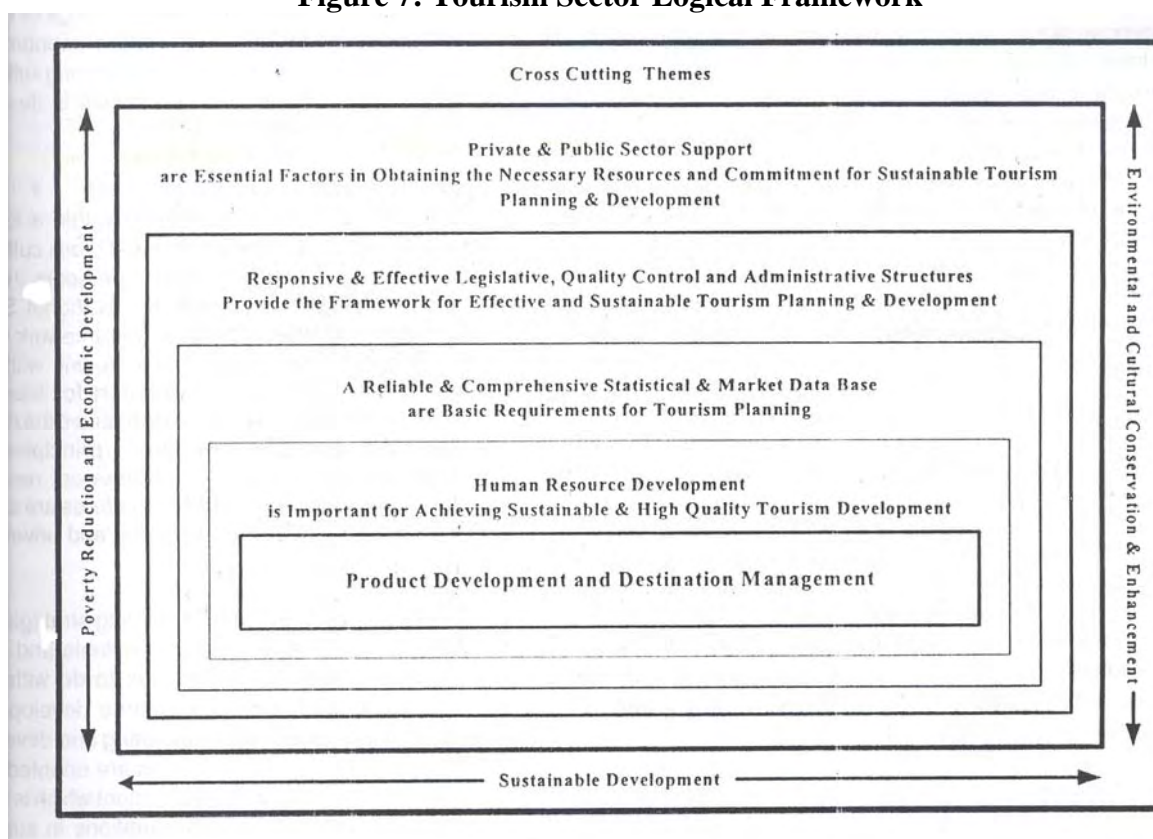
20. Best practices recommend developing and strengthening the structures and networks of Public Private Partnership “top down – bottom up approach” at the national, provincial, and local level will facilitate effective and efficient implementation of the strategy. The private sector shall set strategic priority for short-term commercial objectives, while the public sector charged with responsibility for long-term developmental objectives and addresses key issues at the macro-, meso-, and micro-level simultaneously.

21. The Cambodian National Tourism Development Plan (ADB 2001) was developed within a logical framework which identifies the many important issues and cross cutting themes necessary to develop a tourism plan in Cambodia that then to meet the societal goals identified in the National Social and Economic Development Plan. The logical framework is illustrated in Figure 7 next page. The conceptual framework begins with the recognition that private and public sector support for tourism are essential in ensuring that tourism planning receives the necessary Government resources and that sustainable principles are met within the development process. The framework recognizes that effective legislation and administrative structures are situated in a framework in which the actions of the public and private sectors are carried out. (ADB TA N0. 3454 – CAM 2001-2005).

22. The NES paper call on the continuation of the National Tourism Development Plan with realignment of the actions to addressing the competitiveness of the industry and on reforming and/or adopting policies and actions to address key weaknesses and to harness key opportunities. The Development Plan had recognized the cross-sectorial nature of the proposed policy measures and actions and had focused on all aspects of the tourist industry cluster. A set of actions in the Development Plan must continues to be developed, with clearly defined and delegated tasks to ensure that outlined actions and policies are properly and timely implemented.

23. Broader macroeconomic, microeconomic, and infrastructure investment impediments need to be addressed simultaneously with passing of the draft tourism law¹³ to guarantee success. For the tourism industry takes only corrective action in accordance with the new strategy but policy framework remains unchanged, the impact will be limited.

Figure 7: Tourism Sector Logical Framework



E. Summary of Strategic Objectives

24. The strategy focus thus cannot be just on a destination of a particular area or city, an attraction or activity, but must be directed to other economic sectors in the broader local economy – agriculture, horticulture, aquaculture, livestock, art and craft, etc... – that may encompass the main city and many other surrounding towns/villages. Hence, the Government must adopt a pragmatic approach, paradigm shift to tourism planning with strategy which recognizes the multiplicity and complexity of competing interests of all benefactors and

¹³ At this writing the draft law is at the Council of Ministers, next step is the National Assembly for passing.

beneficiaries according to the natural, cultural, and historical significant and resources found in a particular place or location throughout the country.

25. For instance, establishes special support and training programs in the area of micro and small business formation, basic skills training, sanitation (cleanliness, hygiene, and pollution), financing, and cross-linkages with medium to larger scale tourist service providers in and outside the country will provide the framework for the local population to engage in businesses and in direct employment opportunities from the tourist activities such as homestay program, community and cultural based tourism, natural and ecotourism, etc...

26. Equally important tourism development calls for substantial inputs and ongoing supports from other economic sectors such as:

- the financial services;
- building materials and construction;
- transportation and telecommunications;
- electricity, water, and sanitation services;
- agricultural and food processing; and
- other sectors of local economies.

27. Thus well-planned/executed tourism strategy makes a powerful contribution to the formation and strengthening of back/forward linkages with other sectors of the economy and in the process, stimulates the formation and expansion of micro, small and medium sized enterprises at a local level, and helps to generate job opportunities for skilled, unskilled, and those of disadvantaged groups.

F. Resources Mobilization

28. Required resources – financial and human capital – are considerable; what’s more, it is essential to have the political will and support at the highest level of the Government. The National Tourism Taskforce for Poverty Alleviation chair by H.E. Sr. Minister Veng Sereyvuth could play a key role in facilitating the public private sector partnership. The strategy calls for public institutional reform, public/private capacity building, public and private partnership building, and cluster development, vertical linkage to increase value addition, value creation, value retention, and foremost value distribution. Collaborating and coordinating technical activities with the Development Partner Coordination Matrix: the SME Development Framework (2005-2010), to insure resources get allocate to activities/initiatives where the impacts are on job creation, balanced-gender, poverty alleviation, and rural development.

Annex 1 Work Plan and Management Framework for Tourism Sector

Vision	A sustainable and competitive tourism industry that contribute to national poverty alleviation and improve the well-being of all citizens driven by a vibrant and innovative choice destination.					
Perspective	Development					
Strategic Objective: focus on medium and long-term income and employment generation; sustainable human development through strengthening investment in human capital, better management of cultural heritage assets, and conservation of natural resources and biodiversity						
Initiatives	Responsible and Accountable Institutions	Resources to be Allocated	Additional Resources Required	Implementation Timeframe	Targets	Impact Measures
<ul style="list-style-type: none"> - Lobbying for passing and adoption of Tourism Law - Intensify efforts to introduce improved practices with regard to cultural assets and natural resources conservation and biodiversity conditions - Develop a comprehensive human resource development plan for the tourist industry 	NECC, National Tourism Taskforce for Poverty Alleviation ^❶ , Apsara Authority, and MoT with line ministries	HR resources and financial and political capital	Donor countries (DCs), international development agencies (IDAs), and practitioners e.g., China, Japan, ASEAN, EU, US, WB, IMF, IFC/MPDF, ADB, UNDP, ITC, AusAID, USAID, NZAid, GTZ, DFID, AFD, etc...	TBD by NECC at its first plenary session	TBD by NECC at its first plenary session	TBD by NECC at its first plenary session

❶ Includes Provincial Tourism Taskforce

Annex 2 Work Plan and Management Framework for Tourism Sector

Vision	A sustainable and competitive tourism industry that contribute to national poverty alleviation and improve the well-being of all citizens driven by a vibrant and innovative choice destination.					
Perspective	Competitive					
Strategic Objective: developing supply chains to reduce leakages						
Initiatives	Responsible and Accountable Institutions	Resources to be Allocated	Additional Resources Required	Implementation Timeframe	Targets	Impact Measures
<ul style="list-style-type: none"> - Promote investments in vertical linkage possibly through forming a “Tourist Industry Investment Fund” - Integrate SMEs into the tourist industry cluster through reforms in tax policies, investment rules, and removal of other SME impediments - Developing supply chains - Promote “Cambodia” as the destination 	NECC, National Tourism Taskforce for Poverty Alleviation, Apsara Authority, and MoT with line ministries	HR resources and financial and political capital	Donor countries (DCs), international development agencies (IDAs), and practitioners e.g., China, Japan, ASEAN, EU, US, WB, IMF, IFC/MPDF, ADB, UNDP, ITC, AusAID, USAID, NZAid, GTZ, DFID, AFD, etc...	See Silk Sector Wide Strategy 2006-2010 LOGFRAME Finale Draft June 2006	See Silk Sector Wide Strategy 2006-2010 LOGFRAME Finale Draft June 2006	See Silk Sector Wide Strategy 2006-2010 LOGFRAME Finale Draft June 2006

Annex 3 Work Plan and Management Framework for Tourism Sector

Vision	A sustainable and competitive tourism industry that contribute to national poverty alleviation and improve the well-being of all citizens driven by a vibrant and innovative choice destination.					
Perspective	Client					
Strategic Objective: facilitate marketing campaign and competent in marketing						
Initiatives	Responsible and Accountable Institutions	Resources to be Allocated	Additional Resources Required	Implementation Timeframe	Targets	Impact Measures
<ul style="list-style-type: none"> - Support efforts to enhance promotion and marketing competency - Identify market channel and opportunity - Implement a marketing plan at national level to promote the Cambodia - Carry out an ongoing and sustained destination development campaign 	NECC, National Tourism Taskforce for Poverty Alleviation, Apsara Authority, and MoT with line ministries	HR resources and financial and political capital	Donor countries (DCs), international development agencies (IDAs), and practitioners e.g., China, Japan, ASEAN, EU, US, WB, IMF, IFC/MPDF, ADB, UNDP, ITC, AusAID, USAID, NZAid, GTZ, DFID, AFD, etc...	See Silk Sector Wide Strategy 2006-2010 LOGFRAME Finale Draft June 2006	See Silk Sector Wide Strategy 2006-2010 LOGFRAME Finale Draft June 2006	See Silk Sector Wide Strategy 2006-2010 LOGFRAME Finale Draft June 2006

Annex 4 Work Plan and Management Framework for Tourism Sector

Vision	A sustainable and competitive tourism industry that contribute to national poverty alleviation and improve the well-being of all citizens driven by a vibrant and innovative choice destination.					
Perspective	Institutional					
Strategic Objective: build an information base and cluster of destinations						
Initiatives	Responsible and Accountable Institutions	Resources to be Allocated	Additional Resources Required	Implementation Timeframe	Targets	Impact Measures
<ul style="list-style-type: none"> - Develop an information and analytical base on the tourist industry and information base on international market data - Enhancing and supporting a sustainability strategy for the community and cultural based tourism, natural and ecotourism, homestay program, etc... - Collaborating with ECOSORN and ADB sub-regional tourism projects 	NECC, National Tourism Taskforce for Poverty Alleviation, Apsara Authority, and MoT with line ministries	HR resources and financial and political capital	Donor countries (DCs), international development agencies (IDAs), and practitioners e.g., China, Japan, ASEAN, EU, US, WB, IMF, IFC/MPDF, ADB, UNDP, ITC, AusAID, USAID, NZAid, GTZ, DFID, AFD, etc...	See Silk Sector Wide Strategy 2006-2010 LOGFRAME Finale Draft June 2006	See Silk Sector Wide Strategy 2006-2010 LOGFRAME Finale Draft June 2006	See Silk Sector Wide Strategy 2006-2010 LOGFRAME Finale Draft June 2006

Appendix II

Cross-sectorial 1 – Trade Support Institutions
Cross-sectorial 2 – Trade Support Network

**NATIONAL ACTION PLAN
FOR
STRENGTHENING TRADE SUPPORT INSTITUTIONS
IN CAMBODIA**

(FINAL DRAFT)

Submitted to ITC on January 28, 2006

Prepared by National Consulting Team
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This report was first submitted to ITC, Geneva on January 28, 2006. Subsequently edited by the NES Design Team in June 2006 and incorporated the report as is in its entirety and made part of the National Export Strategy Cross-sectorial 1 Trade Support Institutions findings and recommendations.

1. Introduction

1. This report was prepared by a core team of national consultants which emerged from the International Trade Center's Training of Trainers Workshop held at the National University of Management, Phnom Penh in September 2005. In the context of the support provided to the Ministry of Commerce for enhancing Trade promotion and Export Promotion in the Kingdom of Cambodia, the objective of this workshop was to provide a core team of trainers with the knowledge, skills and tools required to assess National Institutions (BDS) supply of services and prepare an action plan responding to the gap existing between the needs of SMEs and the supply of BDS services.

2. During November and December of 2005, the core team of national consultants focused on four main sectors: Agribusiness, Handicrafts, Garments and Tourism. Using the SNAPSHOT diagnostic software developed by ITC, the team analyzed a minimum of five enterprises in each sector. The main categories for analysis included Human Resources, Financial Resources, Trade Information and Trade Promotion. Following the enterprise level assessment, the main Trade Support Institutions (TSIs) were then surveyed to assess the overall gap existing between the needs of the SMEs and the overall supply of services. Based on the results of the GAP analysis, recommendations for action for each sector were presented.

