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PROJECT PERFORMANCE ASSESSMENT REPORT



CAMBODIA

Trade Facilitation and Competitiveness

Report No. 126763

JUNE 4, 2018

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CAMBODIA

**TRADE FACILITATION AND COMPETITIVENESS
(IDA-H1650)**

June 4, 2018

*Financial, Private Sector, and Sustainable Development
Independent Evaluation Group*

Currency Equivalents (annual averages)

Currency Unit = Cambodia Riel (KHR)

2005	US\$1.00	4,093 KHR
2006	US\$1.00	4,103 KHR
2007	US\$1.00	4,056 KHR
2008	US\$1.00	4,054 KHR
2009	US\$1.00	4,139 KHR
2010	US\$1.00	4,185 KHR
2011	US\$1.00	4,059 KHR
2012	US\$1.00	4,033 KHR
2013	US\$1.00	4,027 KHR
2014	US\$1.00	4,038 KHR
2015	US\$1.00	4,068 KHR
2016	US\$1.00	4,059 KHR

Abbreviations and Acronyms

ASYCUDA	automated systems for customs data	IEG	Independent Evaluation Group
BFC	Better Factories Cambodia	LPI	logistic performance index
CamControl	Cambodia import export inspection and fraud repression department	LMI	Lower Middle Income
		MoC	Ministry of Commerce
		NTR	national trade repository
CDC	Council for Development of Cambodia	PAD	project appraisal document
		PPAR	project performance assessment report
CED	customs and excise department	PPI	private partnership in infrastructure
CIB	Cambodia investment board		
C/O	certificates of origin	PRSO	poverty reduction support operation
EIF	enhanced integrated framework	SAD	single administrative document
EMAF	export market access fund	SWAp	sector wide approach
FDI	foreign direct investment	TFC	trade facilitation and competitiveness
GDCE	General Department of Customs and Excise	UNCTAD	United Nations Conference on Trade and Development
GMAC	Garment Manufacturers' Association of Cambodia	UNDP	United Nations Development Programme
GTZ	German Organisation for Technical Cooperation	UNIDO	United Nations Industrial Development Organization
ICA	investment climate assessment		
ICR	implementation completion report	WTO	World Trade Organization

Fiscal Year

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Contents

Principal Ratings.....	v
Key Staff Responsible.....	v
Preface.....	vii
Summary.....	ix
1. Background and Context.....	1
Country Background.....	1
Project Context.....	3
2. Objectives, Design, and their Relevance	5
Objectives	5
Relevance of Objectives	5
Components	7
Implementation arrangements.....	9
Relevance of Design	10
3. Implementation	13
Planned versus Actual Expenditure by Component.....	13
Implementation Experience	13
Safeguards Compliance	14
Financial Management and Procurement.....	14
4. Achievement of the Objectives.....	15
Intermediate Objective 1: Reduce Transaction Costs Related to Trade and Investment	15
Outputs.....	15
Outcome.....	18
Intermediate Objective 2: Facilitate Access of Enterprises to Export Markets	21
Outputs.....	21
Outcome.....	22
Intermediate Objective 3: Introduce Transparency in Investment Processes	25
Outputs.....	25
Outcome.....	26
Project Development Objective: To Support the Government’s Strategy to Promote Economic Growth	28
5. Efficiency.....	31
6. Ratings	32

Outcome.....	32
Risk to Development Outcome.....	32
Bank Performance.....	33
Quality at Entry.....	33
Quality of Supervision.....	34
Borrower Performance.....	35
Government Performance.....	35
Implementing Agency Performance.....	35
Monitoring and Evaluation.....	35
7. Lessons.....	37
References.....	38

Figures

Figure 1. GDP Annual Growth (%) of Cambodia, compared to Laos and Vietnam.....	2
Figure 2. Project Management Structure at Project Approval.....	10
Figure 3. Results Framework.....	12
Figure 4. Risk-Based Procedures Under ASYCUDA for Imports into Cambodia.....	17
Figure 5. Reduction in Time to Export and Import (in days).....	20
Figure 6. Cost to Export and Import (in \$).....	20
Figure 7. Share of Non-Donor funding to BFC.....	24
Figure 8. Better Factories Cambodia Sources of Income, 2016.....	24
Figure 9. Donor versus Non-Donor Funding of Better Factories Cambodia.....	24
Figure 10. Foreign Direct Investment in Cambodia, 2007-16 (Percent of GDP).....	27
Figure 11. Cambodia has achieved impressive progress in poverty reduction over the past decade.....	29
Figure 12. Sector Contribution to GDP.....	30