3. The following report is divided into four parts: the Agribusiness Sector in Cambodia prepared by Mr. CHAN Ang; the Handicraft Sector in Cambodia prepared by Mr. DIN Virak; the Garment Sector in Cambodia prepared by Mr. EA Ricky; and the Tourism Sector in Cambodia prepared by Mr. PATERSON Stephen in cooperation with National University of Management lecturers Messrs. CHHAY Bora, SOU Phalla and KANG Sovannara.

4. Each section of the report contains its own recommendations for action. For convenience, the main recommendations are combined together in a matrix which appears at the end of the report.

2. Methodology

5. The SNAPSHOT diagnostic software developed by ITC was the main analytical tool used in the first section of this report which focused on the assessment of weaknesses/problems at the enterprise level for select enterprises in the Agribusiness, Handicraft, Garment, and Tourism sectors. The second section included a general survey of the human resources, financial resources, trade information and trade promotion services provided by the main Trade Support Institutions (TSIs). This was followed by a GAP Analysis and recommendations for future action.

3. Part I – Agribusiness Sector

6. The Agribusiness sector of Cambodia is entirely private and plays a very important role in the economic development of the country since 80% of the total populations are farmers living with less than US\$300 of GDP per capita income. This sector, however, has been faced with many obstacles which hinder export growth. These obstacles include quality issues, management problems, trade information and financial support barriers.

7. Our in-depth interviews were conducted with several medium sized business enterprises some of which are owned by Cambodian returnees who are knowledgeable about business management issues and who are also focused on the export market. Based on these interviews, we have discovered some of the main problems and needs of export focused agribusiness entrepreneurs.

8. We approached the owner of one of the largest rice mills in Kandal Province – outskirts of Phnom Penh who employs around 200 people. The owner is actually a Cambodian returnee who lived in Thailand for more than thirty years and who had experience in the rice business. Since 1999, his company has built a very strong network with farmers in the province where his rice mill is located. The rice mill is only focused on premium quality products for the export market. The average yearly turnover is around three million US dollars and it increased around 50% annually over the past five years. The company signed an annual purchase-sales agreement with the local medium to large scale farmers and provides them with the rice seed as well as training on how to grow the rice properly and other technical support. During the harvest season, the mill guarantees to buy the rice at an agreed price and then mill it for export to the European market. The company, however, still faces some problems ranging from the high production cost to financial support needs in order to expand the business.

9. Another entrepreneur we interviewed was the owner of a medium scale beverage and dry fruits business which employs sixty-seven people and which only uses local products for its production. He is a Cambodian returnee who lived in Canada for over thirty years and has experiences in food engineering. The producer focuses on both the local and export markets and is very active in participating with trade promotion activities organized by donors and the Royal Government of Cambodia. The firm produces palm wine, jam, palm sugar, and fruit juice. Sixty percent of the production is for export and the remaining forty percent is for the local market. The annual turnover is around six hundred thousand US dollars in which more than ninety percent comes from the palm wine business. Over the past five years, its yearly sales increased around forty percent. The company, however, has encountered some problems such as a lack of a market needs assessment, market entry strategy, poor production quality, high production costs, and a lack of working capital.

10. Meanwhile, we also approached a number of Trade Support Institutions such as the Mekong Private Sector Development Facility (MPDF), Association of Bankers of Cambodia (ABC), Rural Development Bank of Cambodia, ITC Cambodia, Canada Bank, Aceda Bank, and CEDAC. These institutions are actively providing support to small and medium size businesses including agri-businesses. They mainly provide skills training, business consultation, technical support, financial loans, trade promotion, and trade information. However, there are still a lot of gaps which have not been filled in order to meet the export needs of the agribusiness entrepreneurs.

11. The following section will provide a summary of the main problems and needs of the agribusiness sector in Cambodia.

a) Enterprise Needs Assessment

i) Human resources

Production skills

- Production cost estimation
- Balance technique
- Production process design
- Material handling methods
- Stock adaptation
- Method improvement techniques

Marketing skills

- Professional selling and negotiation
- Customer focus and service quality
- Marketing strategies
- Before and after sales services
- Export marketing

Financial management

- Cash flow management
- Financial projection
- Cost reduction program
- Inventory requirement and management
- Credit management
- International trade

ii) Financial resources

- Medium and long term loans from bank
- Reasonable interest rate of loan
- Loan to company rather than to individual
- Equipment lease

iii) Trade information

- Export market information
- E-utilization
- Information on competitors of export market
- Information on export procedures
- Information on customer network in export market

iv) Trade promotion

- Business association should provide more services to its members
- Trade fair
- Exhibition

- Trade magazine/bulletin
- Business instant consultation office

b) Trade Support Institutions (Supply Assessment)

12. The following is a summary of the support provided by the Trade Support Institutions in Cambodia

i) Human resources

Production

- Operation and production management
- Inventory management
- Supply chain management

Marketing

- Professional selling and negotiation
- Customer focus and service quality
- Marketing strategies
- Before and after sales services
- Export marketing

Financial Management

- Cash flow management
- Financial projection
- Inventory requirement and management
- Business Plan

13. The training courses are not available according to the needs of customers. The courses are only available when offered by the donor TSI. The training methodology is mostly classroom training rather than the practical workshop. Moreover, the trainer does not properly evaluate the profile of the participants before the training.

ii) Financial resources

- Medium and long term loans based on collateral with a very selective customer
- The interest rate for loan is still too high for agri-businessmen
- Loan to individual rather than company

iii) Trade information

- Export market information
- E-utilization
- Information on competitor of export market
- Information on export procedures
- Information on customer network in export market

14. The trade information is not available based on the needs of the entrepreneur. It is not convenient for them to get access to the export market information. It mainly provides very basic information.

iv) Trade promotion

- Business association should provide more services to its members
- Trade fair
- Exhibition

15. The business association is not active enough to provide advantages to its members. Trade fairs and exhibitions organized by TSIs are not widely opened to all interested agribusiness entrepreneurs.

c) Gap Analysis

16. **Human resources:** the training courses are not available according to customer needs. The courses are only available when offered by the donor TSI. The training methodology is mostly classroom training rather than the practical workshop. Moreover, the trainer does not properly evaluate the profile of the participants before the training.

17. **Financial resources:** neither banks nor TSIs provide long term loans and physical assets leasing in order to strengthen the agribusiness sector. The current loan is offered based on the individual collateral guaranty rather than a business loan. And the interest rate is too high!

18. **Trade information:** the trade information is not available based on the needs of the entrepreneur. It is not convenient for them to get access to the export market information. It mainly provides very basic information.

19. **Trade promotion:** the business association is not active enough to provide advantages to its members. Trade fairs and exhibitions organized by TSI are not widely open to all interested agribusiness entrepreneurs.

d) Recommendations

i) Human resources

- **Training:** the donor organization should continue to offer their training courses and add more courses which better fit to the needs of agri-business entrepreneurs. In addition, the training methodology should also be modified to meet the requirement of entrepreneurs. For example, participants should be carefully selected. The level of training should also fit the needs of the participants.
- **Consultation:** face to face business consultation office should be set up to provide necessary support services related production, marketing, and financial management skills.
- **Focus:** a specialized training institution for agri-business should be established.
- **Qualified trainer:** the trainer should focus more on quality rather than quantity. He/she should also be an expert in the field and can therefore help the participants to solve their problems. The course should concentrate more on best practices.
- **Marketing of the course:** when there is a training workshop for agri-business entrepreneurs, the course should be widely advertised and made available to all interested agribusiness entrepreneurs.

ii) Financial resources

- Donor countries should provide a special loan to the banks in Cambodia to subsequently lend to agribusinesses in the form of a long term loan at favorable interest rates. For example, KFW fund provided to Canadian Bank for subsequently lending to SMEs.
- Equipment leasing business should be made available in Cambodia so that agribusiness entrepreneurs can expand their businesses quicker and keep their production in the export market.
- The lending process to agribusinesses should be made within an acceptable time line to encourage the agri-business entrepreneurs to use the bank loan.
- To make the long term loan and equipment lease business happen, the government should enact relevant legislation in order to build trust between the lender and borrower.

iii) Trade information

- A trade information consultation office should be made available for agribusiness entrepreneurs utilizing either a face to face, electronic, or telephone format.
- Bulletins and magazines on trade related information should be made regularly available for agribusiness entrepreneurs to get access.
- A website on agribusiness trade information should be created with free access.
- The trade information should be usable for agri-business entrepreneurs.

iv) Trade promotion

- An association for each sub agribusiness sector should be created so that it can work to serve the common interest of its members.
- Trade fairs and exhibitions should be organized more often to promote agribusiness products for export.
- Study visits to the more developed countries and associations should be organized for agri-business entrepreneurs to exchange their best practices.
- The association should work harder to seek advantages for its members.

4. Part II – Silk Sector

a) Enterprise Needs Assessment

20. Through the enterprise surveys, local enterprises highlight their resource needs and capabilities to use the resources. Generally, to be successful in the competitive global market, local enterprises need to be more customer-oriented and market-oriented.

i) Human resources

- Marketing skills: branding and labeling, packaging and bar coding (GS1 of the Cambodia Chamber of Commerce), and customer and market orientation skills.
- Handicraft design skills.
- Product planning and development.
- Efficient production techniques: cost and time efficiencies, productivity improvement.
- Exports management knowledge and skills (orders management, and shipping management): Incoterms (CIF, FOB, Ex-Work, etc.), and other international best practices in terms of international transactions and payments.
- Business and strategic planning skills: competitive (SWOT) analysis and positioning and contingency planning.
- Other basic managerial skills such as customer relationship management, time management, delegation skills, effective communication and sustainable selling skills, negotiation skills, and conflict resolution/management.

ii) Financial and other resources and capabilities

- Funds enabling producers to expand and capture the market growth
- Physical location resources and working capital
- There is a need for setting up a self-help group of local producers, in such a case, credit management skills are also needed

iii) Trade information resources and capabilities

- Information about national and international trade fairs/shows
- Information about foreign markets
- E-potential and e-utilization for example using emails to communicate with potential buyers
- Production methods and industry knowledge and know-how can be consolidated and disseminated through silk library and silk institute (planned to be set up within the Ministry of Rural Development)

iv) Trade promotion networks resources and capabilities

- Uncoordinated network of trade support institutions
- Setting up trade associations in order to sourcing/procure raw materials in bulk for economic standardization purposes
- Exposure trips, and trade missions

b) Trade Support Institutions (Supply Assessment)

21. The following information comes from interviews and field visits within handicraft (silk) specific TSIs include Cambodian Silk Forum (CSF), Artisans' Association of Cambodia (AAC), Cambodian Craft Cooperation (CCC), Youth Development in Community Organization (YDCO). Other sources of information may come from Handicraft (Silk) Sectorial Strategy workshop co-organized by ITC Cambodia and the Ministry of Commerce, and Phnom Penh Silk Fair organized by CSF.

i) Training services

- Production techniques to improve production capacity and quality (standardization and sustainability of export products)
- Handicraft design
- Natural and German dying and weaving workshops
- Marketing skills; packaging, labeling, branding, shop management, costing and pricing

ii) Financial and other services

- Initiative on setting up a fund to assist producers to expand their production capacity in order to meet the growth of market needs and demand
- Financing network for enterprise development; CSF has connection with bank association, MFIs, and donor community
- Agricultural development; increasing and improving market-oriented production, raw materials import substitution

iii) Trade information services

- National and international trade fairs and trade missions
- Information about foreign markets

iv) Trade promotion and development services

- Field coaching services by international experts. This service tends to be more satisfied by their clients however it is also costly.
- Exports management services. Trade promotion and development can be done through building the capacity of trade/export management enterprises (AAC, CCC, CSF and YDCO ...), the number of which is very limited for the time being.
- Local trade promotion and development. Awareness raising to the general public. Silk-based products are popular in Cambodian tradition. For many kinds of ceremonies, Cambodian people and artists use silk-based products ranging from clothing, silk ties, and handbags, etc.
- International trade promotion and development. Silk-based products can be closely linked to tourism and cultural sectors. Exports can be promoted through millions of tourists who are visiting Cambodia. In this regard, CSF has planned to set up a showroom of Cambodian design with the Ministry of Culture and probably with the Ministry of Women's Affairs.
- Trade fairs facilitation and organization. For instance, CSF has been organizing annual national trade fairs (Angkor Silk Fair and Phnom Penh Silk Fair last December).

c) Gap Analysis

22. A gap analysis will emphasize on identified and perceived needs of local enterprises which have not really been provided by TSIs.

i) Human resources areas

- In-depth training in design and marketing skills; product and market development
- Business and strategic planning skills
- Training in export management skills (orders management, shipping management, international trade practices, custom procedures in specific regions or countries) are needed by some TSIs and enterprises

23. Training in consulting/counseling skills for TSIs in order for them to better provide enterprise/business development services to local producers; as most of the TSIs are currently providing training and to some extent information services. However, limited consulting services (design and marketing) have been provided to a limited number of member producers by international experts for shorter periods. So that TSIs themselves are need these consulting skills in order to be able to provide a wider range of services to a larger number of local producers.

ii) Financial and other areas

- Lack of financial institutions and mechanism to ensure the potential growth of the market. These may include the non-banking financial sector such as insurance, leasing, and a variety of funds (revolving funds, export market access funds, business development funds, etc.)

iii) Trade information areas

- A comprehensive and systematic market information/research should be available
- Trade statistics – product and market information
- E-potential and e-utilization, such as email, e-business, and e-manager ...

iv) Trade promotion network areas

- Networks of trade promotion organizations at national and international level need to be well established in order to assist trade promotion and development in a sustainable manner

d) Recommendations

24. The following is a set of recommendations for donors' consideration to help facilitate the development of an action plan in order for them to achieve their objectives of trade promotion and development.

i) Human resources

- Training should be conducted for the right number of the right participants by using the right training methods such as coaching, field visits and exposure trips

ii) Finance and other areas

- Trade financing is one of the critical factors constraining trade development. In this regard, a comprehensive and practical trade financing training should be provided to the right people

iii) Trade information areas

- ITC should also support the existing **silk library** which is currently located in PASS; in this regard, it needs to improve its functioning and accessibility to the general local producers who may need knowledge and information on the silk sector
- In order to coordinate and consolidate a comprehensive set of knowledge and information on silk sub-sector, the Ministry of Rural Development, and its partners have initiated to form a **silk institute**; however, it requires a strong commitment to make it available in the near future

iv) Trade promotion and development areas

- Forming marketing/distribution networks
- Building business opportunity networks, and business/trade associations in support of the value chain; these business opportunity networks can serve as a means of communicating reliable and accurate information between producers and marketplaces, and also of facilitating the sourcing of technical experts, and raw materials in bulk; these TSIs or business/trade associations should also be able to relate to Trade/Commercial Attachés of Cambodian embassies abroad
- Setting up a Handicraft Department within the MoC; this handicraft section should have a close relation with the MIME
- Product identity through a national labeling system, and bar coding system (GS1 of the Cambodia chamber of commerce)
- Enhancing the advocacy role of TSIs for the government ensuring fair competition

25. Generally, those TSIs who are working to assist local producers tend not to be well coordinated among each other in order to provide more effective and efficient business development services to local producers. For example, AAC has been working closely with the Ministry of Industry, Mines, and Energy (MIME) – focusing on the upper-stream of the production aspects, CSF and chambers of commerce (including the Export Promotion Department, MOC) seemed to work closely with the Ministry of Commerce (MOC) – focusing on the down-stream of the marketing aspects. Still, there are some other organizations currently working closely with the Ministry of Rural Development, and the Ministry of Agriculture, etc. – focusing also on the upper-stream of the value chain.

26. It is strongly recommended that in the value chain approach initiated by the World Bank and other institutions, there should be a smooth coordination, and cooperation between up- and down-streams and across the value chain.

5. Part III – Garment Sector

27. The Garment industry has generated positive contributions in providing and maintaining balanced economic and social development. The industry also plays an important role in decreasing the level of unemployment and creating new employment opportunities and with their flexible production structure they can follow the changes in the market conditions more effectively.

28. From our enterprise assessment the garment industry is in a unique position. It has grown very quickly (presently involving around 247 companies with around 280,000 employees of whom 85-90% are women) but has been almost exclusively driven by foreign investment and by comparative advantages resulting primarily from preferential access to the major markets and, to a lesser extent, by cheap labour. The industry is considered one of the most compliant in terms of labour practices.

29. However, there are many obstacles facing the garment industry today because they lack the following.

a) Enterprise Assessment

i) Human resources

- Limited education and training skills for workers
- Limited skill for production techniques
- Lack training for qualified personnel (management and knowledge skills)
- Weak understanding of laws and regulations (labor law, demonstration rules etc...)
- Limited on site training
- Limited vocational training skills
- Limited quality training programs

ii) Financial and other resources

- Need incentive and access to financial assistance (i.e., credit, loan for expanding the facility)
- No credit scheme to enabling producers to expand and capture the new market
- Very high electricity costs
- Very high interest rate

iii) Trade information resources

- Not up to date information from various ministries
- Limited information regarding to network with overseas buyer
- Weak on-line access
- Weak on market information
- Not sufficiently qualified staff to gather information
- Limited knowledge in terms of commercial trade information resources

iv) Trade promotion networks resources

- Trade Support Institutions weak due to limited resources

- No trade associations in order to procure raw materials in bulk for economic standardization purposes
- Limited business associations in support to the value chain
- Limited measures to attract or encourage direct foreign investment
- Staff lacks the necessary training and experience to deliver trade support services

b) Trade Support Institutions (Supply Assessment)

30. Some of the key trade support institutions, like GMAC, SME associations and provincial chambers are relatively new and all of the existing institutions lack the resources to carry out an effective job; they are seriously under-funded and for the most part, their staffs lack the necessary training and experience to deliver trade support services to its members or potential members.

31. Some other business support services are available, but there are still significant gaps in meeting members' needs.

i) Human resources

- Lack qualified personnel
- Low level use of consultancy, design, technology transfer and educational services
- Not sufficient qualified staff to gather information
- Lack short-term training in information management/librarianship
- Need system for capturing or monitoring external information that is gathered by other departments in the organization

ii) Financial and other resources

- No financial or incentive nature, consists of any schemes directed at encouraging the industry to undertake activities to promote their companies, image and brand names
- Lack resources (i.e. publications like gazettes, trade regulation publications, trade directories and relevant magazines)

iii) Trade information resources

- Not up-to-date information
- Weak online access (i.e. market information, trade information, etc...)
- No provision of technology information through seminars, courses and exhibitions, etc.
- Lack information on market trends and opportunities abroad, etc.)
- Need to improve their product design and packaging
- Need to conduct overseas market studies
- No new information resources on foreign markets

iv) Trade promotion networks resources

- Need Intra-organization information flow (i.e., facilitate the sharing of information among all divisions and departments)
- No marketing advisory services

- No quality upgrading and idea to enable SMEs to produce products which meet the export quality requirements
- Lack assistance in the establishment of proper production and quality systems in meeting quality requirements of importing countries and in the quality certification of products
- Opportunity to participate in trade missions organized by EPD and in international trade fairs in both established and new markets
- Need help to develop new markets or explore and get overseas business partners

c) Gap Analysis

32. We have found that a gap between the enterprises and the TSIs are the factors affecting business environments and the real impact of enterprise initiatives. Our survey reveals four key findings. First, Human Resources, building on this are the way backward. Second, Trade Information support schemes such as comprehensive and systematic market information need to be organized. Third, Trade Promotion Network at national and international level needs to be well established in order to assist trade promotion and development in a sustainable manner. And four, incentive and access to finance are the elements to successful enterprises and successful economies.

i) Human resources areas

- Exploitation of information technology
- Expert help on productivity improvement and training
- Practical advice on business development and help in establishing business partnerships
- Assistance in international marketing and design
- The Upgrading Program (UP) to build up the supporting industry
- Informative programs will be organized in order to establish the concept of human resources management system in the industry
- Vocational Training Centers
- Education and training institutions shall offer training according to professional standards in order to meet the demand for skilled labor
- Quality of existing training programs shall be upgraded and their capacity shall be increased
- Training programs shall be developed in order to establish the concept of life-long education and training so as to develop the skills of the active work force in line with the market demand shaped by growing and changing products and production processes
- Management skills appear to be needed by some TSIs and enterprises

ii) Financial and other resources

- Lack of financial institutions will hinder economic growth, and there needs to be a credit scheme to enable manufacturers to expand and capture new markets

iii) Trade information areas

- Comprehensive and systematic market information/research should be available
- Rendering information services for the industry over the Internet

- Improving on-line access and transactions via the internet; informative activities via Internet shall be improved in order to promote its services to the members

iv) Trade promotion networks areas

- Lack of trade promotion and organizations at national and international level needs to be well established in order to assist trade promotion and development in a sustainable manner
- Intensification of training, consultancy and information services reinforcing the management structures of the existing members
- Taking measures for the necessary arrangements required to encourage direct foreign investments

d) Recommendations

33. A new strategy is required for the garment industry as the quota system ends; the industry should focus on addressing the competitiveness of the industry and on developing policies and actions to address key weaknesses and to harness key opportunities.

34. A set of actions must be developed, with clearly defined and delegated tasks to ensure that outlined actions and policies are properly implemented. Broader macroeconomic and infrastructure investment impediments need to be addressed simultaneously with proposed garment industry reforms to guarantee its future survival and success.

35. The following action plan has been formulated in order to clearly outline the roles of the garment industry and to identify the actions to be implemented.

i) Human resources

- Building up education and training skills for workers
- Skills for production techniques
- Training for qualified personnel (management and knowledge skills)
- Understanding of laws and regulations (labour law, demonstration rules etc...)
- On site training
- Vocational training skills
- Quality training programs
- Employment and working conditions
- Building up the international competitiveness of SMEs through technology
- Training and internships
- Training to provide qualified personnel
- Improving the technological and innovative capacity of SMEs
- Improving, renewing and spreading vocational training

ii) Financial and other resources

- Credit scheme to enable producers to expand and capture the new market
- Reduction of electricity costs
- Incentive and access to financial assistance (i.e., loan, credit scheme)
- Easy access to finance (i.e., loan for expanding facility)
- Improving taxation and financial issues

- Better legislation and regulation
- Investment and working capital credits should be provide for investors and initiating finance schemes

iii) Trade information resources

- Setup up-to-date information from various ministries
- Create a trade information network on overseas buyers
- Improving on-line access to market information
- Establishment of sector-wide IT network
- Developing cheaper and faster processes for data gathering
- Supporting e-commerce and technology-based enterprises
- Informing its members about Best Practices via the internet and development of high level support

iv) Trade promotion networks resources

- Expanding Trade Support Institutions
- Creating business associations in support to the supply chain
- Policy to attract and encourage direct foreign investment
- Transparency of support services
- Research and innovation
- More effective and stronger representation of SMEs on national and international platforms
- Placing emphasis on regional development
- Efforts shall be made in order to develop on-line transaction facilities on the Internet

6. Part 4 – Tourism Sector

36. This section of the report focuses on the rapidly growing tourism sector in Cambodia. The emphasis is primarily on the small to medium sized hotels and travel agencies owned by Cambodian nationals in Phnom Penh, Siem Reap and Sihanoukville.

a) Enterprise Needs Assessment

i) Human resources (weaknesses & problems)

- High turnover rate among skilled and experienced employees due to aggressive recruitment by new competitors (e.g. new hotels)
- Quality control (all areas)
- Front office operations
- Customer service
- Registration systems; most small to medium hotels (including many 4 star hotels in Siem Reap) do not have computerized reservation and billing systems (e.g., Room Master software)
- Management (difficulty in delegating tasks and responsibilities)
- Strategic management and competitiveness training (owners and top management)
- Language skills (Chinese, Japanese, Korean, etc.)
- Business ethics training (tour operators)
- Conflict resolution skills (labour issues)
- Transfer of knowledge from foreign managers to local managers

ii) Financial resources

- High interest rates (international competitors are able to borrow money at lower interest rates compared to domestic competitors)
- Difficulty in obtaining loans for expansion
- Difficulty in obtaining financing for IT (e.g., reservation system software)

iii) Trade information

- Knowledge of customers; hotels and travel agencies lack information regarding the needs of customers
- Market research
- Difficulty to forecast occupancy rates due to a lack of external information
- Poor coordination with Ministry regarding upcoming conferences and events which have a direct impact on tourism sector
- Knowledge of competitors (e.g. domestic and foreign)
- Knowledge of industry (tourism trends, etc.)

iv) Trade promotion

- Need for more trade fairs and other promotional events
- Need for more representation at international trade fairs by small and medium size tour operators
- IT (websites)
- Promotional materials

- Need for more government advertising to promote Cambodia as a tourism destination (not just Angkor Wat but also other destinations such as Sihanoukville, Phnom Penh and North-Eastern Cambodia)
- Product development (new types of tours, e.g., cultural, cuisine, educational, charity, home stay, etc.)

v) Other issues

- More simplified visa procedures
- Ticket prices at Angkor
- More investment in infrastructure (e.g., regional airports)
- Urban planning in Siem Reap (Angkor)
- Problem with suppliers (vehicles are in limited supply, too old, etc.)
- Special tours (boat trips to Vietnam/Laos) problems with border customs officials, etc.
- High airport tax/entrance fees to Angkor

b) Trade Support Institutions (Supply Assessment)

37. While there are many Associations (e.g., Cambodian Association of Travel Agents; Cambodia Hotel Association) and also ADB supported projects plus an IFC Public Private Sector Working Group, most of these activities are policy based (i.e., lobbying government to change tourism related policies, etc.) and are also directed more towards upgrading the overall capacity of the government sector, especially the Ministry of Tourism. The training and trade information needs of the private sector, especially the small and medium sized companies, are therefore not fully addressed by these organizations.

i) Human resources

- ADB does provide training to Ministry of Tourism personnel, primarily in the areas of Statistics and Marketing for Tourism officials
- Ministry of Tourism offers short course training for tour guides (on a tuition basis)
- State Universities such as the Royal University of Phnom Penh and the National University of Management, currently offer Japanese language courses sponsored by JICA, and Korean language courses sponsored by the Korean Government
- Paul Dubrule Hotel and Tourism School in Siem Reap offers 5 certificate programs in Cooking & Cuisine Operations, Restaurant & Bar Operations, Front Office & Reception Operations, Housekeeping & Laundry Operations and Travel & Industry Services; the cost of tuition is US\$500, though some scholarships are also available
- Government and private universities in Phnom Penh and Siem Reap also offer undergraduate and graduate degrees in Hospitality and Tourism Management, however, the quality and relevance of both the teaching faculty and curricula is limited; courses are also offered on a tuition basis (approx. US\$180 per semester for undergraduate degree) and some scholarships are available

ii) Financial resources

- There is currently only financial assistance provided to the government by organizations such as ADB for upgrading tourism related infrastructure (e.g., rehabilitating the urban sewer system in Siem Reap, improving Rattanakiri and Stung

Streng Airports, and improving road access to the genocide memorial Cheong Ek, located on the outskirts of Phnom Penh

iii) Trade information

- The Ministry of Tourism provides basic information regarding the number of visitors from each country, including future growth forecasts, etc.

iv) Trade promotion

- The ADB project on Sub-Regional Cooperation aims to promote tourism within all GMS countries. This program involves creating a network of tourism marketing and promotion boards by working with National Tourism Offices and the private sector
- Eathwalkers Fund Cambodia (EWF) in cooperation with the worldhotel-link.com network and the Cambodia Hotel Association (CHA) maintain a website to promote Cambodian Hotels including listings of budget, mid-range and top level hotels. (/www.phnompenh-hotels.org)

c) Gap Analysis

38. The gap which emerges between the demand side outlined in Section a) and the supply side outlined in Section b) includes the following.

i) Human resources

- Affordable high quality training for all areas of hotel, hospitality and tourism management for small and medium size hotels and travel agencies in both Phnom Penh and in Siem Reap
- Strategic management and competitiveness training for owners and top management of small and medium size hotels and travel agencies
- Awareness of the importance of IT, especially with regards to –computerized reservations and billings systems

ii) Financial resources

- Availability of financial support and also low interest loans for small and medium sized hotels and travel agencies
- Trade Information
- Specific information related to the needs of present and future customers, customer segmentation, regional and international tourism trends, etc.
- Specific information related to tourism products and services offered by neighboring countries

iii) Trade promotion

- While large hotels and tour agencies are able to participate in promotional tours and regional trade fairs, there is a need for additional resources to enable small and medium sized hotels and travel agencies to participate in these events

d) Recommendations

- A specialized training center for Hotel and Tourism Management needs to be developed in Phnom Penh
- The curricula for undergraduate and graduate degree programs in Hospitality and Tourism Management need to be extensively reviewed and reformed to better meet the needs of the tourism sector; some form of program certification or accreditation also needs to be developed
- More linkages need to be developed among tourism programs offered by universities in the GMS region and also between universities and the private sector (e.g., more shared experience, guest speakers, student internships, etc.)
- Short courses on Strategic Management and Competitiveness needed to be offered to owners and managers of small and medium sized hotels and travel agencies
- Short courses or workshops on Business Ethics and Conflict resolution also need to be offered
- Workshops on marketing research need to be provided to both the public and private sectors to better enable them to understand the needs of customers, global and regional industry trends, etc.
- Subsidies need to be provided in the IT area to help hotels and travel agencies upgrade their computer reservation systems and develop more interactive websites
- More support needs to be provided to help organize the small and medium sized hotels and travel agencies to help give them a stronger voice inside and outside of the country, and to better enable them to participate in regional trade fairs and other promotional events

7. Conclusion & Final Recommendations

39. The need to improve the human resource training capacity of Trade Support Institutions (TSIs), both in terms of the introduction of new programs and also the improvement in quality of existing training programs, is clearly the most important area for further action. Human resource development is critical to improving the overall level of competitiveness in the four sectors analyzed in this report (e.g., Agribusiness, Handicraft, Garments and Tourism). In many ways, weaknesses in the areas of trade information and trade promotion are often related to overall human resource weaknesses, and thus can be solved by new and innovative training programs which seek to strengthen understanding of customer needs, industry and global market trends.

40. Recommendations for further action for the four sectors of Agribusiness, Handicraft, Garments and Tourism are outlined in detail at the end of each section of this report (**Part I, 3, d**); **Part II, 4, d**); **Part III, 5, d**); and **Part IV, 6, d**). For convenience, the most important recommendations are summarized in the following Matrix.

Matrix: Recommended Actions for Strengthening TSIs

	Human Resources	Finance/Other Resources	Trade Information	Trade Promotion
Agribusiness	<ul style="list-style-type: none"> - A specialized training Institute for Agribusiness needs to be established - Training should be better planned and organized to meet the real needs of agribusiness entrepreneurs - The training courses should be properly and well enough advertised so as to convince the agri-business entrepreneur to attend 	<ul style="list-style-type: none"> - Donor countries should develop a special credit fund (with affordable interest rates) to meet the needs of the agribusiness entrepreneurs - Equipment leasing business needs to be established. - The process of credit application and approval should be shortened. 	<ul style="list-style-type: none"> - A trade information consultation office should be established to provide a personalized consultation service to agribusiness entrepreneurs - Website on agribusiness trade information should be created with free access - Magazine and bulletin of agribusiness market information and technical assistance should be established 	<ul style="list-style-type: none"> - An association for each sub agribusiness sector should be established to serve the common interests of its members - Trade fairs and exhibitions should be organized more often to promote agribusiness products for export
Silk	<ul style="list-style-type: none"> - Advanced training in marketing strategy, consulting skills, strategic business planning skills and export management skills 	<ul style="list-style-type: none"> - Funds needed to expand the production capacity in order to capture the market growth 	<ul style="list-style-type: none"> - Developing business opportunity networks/associations - Establish Silk Library - Establish Silk Institute 	<ul style="list-style-type: none"> - Trade information and statistics (product and market information) - Trade fairs, trade missions & Exposure trips - E-potential and e-utilisation
Garments	<ul style="list-style-type: none"> - Skills training for workers to improve productivity levels 	<ul style="list-style-type: none"> - Incentive program - Financial support to train garment industry employees 	<ul style="list-style-type: none"> - Develop an information base on international market data 	<ul style="list-style-type: none"> - Deepen the supply chain to build greater value-added and reduce lead times - Improve the Marketing Environment
Tourism	<ul style="list-style-type: none"> - Project to reform and standardize existing undergraduate curricula in Hospitality and Tourism Mgmt to make it more relevant to the needs of the tourism sector - Regional linkages need to be developed among GMS universities specializing in Hospitality & Tourism Management - Certificate courses on Strategic Management and Competitiveness 	<ul style="list-style-type: none"> - Subsidies need to be provided in the IT area to help hotels and travel agencies upgrade their computer reservation systems and develop more interactive websites 	<ul style="list-style-type: none"> - Workshops on marketing research need to be provided to both the public and private sectors to better enable them to understand the needs of customers, global and regional industry trends, etc. 	<ul style="list-style-type: none"> - More support needs to be provided to help organize the small and medium sized hotels and travel agencies to help give them a stronger voice inside and outside of the country, and to better enable them to participate in regional trade fairs and other promotional events

Trade Support Network: Operationalizing and Expanding the Value-Chain Approach

(Working Paper)

(Project No. CMB/61/87)
Revised June 2006

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Trade Support Network

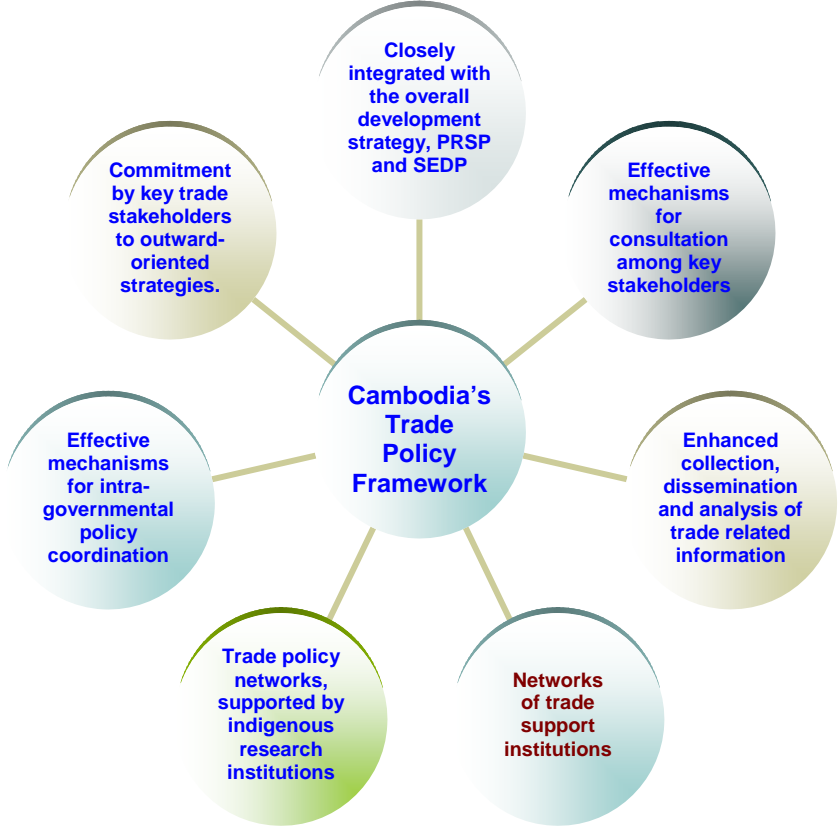


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1. Trade Support Network: Operationalizing and Expanding the Value-Chain Approach

1.1. Introduction

1. The shared view among development economists is that the ability of Cambodia to participate more fully to the global economy typically is constrained by bottlenecks and limitations arising from two main areas: (1) conditions of market access and macro-policy reforms; and (2) supply capacity of domestic firms. Numerous working papers have highlighted extensively the issue of market access.

2. Cambodia's export basket remains extremely narrow (roughly four products and services). There's urgent need to diversify Cambodia's export base by developing new sectors and new products and by diversifying destinations for existing exports. There is a need to increase the value-added content of exports by increasing the domestic multiplier effect of current exports – wherever feasible – or by moving up the value-added ladder through targeting new export products and services characterized by higher value-added content. And, of course, Cambodia must take steps to consolidate its current base of exports. However supportive the macro-environment might be, experience of other developing countries show that much can be and must be done by the government and the business community to focus institutional and human resources on the identification and development of new export products and markets. Private sector development must be a central component of export development.

3. The competitiveness of Cambodian enterprises and products in world market is a function of the cost structure of their production, their productivity, and exchange rates. The cost structure is influenced in part by the cost of infrastructure services (telecom, utilities, industrial estates, etc...) by the cost of trade facilitation services (transportation, freight clearing, forwarding, etc...), and by direct or indirect export taxes. Some of those costs are high in comparison to those of competitor countries. Wages and labor productivity are other elements of competitiveness. Compared to competitor countries, productivity of labor in Cambodia tends to be low as a result of a number of factors including the relatively low skill level of the labor force and the incentive structure for productivity increases. Hence, there is a serious need to develop conditions to promote more rapid productivity growth in the export sector.

4. Developing new export products and markets requires putting in place also a range of trade support services (trade information, trade promotion, trade financing, others) to assist exporting enterprises as well as fostering a range of export skills within those enterprises. The current institutional and human capacity in Cambodia in this broad area is inadequate.

5. Developing new export products and markets also requires a new entrepreneurial capacity that is also weak in Cambodia. Even if domestic savings are mobilized for investment in the trade sector, there is a shortage of “soft” capital – that is the know-how that entrepreneurs need if they are to succeed. How to promote the transfer or development of this know-how into Cambodia must be a concern of government and the business community.

6. For the most part, the micro-and meso-issues raised here have received little attention up to the last few years from Cambodian policy-makers or donors in Cambodia. What was

required was a range of interventions – mostly at the micro- or meso-level – supportive of business sector development for exports.

7. The main objective of this working paper is to analyze – in the backdrop of the most recent report by International Trade Centre (ITC)¹ – the trade promotion and export development capacities of Government, and the trade support institutions in Cambodia, in particular as to their linkage to rural areas so that they can support the expansion and diversification of exports. For this purpose, the working paper will address five (5) main areas of concerns.

- Review the status of existing trade support institutions both at the national and provincial level.
- Review the current trade information capacity at the national level servicing the specific needs of trade support institutions and exporting enterprises and recommend the extension of such information to provincial counterparts.
- Assess through a series of focused checklists the ongoing development of Cambodia’s national export strategy.
- Provide recommendations for the establishment/or strengthening of an operational trade support network at the national level between Government, trade support institutions, product associations and exporting enterprises, led by strengthened trade promotion organizations.
- Provide recommendations on technical assistance to assist in the improvement of knowledge, strengthening of skills and development of capacities of training institutions to provide training in trade promotion and export development to existing, and potential exporting enterprises.

1.2. Methodology

8. In order to assess the status of the country’s trade support network and its trade information services, the consultant undertook a desk review of current information available on, followed by selective site visits of, the key trade related agencies and selected export enterprises in Phnom Penh and in key provinces (Kampong Cham and Kratie). A checklist was used as a best practice tool to determine the needs of the business community and to compare them with the responses (if any).

Checklist 1: Verification – needs of the business community							
Need		Level of need			Level of network response		
		High	Moderate	Low	Full	Partial	Not at all
1.	Market information						
2.	Technology information						
3.	Standards information/certification						
4.	Investment capital						
5.	Operating capital						
6.	Trade finance						
7.	Management training						
8.	Marketing training						
9.	Business ethics						
10.	e-Competency						

¹ STRENGTHENING THE TRADE SUPPORT NETWORK Recommendations on strategy development, ITC, April 2005.

11.	Market familiarization						
12.	Market contacts						
13.	Investor contacts						
14.	Operating cost reduction						
15.	Simplified procedures						
16.	Promotional support						
17.	Border-out advisory support						
18.	Linkage with local traders						
19.	Public sector dialogue						
20.	Closer intra-industry links						
	Others						

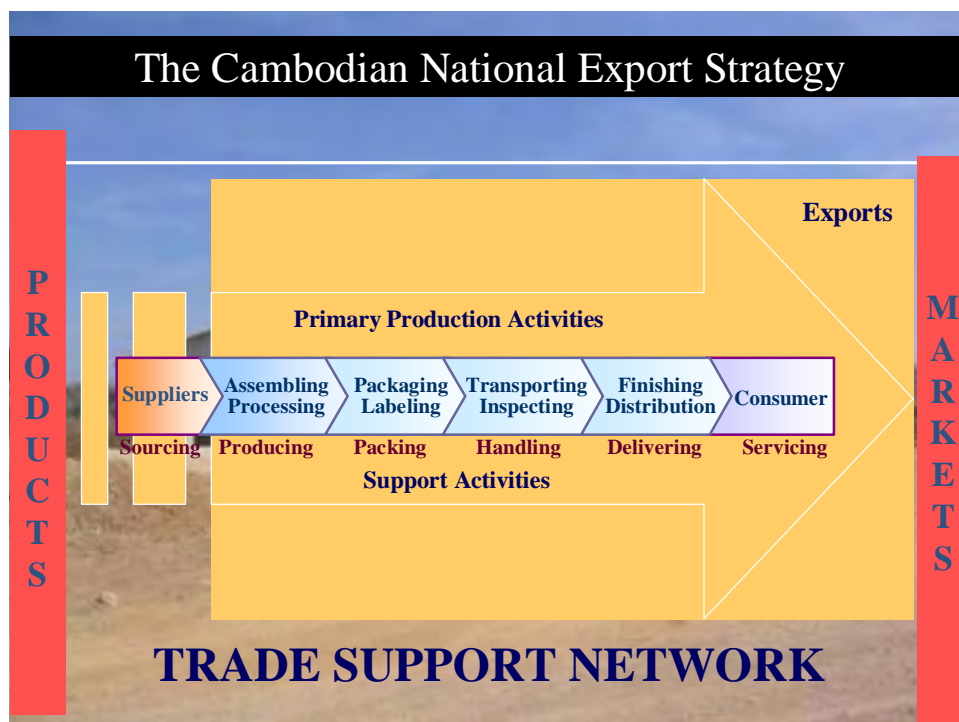
1.3. Role and importance of Trade Support Network

1.3.1. Focusing trade support on competitiveness

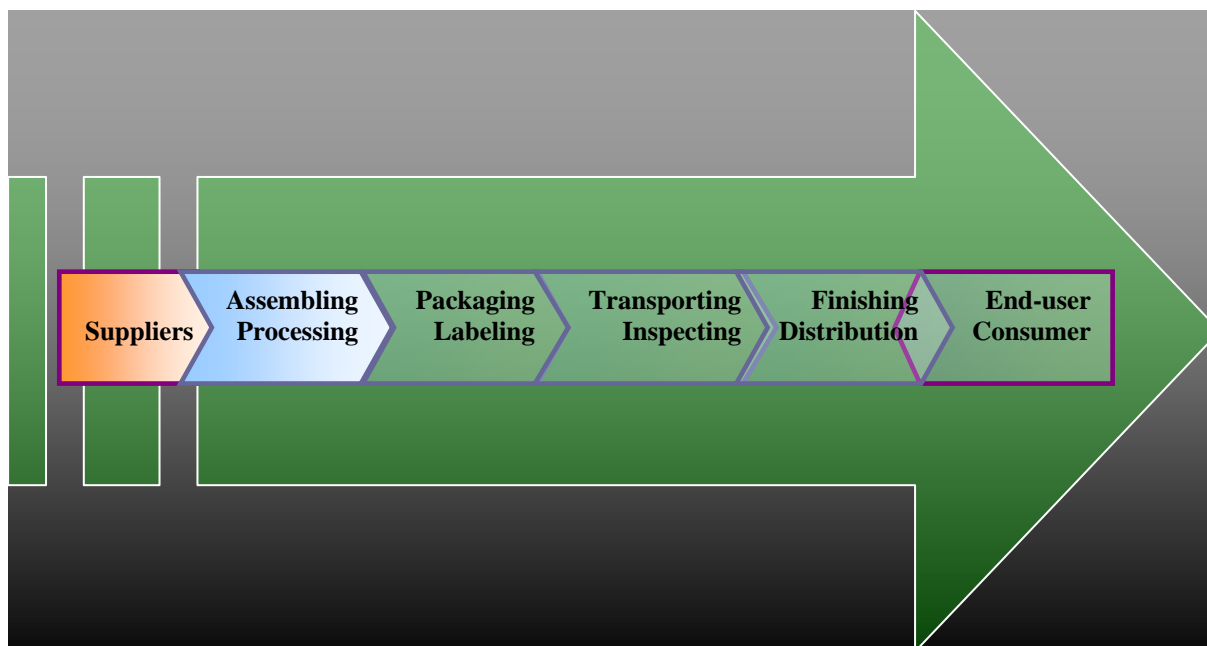
9. Traditionally, support too often unfortunately, focuses more on the “soft” side of trade promotion, namely running trade missions, facilitating participation in exhibitions, undertaking training, publicizing the need for exports, and so on. This is much easier (and less risky) than proactively selecting an SME and turning it into a successful exporter.

10. As Cambodia continues to focus trade support activities on market development, the role of the trade support network, the type of services it delivers, and the way in which its performance is measured will all require a comprehensive rethinking, if the best practice competitive enhancement approach is to be adopted and implemented.

11. The importance of expanding and managing a nationwide trade support network (TSN) is undoubtedly greater and crucial in post-WTO Cambodia. First, while export-led economic development is a priority for the Government, the business community (urban and/or rural) and farmer/producer community is unlikely to have an export culture. Second, the breath of need and demand for export-related support/service is of greatest magnitude in the provincial and rural areas. The TSN must therefore not only be professionally competent, it must be proactive in promoting its services within the business and farmer/producer community.



Primary Production Activities



Trade Support Institutions

• Consulting firms	• Investment promotion agencies
• Packaging design consultant	• Small business development agencies
• Freight forwarders and shippers	• Research and development organizations
• Commercial banks and other financial institutions that offer trade credits and guarantees	• Overseas commercial representatives
• Chambers of commerce	• Enterprises and professional associations (manufacturer, exporter, and product sector associations)
• Training institutions (universities and business schools)	• Sector-specific export councils

1.4. Overall structure of networks of the Cambodian Trade Support Institutions

12. It is recognized that the network of trade support institutions in Cambodia is still in its infancy. A wide range of entities, both from the private and public sector, capable providing trade support services have been brought together, although still at the informal level and generally on an ad hoc basis.

13. The Ministry of Commerce is in the process of assisting the functioning of networks of trade support institutions (TSIs) capable of providing numerous kinds of services to exporters: trade policy information and commercial intelligence; export promotion and marketing, product development, financial services and training. This network is a departure from the traditional approach, in which the Ministry of Commerce has attempted to meet most of the trade support service needs of exporters.

14. Examples of operational trade support institutions exist in Cambodia, like the National Codex Committee to extending services to help enterprises meet with technical standards and packaging requirements of export markets, the formation of Enterprise Development Cambodia (EDC) which set out to support private sector development, the development of the Rice Miller Associations and the Federation of Cambodian Rice Miller Associations sector-specific private business associations have been formed, the formation of farmer producing and marketing associations around tobacco, fragrant rice, banana, soybean, and castor seed production, and in the tourism sector the Tour Guide Association in Siem Reap, the Hotel Owners Association, and the Cambodian Association of Travel Agents.

15. Some of these key institutions, like the SME associations and provincial chambers are relatively new and all of the existing institutions lack the resources to carry out an effective job: they are seriously under-funded and for the most part, their staff lacks the necessary training and experience to deliver trade support services to exporters or potential exporters.

16. Some other business support services are available, but there are still significant gaps in meeting exporter's and potential exporters' needs. Moreover, most existing services are in need of strengthening. These include: i) trade information; ii) market research; iii) trade promotion; iv) marketing advisory services; v) standards and quality; vi) industrial design and packaging; vii) overseas trade representation; and viii) trade finance.

17. As noted in previous working papers, these export supply capacity institutions remains highly concentrated in three main geographical locations – Phnom Penh, Sihanoukville, and Siem Reap. Other locations must be brought into the export nexus, especially rural areas where the needs for job creation, income growth, and poverty reduction are the greatest. To this day, this issue has only been addressed but in the context of the development of EPZs along the Cambodia-Thai border.

18. **Current situation regarding access to trade information in Cambodia:** currently, Cambodia business community has poor access to trade information, both national and international. Most of the information on new potential customers or foreign markets comes from:

- the Internet;
- attending to trade fairs and exhibitions;
- undertaking study tours/awareness raising trips; and
- by benchmarking with companies in neighboring countries in order to learn about successful models.

19. National information in Cambodia is not very consistent or reliable. The gathering and compiling of information such as statistics appears to be a very difficult task, even for an official organization like the National Institute of Statistics (NIS). Information coming from the government is not sufficiently comprehensive or detailed (e.g., by sector). Furthermore, official information is not always accurate, due to the high number of informal transactions, companies that are not registered, and difficulties in tracing trade with bordering countries. Finally, it seems that there is a lack of coordination/cooperation between the different entities responsible for gathering national information.

20. Another issue linked to the access to trade information is the low level of information literacy of the potential customers of information services, especially those in the provinces. It seems that customers who use trade information services, and who ask for information, are customers already familiar with export/international trade. However, these customers remain a minority. Moreover, most of the trade information available is to be found in English and not in Khmer, which means that it is accessible only for a segment of the Cambodian business community.

21. Trade support organizations currently deliver relatively weak services in terms of trade information management and dissemination. This is mainly due to problems such as:

- staff not sufficiently qualified in information science;
- lack of knowledge in terms of commercial trade information resources;
- maintenance/sustainability - need for financial resources; and
- lack capacity to evolve.

This is true for all information services visited during the writing of this paper, and not just those related to the trade support area.

22. One of the main problems encountered in trade information services is that staff are usually not sufficiently qualified in information management and not familiar with the type of services needed, the type of information resources to acquire (printed or electronic) and do not know how to manage the small amount of resources they have at their disposal.

1.5. Summary assessment of Cambodian National Trade Support Organizations²

1.5.1. Government institutions

23. Aside from the Ministry of Commerce, Cambodia has a number of Government implementing agencies, with the mandate covering the areas of need for trade support services; however, agencies' focus is still mainly control and regulatory, rather than facilitating, developing, and actively assisting exporters.

1.5.2. The Ministry of Commerce (MoC)

24. The MoC has the mandate to oversee all matters related to foreign trade and has branches in all provinces, but so far has lacked the necessary resources to ensure that national directives are fully implemented. Traditionally MoC provincial branches have not been involved in the national strategy formulation or in systematic business/public sector consultation. On the contrary they have been able to provide feedback on the identification and removal of problems affecting product and export development.

25. **Export Promotion Department** – the Export Promotion Department (EPD) is a governmental organization responsible for trade management, coordination and implementation of trade and trade related investment promotion activities in Cambodia. EPD was first set up as the Cambodian Export Promotion Agency (CEPA) by the Ministry of Commerce, and was transformed into a formal department of the Ministry in 1997. Currently,

² See Annex 1 for full description of key trade support institutions.

EPD works together with various provincial commercial and trade support institutions as well as international and foreign trade promotion organizations to assist Cambodia and foreign enterprises in their business development and expansion. EPD's success is hampered by the lack of resources and outreach capabilities to effectively deliver the range of trade support services needed by exporters, or potential exporters.

26. **Statistics and Information Department** – the Statistics and Information Department is a new department under the Ministry of Commerce. It was created in 2002, but has only been active since 2004. Currently, the Department is still in its implementation phase. The Statistics and Information Department is planning to develop its own website in order to disseminate the information it collected.

27. **The Domestic Trade Department** – the Department is regularly collecting wholesale prices of Rice No.1 and Rice No.2 together with 51 other commodities in 14 provinces. The information is published as part of a weekly business roundup and provided to relevant institutions.

28. **Foreign trade representatives** – the Ministry of Commerce has a small network of commercial attaches in major key trading capitals, like the Washington, DC, Geneva, Tokyo, Bangkok, Kuala Lumpur, and Singapore. So far the mechanism for linking them to the Cambodian business community is still inadequate.

1.5.3. Chambers of Commerce

29. **Phnom Penh Chamber of Commerce** – established in 1995, the Phnom Penh Chamber of Commerce (PPCC) is responsible for providing support for commercial enterprises; advices to government and local authorities on economic and commercial regulations; and professional training and business education. The PPCC with a membership of 2100 approx., and a staff of 17 should be well placed to provide information and advice to export enterprises in Phnom Penh, but seems to be unable to reach out to smaller enterprises, whether in the Capital or the provincial towns.

30. **Provincial Chambers of Commerce** – recently 3 provincial chambers of commerce (Siemreap, Battambang, and Sihanoukville) have been created by government decrees and the processes of election of their governance structure have just been completed. Other key provinces like Koh Kong, Kampong Cham and Banteay Meanchey are getting organized. The creation of provincial chambers is a response to the demands of provincial businesses who felt that their interests were not well represented by the PPCC.

31. **Others** – there are a number of private sector representative bodies (e.g., GMAC – Garment Manufacturers Association in Cambodia, International Business Club, Federation of Rice Millers Associations), which able to prepare and present the position of their members to government, but these represent mainly big businesses and are fragmented, and there does not appear to be any overall coordinated private sector position on critical trade issues affecting trade.

1.5.4. Other organizations related to trade

32. **SME Cambodia (SME)** – SME Cambodia is the new name of Enterprise Development Cambodia (EDC), which was created as an NGO in 1999. SME Cambodia is

involved in several activities including the provision of business development services to the following sectors; rice milling, brick and tile manufacturing, agri-business and rural electricity generation. In addition, SME Cambodia is involved in the “Community Information Centers” project and as such, hosts Information Centers in the following five provinces: Battambang, Kandal, Prey Veng, Kampong Chhnang, and Pursat.

33. **Economic Institute of Cambodia (EIC)** – The Economic Institute of Cambodia (EIC) is a non-governmental organization, established in 2003. EIC’s mission is to enhance the awareness of Cambodian stakeholders on development issues and to participate in the formulation of sustainable economic development policies and strategies that benefit Cambodia. EIC conducted policy research on the key issues facing Cambodia in the globalization environment, especially regarding the Cambodia’s accession to WTO.

34. **The Asia Foundation (TAF)** – The Asia Foundation supports Cambodian NGOs (about 35 local NGOs are financed through the foundation with USAID money) to promote local governance, human rights, the status of women, and economic reform. TAF runs its own economic programs, mainly focusing on two areas: (i) WTO accession the Foundation assesses the impact of accession on the private sector and gathers feedback on the reform policy process; (ii) Business associations the Foundation finances multi sectorial business associations and pursues activities such as association building in the provinces, bringing the SMEs together, facilitating the creation of associations, providing tools for policy advocacy, and creating a relationship between the private sector and the public sector by organizing forums and exposure tours.

35. **International Institute of Cambodia (IIC)** – The IIC was established in 1999. The Institute has 22 employees and 27 lecturers. It accepts 300 degree students and 100 short-term students on a yearly basis. Courses are for the most part given in the Khmer language. The main goals of IIC are: (i) to provide high quality education and professional training; (ii) to undertake scholarly research in business-related disciplines necessary to build an internationally competitive business community; (iii) to provide business skills to students and to promote the practical use of advanced technology in business and economics.

36. **The National Institute of Statistics (NIS)** – Cambodia has a decentralized statistical structure. There are statistical bureaus and sections within planning and statistics departments of the various Ministries and in the planning and statistical units in the provinces and districts. NIS compiles and consolidates statistics provided by decentralized offices and collects primary data through household and establishment surveys as well as population censuses.

37. **Cambodia Development Resource Institute (CDRI)** – The Cambodia Development Resource Institute was established in 1990 as an independent Cambodian institute working to support capacity development within selected government and civil society institutions. In all its activities, the CDRI emphasizes the importance of building on existing experience as well as working in partnership with local institutions in planning and implementing activities to ensure that they respond to real needs. In recent years, CDRI has begun focusing their research on trade related aspects.

38. **Hun Sen Library (HSL)** – The Hun Sen Library was established in 1997. It has a floor area of 1,800 square meters, seating for 200 people and a staff of 21 serving in various capacities within the library. The Hun Sen Library’s main objective is to provide a service

that meets the research needs of the students and faculty members of the Royal University of Phnom Penh and to serve the broader community in accessing information. The library holds 45,000 books in English, in Khmer, in French, and the remainder in Japanese, Vietnamese, Chinese, and Thai. The library also subscribes to 270 serials titles.

1.5.5. Other mechanisms in support of trade

39. Cambodia has developed a good culture of public/business sector consultation, e.g., twice-yearly public/private sector business forum, chaired by the Prime Minister. Seven representative business and public sector national working groups focused on key development sectors and three Steering Committees, focused on trade facilitation, investment and SME development, have been established. Results, in terms of reform agenda and implementation, to date have been visible but the dialogue has been held so far at the national level.

1.6. Summary assessment of Cambodian Provincial Trade Support Organizations

1.6.1. Administrative structure

40. Since French colonial rule, artificially created “Khum” (or Commune) has been functioning as the most basic unit for regional administration. But this actually consists of several Khums (or Villages) that are headed by Village Chiefs. And it is a Khum that a Cambodian always maintains a traditional sense of belonging to. The chief of a Khum or Commune Chief is supposed to be elected (but is in many cases done so through de facto appointment by the Government) while a Village chief who assists the Commune Chief at Khum level is appointed by the Commune Chief. The first ever national election for Commune Chiefs was held successfully in 2003.

41. Through the SEILA project, the Ministry of Rural Development (MRD) has been organizing nationwide Local Development Committees at each province, commune, and village, to promote people’s participation in the rural development process. Some Local Development Committees have already demonstrated that they have the potential to be a driving force in decentralized rural development and to transform local decision making structure completely, provided that some funds are available for them and that Local Development Committees are managed democratically.

1.6.2. Farmer organizations

42. Many international organizations, both official and non governmental, have been trying to promote farmer organizations (FOs) as vehicles to implement their humanitarian/development projects at grass roots level, in areas such as micro-credit, income generation, food security, agriculture, irrigation, forestry, etc. It is estimated that around 3,000 to 4,000 FOs are in existence nationwide. According to a Ministry of Agriculture, Forestry, and Fisheries report, the most popular FOs activities are: rice banking (engaged by 20% of FOs) followed by credit (16%), irrigation (16%), crop cultivation (15%), animal husbandry (14%), forest protection (5%), animal bank (4%), and rice seed production (2%). Others include fertilizer procurement, fish farming, integrated farming systems, planting materials and rice milling. Credit is mainly for food production, small trade or other small business.

48. **Cambodia – Vietnam:**³ there is no cross border movement of vehicles due to administrative fiat. The policy makes the movement of goods through the Bavet/Moc Bai border crossing particularly onerous as a truck must be unloaded from one side of the border, manhandled across about 200 meters between the two border posts, and reloaded. This raises the issues of costs and insurance when the goods are in the no-man’s land.

49. **Thailand:**⁴ imposes restrictions on the movement of vehicles from Cambodia. Under licensed conditions, Thai trucks are allowed into Cambodia. Cambodia and Thailand have a 60-vehicle dual registration agreement.

50. **Mode of Transport:** most agriculture products are transported by road. Regular use of water transport is limited to some areas in the southern provinces, such as paddy transport to the rice mills in Neak Loeung and Prey Veng province to Vietnam through the Bassac River, and rice transport to Kratie from Kampong Cham town. Now it is estimated that about 80% of rice are transported by heavy trucks through NR5.

51. For road transportation, various means are used depending on the distance and road conditions. Paddy transport in rural areas is most often by oxcart for short distances and for the roughest roads within villages/communes (e.g., field to the farmers’ houses to rice mill/collectors’ house). In Battambang province, the use of tractors and locally made trucks for paddy transportation is significant. For medium distances within districts (villages to local town/rice mills), tractors and trucks are used. For long distances (inter-district/inter-provincial transport mostly for rice), heavy trucks over 10 tons are used. 40-ton heavy trucks with trailers are widely used for rice transport from Battambang to Phnom Penh. Transport of agriculture products in town areas by traders is most often by small truck and motorcycle. Most of paddy/rice traders including rice millers do not have their own transport. Both large and small-scale traders hire transportation. Transport barges with 200 – 300 ton capacity are available on demand between Siem Reap and Phnom Penh except during the dry season.

52. The volume of transportation on RN4 which runs from Phnom Penh to Sihanoukville has the highest share followed by RN5. Major goods transported are construction materials such as garment, cement, steel bars, agro-products, petrol and timber. Recently the Government has privatized the maintenance and widening works of RN4. Passenger car and heavy truck are paying around US\$1.40 to US\$ 6 one way, respectively at tollgates.

53. **Transport Costs:** transport rates for the major destinations are consistent and well known to the users. Rates for short distance truck transport from surrounding areas to town market/rice mill is commonly around 10,000 Riel/ton. Rates for medium and long distances transport vary depending on the cases. High rates of over 300 Riel/ton/km are applied to poor condition roads. In contrast, cheapest rate is 55 Riel/ton/km on NR4. Rates for the major transport route, Battambang – Phnom Penh – Sihanouk Ville, is relatively cheaper than that of other routes.

³ For more detail see “Trade Flow Analysis of Intra-Regional Trade between Cambodia, Laos, and Vietnam and Inter-Regional Trade between Cambodia, CAEMC, WAEMU, and IOC sub-regional groupings (Working Paper).” By C. DAO, ITC project no. INT/W2/09. South-South Trade Promotion Programme, 7/2005.

⁴ *Ibid.*

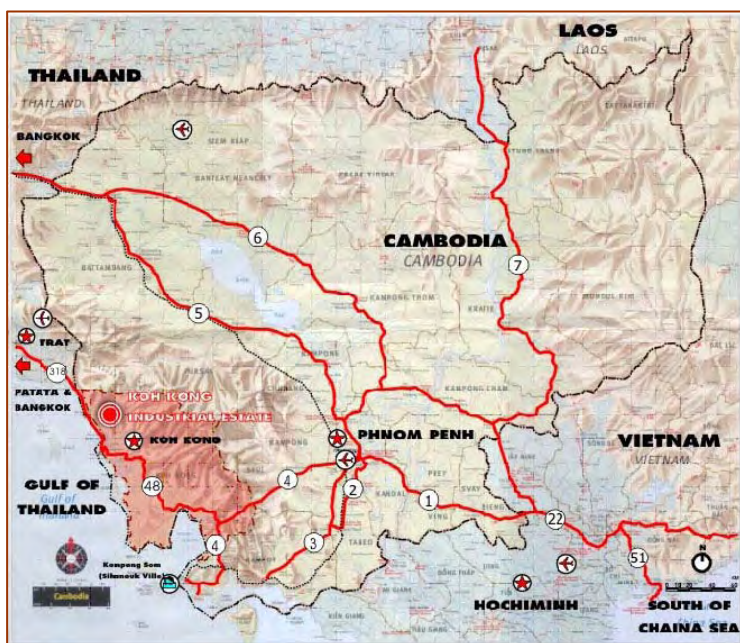
54. It is currently reported that there are no illegal fee collection points along the trunk lines of national roads except at town/city areas, border gates and port areas. It is mainly the police, military police, and the army who operate illegal fee collections. This fee collection has become an accepted fact of life and a predictable cost that is routinely included in the calculation of transport costs.

55. **Problems of transportation and traffic:** inland transportation of goods faces many limitations due to the poor condition of roads and bridges. The following are the main problems.

- Many portions which are heavily damaged and with potholes.
- Vehicles speeds are reduced and make road transport ineffective during the rainy season.
- More losses resulting from damaged commodities (quantity and quality).
- Higher traffic accidents.
- Ignorance of traffic rules resulting in traffic jams and blockages.
- Overload truck and non-licensed vehicles cause heavier road damages and result in higher transportation fees.



1.7.1. Transport infrastructure



56. Cambodia is serviced by a few major highways two of which have been designated as part of the Asian Highway Network (AH).

57. **AH-1:** The highway runs from Poipet on the border with Thailand to Bavet on the border with Vietnam, a total of 574 km. The plan is to link Bangkok to Vung Tau through Ho Chi Minh City. Local names are RN1 and RN5. The Asian Development Bank has committed US\$40 million for the 170 km section west from Phnom Penh to Bavet on the border with Vietnam.

Construction of two lanes is mostly completed and a four lanes highway is due to be completed by 2007.

58. Ferries operated by the Ministry of Public Works and Transport provide river crossings where the national roads terminate. The major one at Neak Luong cross the Mekong River provides the main crossing for the road between Phnom Penh and Ho Chi

Minh City. The ferries carry around 2 million passengers and about 500,000 vehicles annually. There are smaller ferries servicing other crossings.

59. **AH-11:** The highway runs from Veun Kham on the border with Lao PDR to Kratie to Kampong Cham to Phnom Penh to Sihanoukville, with a total of 761 km. A bridge was constructed over the Mekong River at Kampong Cham on RN6 as part of the planned sub-regional road RN 6 linking southern Lao PDR with Sihanoukville.

60. The two routes have a combined length of 1,303 km. Several sections are in poor condition due to damage caused during the civil war and over-loading of trucks carrying heavy timber logs. Many sections are prone to flooding during the rainy season due to poor drainage facilities that, in turn, reflect increases difficulty in agricultural development and urbanization.

61. The reconstruction of the Chroy Chanvar Bridge over the Tonle Sap River at Phnom Penh and the rehabilitation of 227 km along RN 4 from Phnom Penh to Sihanoukville have had major impacts on provincial development and domestic trade.

1.7.2. Railways

62. The railway system in Cambodia has a total length of 648 km which consists of the Northern line (385 km) and the Southern line (263 km), both originating in Phnom Penh. The Northern line has a longer history and runs to the Thai border. The Southern line leads to Sihanoukville and the international seaport. This line provides important freight services between the capital and its port town, especially for containers and bulk cargo. Both of them are single-tracked-railroads and operated by diesel locomotives. Railroad structures such as embankments and bridges have been damaged by civil war and years of neglected. They are aged and in poor condition due to lack of maintenance. Restoration programs are planned and are seeking supporting budgets.

63. Problems related to railway are longer transportation time and unpunctual time schedules resulting from poor maintenance of old railway facilities, railway lines, bridges, wagons, locomotives, which lower train speeds. Trains are operated only twice a day for both lines and the number of wagons and coaches are few. Moreover, as private companies own 70% of coaches, fees for goods transport are quite high.

1.7.3. Waterways and Ports

64. Strictly speaking, Cambodia has two (2) ports. The Phnom Penh port and Sihanoukville seaport.

65. **Port of Phnom Penh:** the Port of Phnom Penh is located around 330km upstream from the mouth of the Mekong River, the port can handle vessels up to 6,000 DWT at high water but only 2,500 GRT at low water. It handles bulk and general cargo at seven berths.

66. Sihanoukville Port: currently Sihanoukville port has a total quay length of 930 meters, with 580 meters with a draft of 8.5 meters catering to general cargo vessels of 10,000 DWT and 350 meters with a 10 meters draft providing container berthing for three vessels. The 230km to Phnom Penh is serviced by road and rail. Nearly 70% of all Cambodian imports enter through Sihanoukville. In response to a major shift from general to containerized traffic

a dry port has been established west of Phnom Penh adjacent to national highway NR4 and the railway.

67. The Port Authority of Sihanoukville (PAS) with assistance from the Japan International Cooperation Agency (JICA) has developed a long-term port expansion plan to handle the predicted rapid increase in cargo throughput, especially containerized cargo.

68. Priority development projects include a 240 m container berth and a free trade zone. The container berth, together with a 60,000 m² terminal, a dredging vessel basin and handling equipment is targeted for completion within the short-term period of the Cooperation Plan, 2004. The free trade zone, to be located within the port development area, is planned in two phases, the first of 50 hectares and the second of 41 hectares.

69. Modest port facilities also exist at Koh Kong, but this facility located in the Prek Kaoh Pao river estuary hardly merits classification as a seaport, although it is believed to provide limited berthing for domestic coastal traffic. In recent years smaller regional ports have been commissioned, i.e., the Mong Rithy seaport and Kampot port, most catering to smaller boats from neighboring countries.

The Mekong River

The apparent attraction of the Mekong within Cambodia as a transport medium is handicapped by.

- The current that is both very strong and variable across the River's width placing high reliance on local knowledge.
- Maximum velocity of flow 1.85 m/s.
- Minimum velocity of flow 0.15 m/s.
- The river is subject to considerable seasonal depth variation. Permissible vessel draft varies between 4.2 m (January to May) to 5.2 m (September to November). The extent of the variability is increasing as greater clearing (increasing the height due to flooding in the wet season) and irrigation (reducing the depth in the dry season).
- The river carries a great deal of flotsam.
- Rapids on the border with Lao PDR prevent through traffic.
- There are few navigational aids, especially lights at night.

"...the 4,200 km long might Mekong River" Mya and Abonyi (2001). See Osborne (2000), especially the Epilogue, for a history of attempts to use the Mekong for trading.

70. The Mekong and Bassak rivers as well as the Tonle Sap Lake are located at the center of Cambodia, and their tributaries have been used for inland transportation for many years. Downstream of the Mekong and Bassak Rivers is the border to Vietnam, where boats at large and small river ports/piers have transported many goods. Vietnamese boats are found at some ports/piers near the border. Vietnamese small boats with a capacity of 10 to 30 tons transport rice and agriculture products from small river ports to Vietnam. Checkpoints for boat transportation are established similar to land transport.

71. Regulations and monitoring of waterways and ports used by small vessels and ships over the years have not been conducted regularly. Illegal vessels and ships passed through despite checkpoints. Although the Cambodian government has set regulations to regulate the licensing and registration of vessels, illegal vessels and ships belonging to domestic and foreign owners continue to operate.

1.7.4. Air transport

72. The major airport is Phnom Penh International Airport. It is serviced by a number of international carriers. There is growing international traffic at Siem Reap the airport which services the tourism sector centered on the Angkor Wat complex.

73. There is a small bond warehouse arrangement near Phnom Penh International Airport with freezing and cooling facilities. Fruits, vegetables, and meat are handled through this facility.

1.7.5. Freight logistics for agriculture products

74. Agriculture in Cambodia presents two sets of problems. First, of agriculture produce – that is, produce that come from the floricultural, horticultural, pastoral, aquatic-cultural and agricultural sub-sectors – is not inert. The issue becomes even more complex when it is appreciated that in some sectors the items that can be consumed from the one plant can be one, few, or all of the fruit, flower, leaf, seed, stem, and root.

75. Agricultural products deteriorate at different speeds. The high point of the product's life is the very moment just before it is picked/harvested/caught/or killed. After that point, the product starts to deteriorate. The exceptions are live animals, and live aquatic and marine products such as fish, shell-fish, and coral-fish. From when it is picked or harvested to the time when it is purchased by the ultimate consumer, nothing can be done to stop the inevitable process of deterioration. The best that can be done is to arrest or slow the rate of spoilage and thus extend the product's shelf life.

76. Some of the most common techniques use to extend shelf life are:

- shortening the time from the point of harvest to the point or near-final consumption;
- using appropriate packaging material to transport the product;
- establish/maintenance of the cool chain, cooling has proved to be the most effective method of addressing the ripening process that leads to, eventually, deterioration, it is vital to note that not all products have the same cool/cold chain requirements, many products suffer what is called “freezer burn” or damage at too low temperature yet for other products that same temperature could be too warm to effectively protect them; and
- management of the handling system that combines the above three points.

77. While the four techniques are inter-related, integrity of the cool chain is probably the most important singularity element in extending a product's shelf life.

78. The second set of problems faced by agriculture in Cambodia relate to being in the tropics. In tropical climates the rate of deterioration of agricultural products is magnified by the twin issues of heat and humidity. These abet the development of harmful pests and diseases to a far greater extent compared with temperate climates. The two sets of problems mean that the freight logistics for handling agricultural products must be more technically advanced compared with the system for handling inert products such as textiles, minerals, and even electronics.

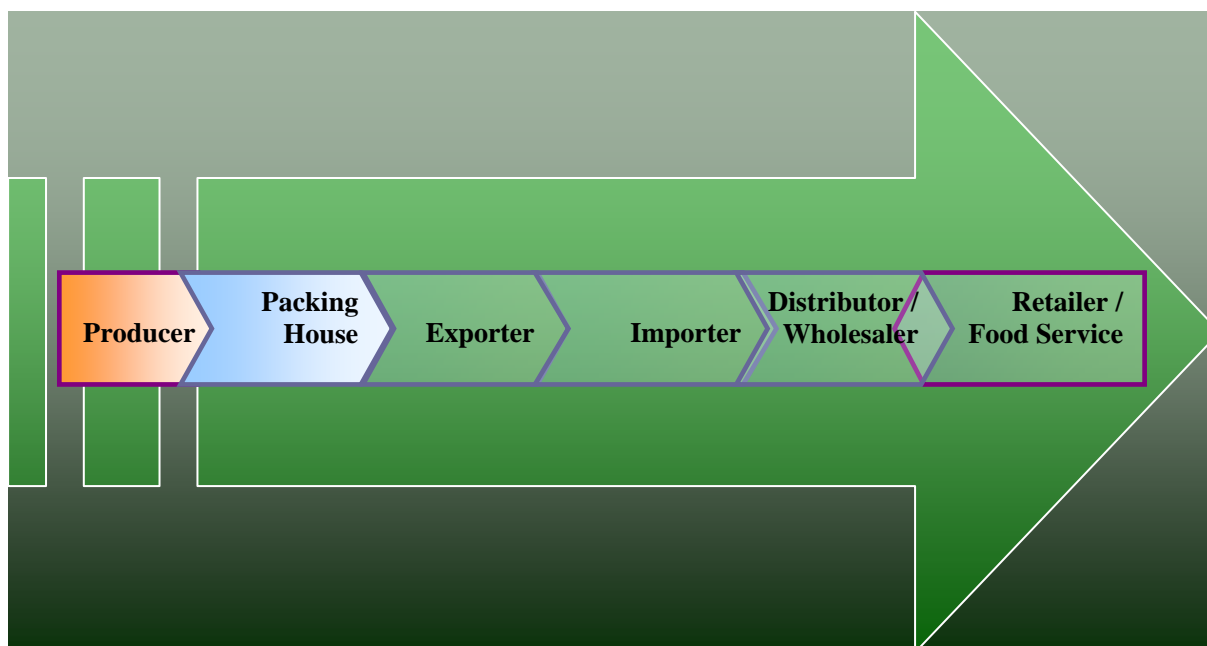
79. Henson and Loader (2000) and Henson et al. (2000) argue that sanitary and phytosanitary measures (SPS) are considered the most important impediment to agricultural

and food exports to the EU. Observations suggest that the same argument must be considered for the world's other two major agricultural and food markets of the United States and Japan. Both papers argue that there is basic incompatibility with the production and/or marketing techniques of the developing world and the SPS requirements. While there have been efforts within the WTO to overcome the trade distorting effects of SPS measures, the authors argue that many underdeveloped countries lack the appropriate scientific and technical infrastructure needed to ensure compliance with the new increasingly stringent requirements.

80. Many importers of agricultural products are adopting supply chain management procedures as a means of addressing problems they have encountered in the moving of products from the point of production to the point of penultimate consumption. It is no longer acceptable for exporters to just ensure that the quality of the product exported is of an appropriate standard. Instead, exporters now have to ensure that what arrives at designated buyer's site is of acceptable quality. This means that the exporter is responsible for freight logistics well beyond one own country.

81. Supply chain management is forcing home to the producer that even though the producer traditionally loses control of the product the moment it leaves the farm, if for whatever reason the product arrives at the final buyer in a poor condition, it is invariably the fault of the seller.

Chain of Responsibility with Agriculture Products

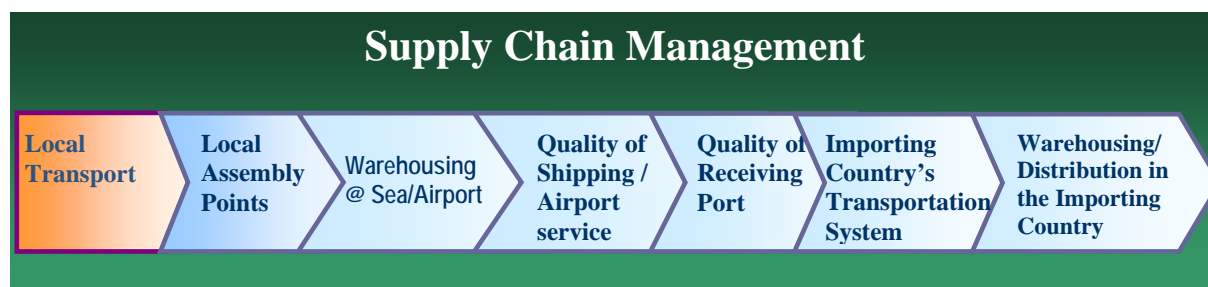


82. With agricultural products, the chain of responsibility is stylized as shown in the chart above. At each point along that chain degradation of quality can occur to the product. Most of damage in agricultural/horticultural products results from (a) poor handling and processing and (b) breakdown in and/or lack of the cool chain.

83. Supply chain management is about the management of risk along that chain. From a buyer's point of view, minimization of risk is ensured by securing the product as far down the chain as possible, ideally directly from the seller. To do so, the buyer will offer the lowest price as the buyer is absorbing all the risk and paying for the services that are needed to

address that risk. From the seller's perspective, the way to ensure the highest price is to absorb those same risks and associated off-setting expenditures and market the product as far up the chain as possible.

84. In practical terms, supply chain management is about the seller providing the buyer with one less headache. That is, if the seller can ensure supply chain management, buyers appear to be responding by giving them the business. To do this, sellers have to become aware of all steps along the supply chain where weakness/problem can occur.



85. Supply chain management is also about building partnerships and alliances with the joint objective of reducing the CIF price, improving availability, and raising quality. By stressing the CIF price, the intent is not to cut the price that the producer receives rather to improve margin.

86. As a general rule time-sensitive shipments favor road and air transport whereas cost sensitive shipments tend to favor rail and water. For the time being, the bulk of agricultural commodities being traded in Cambodia are of essentially low value, for example, rice and root vegetables. Thus, freight movement tends to concentrate on low costs means. As consumer buying power rises, the demand will expand to higher valued agricultural commodities such as fruit, leafy/green summer vegetables, and fresh seafood. These are time sensitive. Thus transport modes will move towards road and air. This will be particularly true for exports.

1.8. Major Findings from Provincial Surveys

1.8.1. General Constraints

87. Generally, rural enterprises, asked individually, are not aware of their needs in trade information and similarly they do not know what is available on the market in terms of trade information resources and trade research tools. Conversely, larger enterprises and associations were more easily able to identify the problems that hampered their business in general, these included:

- low level of technology know-how/no access to high technology;
- lack of financial resources and production costs;
- logistical issues (e.g., transport infrastructure, utilities, etc.);
- lack of knowledge in marketing, advertising and instability of the market;
- lack of competitiveness, aversion to risk taking, low level of education, and lack confidence that they have the capacity to compete with imported products;
- no/poor access to international markets and trade barriers;
- lack of reliability in terms of production quality levels/quality issues;

- lack of knowledge of customers' needs;
- informal fees and high taxation; and
- lack of supporting services and industries.

88. More specifically they complained about the lack of finance. When finance is available, banks require 100% security and at relatively high interest rates, thus excluding most SMEs which rely on wholesalers and other informal sources for credit.

89. Illegal fees increase marketing costs in addition to the difficulties in transportation due to poor road conditions. Illegal fees are routinely collected at various places/phases along the agriculture marketing chain.

90. Few SMEs (less than 1-2% estimated) are active in formal exports and in general terms, have a difficult time surviving, owing to the high cost and complexity of doing business in Cambodia. Even at the domestic level, they rely heavily on wholesalers and have little contact, if any, with the final buyers/consumers. Cross-border smuggling of exports and imports is widespread and there are estimated to be significant unrecorded exports of unprocessed agriculture and fisheries products to Vietnam and Thailand.

91. Although there is a growing awareness of the importance of export marketing, among medium-sized and larger enterprises, knowledge of the process is still rudimentary, focused on overcoming the immediate hurdles of obtaining export permits/licenses, transportation problems and less on the whole process of developing an export market, meeting foreign market entry requirements, and positioning one's product in the best niche.

1.8.2. Network of micro and small traders

92. Cambodia possesses a well developed network of micro and small traders in field crops – notably soybean, mung bean, and sesame seed. Typically, farmers sell at distress prices at harvest time in order to generate cash to repay high-cost loans. Collectors on motorcycles buy at the farm gate, and resell to dealers in the district towns, who on-sell to buyers in Vietnam in bulk quantity – by truckloads (15 tons truck). These transactions are based on standing arrangements, with individual orders confirmed via mobile telephone. Contracts are in Bath, VN Dong or USD. Dealers normally do little or no processing of the commodities besides a cursory final drying in the sun or mechanical trash removal in irregular cases. They almost never hold stock for more than a few days. Some smaller players will hold a few tons for the local market and as a speculation on seasonal price fluctuation.

1.8.3. Market information – prices

93. Market Information Service (MIS), i.e., prices⁵ of a limited number of commodities is gathered across the country and is now provided by Ministry of Agriculture, Forestry, and Fisheries (MAFF), Department of Planning, Statistics, and International Relations. Prices are broadcasted several times each week through radio in Phnom Penh and Battambang.

⁵ Prices perform three functions in organizing economic activity: first, they transmit information; second they provide an incentive to adopt those methods of production that are least costly and thereby use available resources for the most highly valued purposes; third, they determine who gets how much of the product – the distribution of income. These three functions are closely interrelated. Free to Choose: A Personal Statement; the Role of Prices, Milton and Rose D. Friedman © (1979), reprinted (1989).

94. The MIS, which is currently receiving assistance from the Food and Agriculture Organization (FAO), tracks prices as well as supply and demand conditions. It claimed to have fulfilled an important and necessary function that has been used to good advantage by producers, traders, consumers, and relevant government institutions. Upon the recent field surveys a high proportion of farmers reported to have listening to the market prices although there appears to be no evidence that they actually benefit from the service in terms of obtaining higher returns for their product.

1.8.4. Lack of post production capacity

95. It is clear therefore merely providing market price information alone does induce farmer/grower to enter and/or access the markets at the prevailing prices – farmers also require forward linkages (as seen in Malai’s district grain silo development) to markets and marketers and backward linkages to inputs. Other related constraints not addressed merely by provision of market price information continue to hold farm-gate prices low so there is little if any benefit to farmers from knowledge of market prices and supplies. Chronic shortage of post production processing capacity severely restricts the ability of farmers to hold produce after harvest – they are forced to sell in a buyers market – when the market is often glutted. The limited number of agro-enterprises able to link smallholders to rapidly growing markets and in general the low development of existing agro-enterprises appears to be the most serious constraints to make market information seems so valuable to farmers.

1.8.5. Access to finance: bank credit

96. There are many local banks offering various loan products in either US dollar or Cambodian riel denomination to customers. While some only have branches in provinces, others have branches in provinces and local districts as well. Each sets its own loan and interest rate limits. Major bank with branches in provinces: National Bank; Canadia Bank; Aceda Bank (branches/network in rural areas); Credit Rural Bank (branches/network in rural areas); Enterprise Construction Bank; Rural Construction Bank; and Village Bank.

97. Among the 7 major banks mentioned above, Canadia and Aceda Banks are the most active banks offering loans with interest rates ranging from 1.5% to 2% per month and the loan period is usually up to 6 months. In rural areas, many farmers prefer to use the Aceda Bank over the other banks. Informal lending interest rate is generally about 3% per month, which is much higher than that offering from the banks, but the borrowing process is much simpler and quicker to complete.

98. Bankers and lenders have acknowledged recent positive developments in the agriculture sector; in particular they noticed a remarkable development and improvement in the agriculture sector in corn, soybean, mung bean, and cassava crops in three districts along the Thai border in the Pailin area.

99. High risk is a deterrent for banks to invest in the private sector. Businesses are restricted by the high cost of borrowing due to the lack of transparency and accountability management systems. The inability of firms to access finance, regardless of reason, is

Despite improvements however “...high element of risk remains in the investment environment in Cambodia, i.e. exchange rates pegged to exchange rate of the Baht and USD.”

Battambang, Banking & Finance Sector.

limiting the opportunities for the agro business sector to invest in new technology, expand, and develop businesses that will improve its risk profiles to attract bankers and lenders to invest in Cambodian businesses. There are myriad reasons for the difficulty to access financing. These include the risk profile of Cambodian business, the lack of commercial banking infrastructure, management capability and technical expertise whether for banker or business owner. Regardless of the reasons, access to finance is a major issue which is restricting the development of the agro sector.

1.9. Sampling of Trade Support Network in Kampong Cham and Kratie

100. **Credits for Farmers:** most of the farmers interviewed mentioned that they have utilized credit, albeit, in small denomination – usually in the order of US\$300 to US\$1,000 – from nearby local traders to commence the soybean planting, while a small number of farmers have borrowed from bank. This working capital is used for tilling the soil, purchasing seeds, paying the cost of labor and maintenance, etc. Interest rate is generally about 3% per month, which is much higher than that offering from the banks, but the borrowing process is much simpler and quicker to complete. However, if the farmers need to borrow a larger amount, then they would still need to go to the bank to borrow.

101. In general, farmers don't have a need to borrow large amount of money; therefore they would prefer to borrow money from the local traders. The main attraction is the simplicity of the borrowing procedures even though the interest rate charged by these middlemen is 3% per month, which is higher than the bank's. Furthermore, these middlemen don't usually request any collateral from the farmers, since they know each other well, as the banks do not. Only a few farmers would obtain their loans directly from the bank.

102. **Credits for Middlemen/Traders:** many traders would trade their unprocessed soybean stocks at the Vietnamese markets as soon as they have purchased these stocks from the farmers so that they could reuse the same capital to purchase more stocks. On the other hand, some wealthy traders would store their stocks for higher prices or profit margins when harvesting season tapering off since they don't need to reuse their working capital immediately.

103. It should be pointed out that all local traders have borrowed money from their local banks (mainly from the well known Aceda Bank) to supplement their own fund. The bank's variable interest rate is usually 1.7% to 2% per month. The loan period is usually up to 6 months since within this period the local traders would be able to sell their soybean/commodities stocks to repay the principal/interest. Most of the loans during this survey (nearly 100% and in US Dollar denomination), which are usually short-term maturity are from the Aceda Bank.

104. **Transportation and Logistic Networks:** currently, apart from the transportation companies serving the rubber industry, there are no other organized carriers providing logistics support in Kampong Cham and Kratie provinces. Most of these local traders are owners/drivers and therefore they are self-sufficient (not always efficient) in transporting all soybeans to various markets themselves. Should they need to transport more commodities than they could deliver themselves, they would normally hire trucks from other people in their local community. On the other hand, if they wish to purchase used pickup truck or medium-sized truck – almost all Korean made – instead of borrowing from their neighbors they can always obtain credit from the rural banks.

105. The stocks are usually distributed to either other middlemen or retailers in Phnom Penh and/or sold at the Vietnamese/Thai markets near the Cambodia – Vietnam/Thailand borders. It should be noted that transportation/distribution is conducted on mezzanine level and is normally via land route requiring small- to med-sized trucks. Large trucks, capable of delivering large containers, are not usually used since all shipments do not require the use of the Sihanoukville seaport. It should also be pointed out that even though the rural road infrastructure network for land-transportation is not in good conditions, it's still adequate for the present transportation of commodities from one location to the next. But it's very costly and inefficient.

106. **Marketing's and Price's Network:** Kampong Cham ranks first in terms of stocking for all kind of locally grown agricultural commodities in Cambodia. Most of these commodities are sold to the Vietnamese markets via Smach exit in Kampong Cham province or Neak Leung market in Prey Veng province. The rests are sold to various markets such as.

- Thai border, namely in Banteay Meanchey, Battambang or Pailin.
- Cashew nut processing companies in Prey Chor district, Kampong Cham.
- Maize processing companies/grain silos in Prek Ta Ten in Kandal.
- Animal feed processing company (CP) in Kampong Speu.
- Pig and poultry farms.
- Soymilk (Hagar), soy sauce, and tofu processing companies.

107. All locally grown produces are not exported elsewhere besides Thailand and Vietnam. This could be due to various constraints and impediments preventing the exportation of Cambodian products to other countries. Some of these constraints include.

- Quality/availability of the locally grown commodities.
- Exporting procedures (customs, Camcontrol, police-economics, port authority).
- Cost of transportation.
- TBT, SPS, and other certifications.

108. **Market Price's Network:** due to lack of official information for current prices provided by the market. Local traders set the market prices based on the Vietnamese market price quotations of all commodities. On the other hands, farmers base their selling prices on either the previous year prices, past experiences, or through their own affiliated network.

2. Recommendations to Formalizing the National Trade Support Network

2.1. Re-engineer a new coordinating structure

109. The trade support network exists, but is not representative; it needs to be strengthened, particularly to incorporate and advocate the interests of the SMEs and enterprises outside of Phnom Penh.

110. The priority should be the strengthening of sector associations, particularly in the provinces, where most SMEs are located. It is important that these associations be treated with sensitivity, given their lack of exposure to sophisticated marketing concepts and foreign markets. They can be encouraged to start the process of developing sector strategies and ultimately play a role in helping to prepare a national trade strategy.

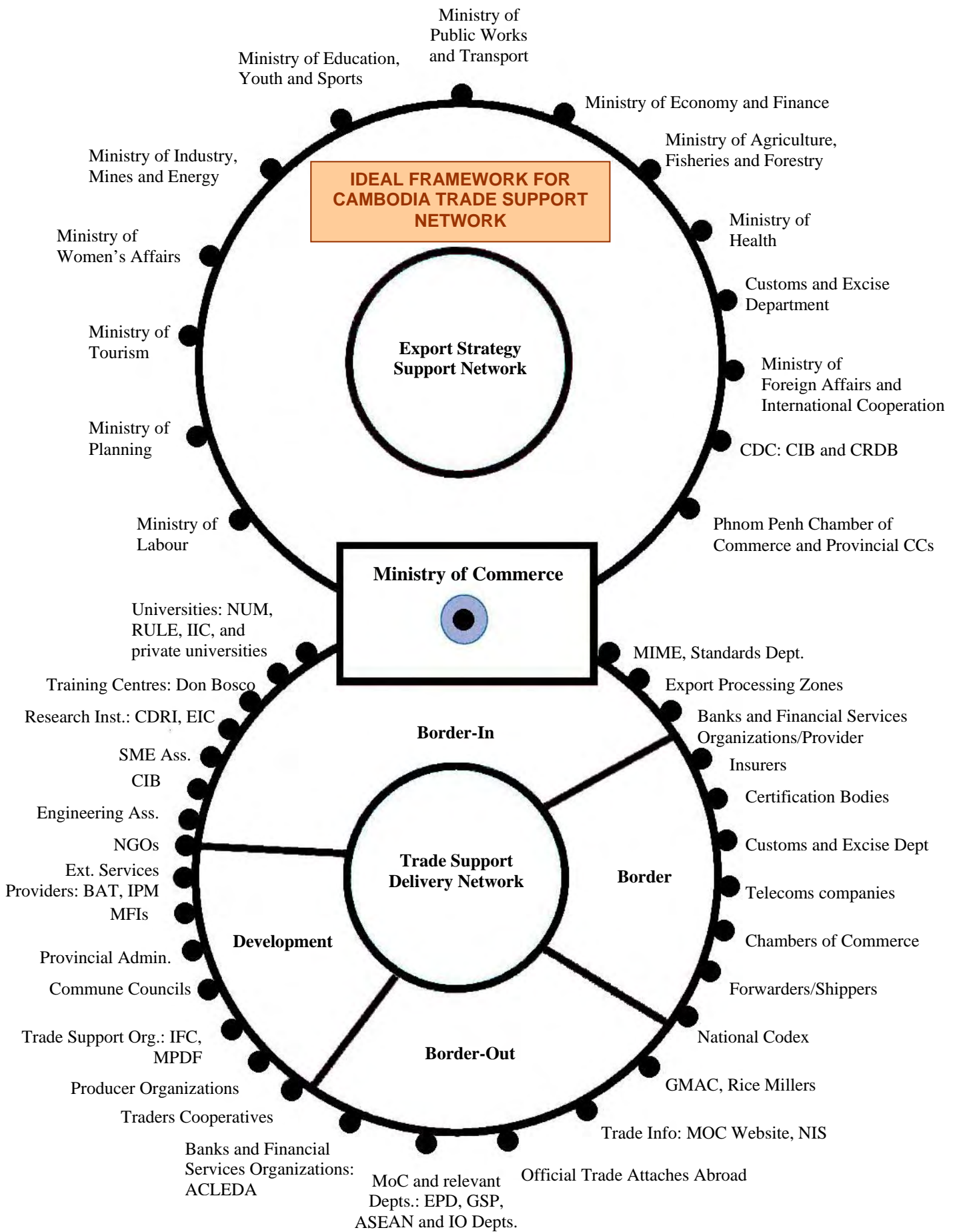
111. Serious consideration should be given to the re-engineering of a new, properly structured framework (private/public sector-national/provincial) trade promotion organization in Cambodia, equipped with the necessary official mandate and resources for successful implementation and operations.

112. A focal point is urgently needed for the coordination and delivery of key trade support services – trade information, marketing advice, foreign trade representation, and training and the implementation of a national trade strategy, which is currently being developed.

113. The ideal national trade support network should comprise two networks: the delivery network and the strategy support network with the latter ensuring that the business environment reinforces the international competitiveness of the export sector. See Schematic in next page.

114. The ‘delivery network’ delivers export and competitiveness enhancement support. But this network can work successfully only if the overall national policy environment is ‘pro-export’.

115. Best practice suggests that both the structure and composition of the delivery network should be flexible, with new participants joining the network and others leaving, as priorities change and support programs evolve. Emphasis should be on delivery not structure.



2.2. Strategies: formulation of a National Export Strategy

116. The formulation of a national export strategy seemed to be of some concern, as none had been prepared recently. Significant awareness and capacity needs to be built at both enterprise and government levels – both at the national and at the provincial level.

The following checklists can be used as a basis for the formulation of such a strategy.

Checklist 2: Confirming the fundamentals: Strategy preparation and focus				
Export performance relies on the existence of a realistic national export strategy and the capability to manage it. Best practice suggests that your response to points 1, 2, 3, 4, 7, 8, 9 and 10 should be yes. The answer to 5 and 6 will depend on the focus of the national strategy.				
		Yes	No	Unsure
1.	My country has a national export strategy.			
2.	The export strategy forms part of the national economic development plan.			
3.	The export strategy was prepared in consultation with the private sector.			
4.	The export strategy is published and distributed throughout the export community.			
5.	The strategy's highest priority is on developing international markets for existing export products (i.e. a 'border-out' focus).			
6.	The strategy's highest priority is on developing new export capabilities (i.e. a 'border-in' focus).			
7.	The strategy targets specific product sectors.			
8.	A specific objective of the strategy is the development of services exports.			
9.	The strategy promotes the development of capacities to participate in e-trade.			
10.	The strategy is implemented by a network of specialized and competent trade support institutions.			

Checklist 3: Confirming the fundamentals: Addressing strategic trade-offs				
An effective national export strategy accommodates conflicting demands on available resources. There are no best practice answers to these questions. However, a best practice strategy addresses each of these trade-offs.				
		Yes	No	Not at All
1a.	The national trade support network is (or should be) designed to address the demands for support in the existing export community.			
1b.	The national trade support network differentiates (or should differentiate) between the demands and the actual needs of the existing business community and responds (should respond) to these needs.			
2a.	The national trade support network focuses (or should focus) on short- to medium-term commercial opportunities.			
2b.	The national trade support network focuses (or should focus) on developing capabilities to maximize long-term opportunities.			
3a.	The national trade support network focuses (or should focus) on commercial targets .			
3b.	The national trade support network is oriented (or should be oriented) to economic and social development .			
4a.	The national trade support network concentrates (or should			

	concentrate) on market development ('border-out' issues).			
4b.	The national trade support network focuses (or should focus) on export capability development ('border in' issues).			
5a.	The national trade support network focuses (or should focus) on the existing business community .			
5b.	The national trade support network focuses (or should focus) on supporting new entrants into the export community.			

Checklist 4: Getting content right: Strategic focus and objectives	
An effective strategy reflects national priorities and resource availability. Best practice reflects an ordering of priorities that can be achieved within a realistic time-frame and an accurate assessment of resource capacity.	
1.	Development objectives: list them in order of priority Increased foreign exchange. Employment generation. Decentralization of industry (geographic). Wider export base. Higher value-added export base. Poverty alleviation.
2.	Client focus: list targets in order of priority Established exporters. Non-exporters with high export potential. New entrepreneurs. Micro-enterprises. Foreign buyers. Foreign subcontractors/outsourcers. Foreign investors.
3.	Support service focus: list activities in order of priority Border-out (opportunity identification) in order of priority Information collection and analysis. Market liaison (commercial representation).
4.	Border-out (market development) in order of priority Buyer liaison (commercial representation). Buyer contact (trade fairs and missions). Buyer contact (national e-portal). Generic publicity. Generic promotion (national e-portal).
5.	Border-in (capability development) in order of priority Enterprise-enterprise linkages (value-added). Finance to sector. Foreign direct investment. Joint export marketing groups. Product development. Entrepreneurship development. Export management competency development.
6.	Border (competitive enhancement) in order of priority Reduce cost of 'non-tradeables'. Reduce transaction costs. Facilitate input sourcing (supply chain). Streamline procedures. Improve logistics.

2.3. Services Delivery

117. Among the many services needed by exporters, not necessarily in the following order, are:

- trade strategy development;
- trade information and trade intelligence services - information about new markets and potential business partners;
- market research for Cambodian products in new markets and to identify market needs which might be met by new products;
- improving trade promotion services in launching products in new markets;
- marketing advisory services, to develop export marketing plans;
- standards and quality assistance, to meet international requirements;
- industrial design, to improve marketability of products;
- packaging, to improve marketability of products;
- overseas trade representation, particularly to assist SMEs and exporters in new markets;
- review and strengthening of trade promotion incentives; and
- assistance with product development in selected sectors (e.g. textiles, food processing, horticulture, etc.) to expand the range of available exports and with emphasis on increasing local value-added.

118. In the area of agricultural and agro-industry, **capacity** is required to provide a number of services.

- Identify groups of existing agro-processing operations (e.g. fish, soy, chilli sauce manufacturers, etc.) which might benefit from business development services and provide those services. Link these entrepreneurs with groups of producers.
- Identify high-quality “green”, Asian specialty, and other niche markets for semi-processed and finished agricultural products and determine market requirements for quality, price, and availability.
- Examine the potential benefits of a national Cambodian export quality brand identity scheme, with quality management programs for export commodities, taking into account all of the food chain, from “farm gate to consumer plate”. Enlist assistance from organic, ISO, and other international quality certification programs and service providers.
- Assess demand for an information service, for production and agro-processing investors, on opportunities and constraints in specific areas of the country, disaggregated to the district or even commune level.
- Promote strategic partnerships between Cambodian and international private sector agencies, through government to government contacts and reaching down to industry associations and individual firms.
- Develop trade facilitation services such as a trouble-shooting help desk for sellers and buyers, global market intelligence services, and investor support service.