Table

Table 1. Project Cost by Component.....	13
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Appendixes

Appendix A. Basic Data Sheet.....	43
Appendix B. Borrower Comments.....	45

Principal Ratings

	ICR*	ICR Review*	PPAR
Outcome	Moderately Satisfactory	Moderately Satisfactory	Moderately Satisfactory
Risk to Development Outcome	Significant	Significant	Negligible to Low
Bank Performance	Moderately Satisfactory	Moderately Satisfactory	Moderately Satisfactory
Borrower Performance	Moderately Satisfactory	Moderately Satisfactory	Moderately Satisfactory

* The Implementation Completion and Results (ICR) report is a self-evaluation by the responsible Bank global practice. The ICR Review is an intermediate IEG product that seeks to independently validate the findings of the ICR.

Key Staff Responsible

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IEG Mission: Improving World Bank Group development results through excellence in independent evaluation.

About this Report

The Independent Evaluation Group assesses the programs and activities of the World Bank for two purposes: first, to ensure the integrity of the Bank's self-evaluation process and to verify that the Bank's work is producing the expected results, and second, to help develop improved directions, policies, and procedures through the dissemination of lessons drawn from experience. As part of this work, IEG annually assesses 20-25 percent of the Bank's lending operations through field work. In selecting operations for assessment, preference is given to those that are innovative, large, or complex; those that are relevant to upcoming studies or country evaluations; those for which Executive Directors or Bank management have requested assessments; and those that are likely to generate important lessons.

To prepare a Project Performance Assessment Report (PPAR), IEG staff examine project files and other documents, visit the borrowing country to discuss the operation with the government, and other in-country stakeholders, interview Bank staff and other donor agency staff both at headquarters and in local offices as appropriate, and apply other evaluative methods as needed.

Each PPAR is subject to technical peer review, internal IEG Panel review, and management approval. Once cleared internally, the PPAR is commented on by the responsible Bank country management unit. The PPAR is also sent to the borrower for review. IEG incorporates both Bank and borrower comments as appropriate, and the borrowers' comments are attached to the document that is sent to the Bank's Board of Executive Directors. After an assessment report has been sent to the Board, it is disclosed to the public.

About the IEG Rating System for Public Sector Evaluations

IEG's use of multiple evaluation methods offers both rigor and a necessary level of flexibility to adapt to lending instrument, project design, or sectoral approach. IEG evaluators all apply the same basic method to arrive at their project ratings. Following is the definition and rating scale used for each evaluation criterion (additional information is available on the IEG website: <http://ieg.worldbankgroup.org>).

Outcome: The extent to which the operation's major relevant objectives were achieved, or are expected to be achieved, efficiently. The rating has three dimensions: relevance, efficacy, and efficiency. *Relevance* includes relevance of objectives and relevance of design. Relevance of objectives is the extent to which the project's objectives are consistent with the country's current development priorities and with current Bank country and sectoral assistance strategies and corporate goals (expressed in Poverty Reduction Strategy Papers, Country Assistance Strategies, Sector Strategy Papers, and Operational Policies). Relevance of design is the extent to which the project's design is consistent with the stated objectives. *Efficacy* is the extent to which the project's objectives were achieved, or are expected to be achieved, taking into account their relative importance. *Efficiency* is the extent to which the project achieved, or is expected to achieve, a return higher than the opportunity cost of capital and benefits at least cost compared to alternatives. The efficiency dimension is not applied to development policy operations, which provide general budget support. *Possible ratings for Outcome:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Risk to Development Outcome: The risk, at the time of evaluation, that development outcomes (or expected outcomes) will not be maintained (or realized). *Possible ratings for Risk to Development Outcome:* High, Significant, Moderate, Negligible to Low, Not Evaluable.

Bank Performance: The extent to which services provided by the Bank ensured quality at entry of the operation and supported effective implementation through appropriate supervision (including ensuring adequate transition arrangements for regular operation of supported activities after loan/credit closing, toward the achievement of development outcomes). The rating has two dimensions: quality at entry and quality of supervision. *Possible ratings for Bank Performance:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Borrower Performance: The extent to which the borrower (including the government and implementing agency or agencies) ensured quality of preparation and implementation, and complied with covenants and agreements, toward the achievement of development outcomes. The rating has two dimensions: government performance and implementing agency(ies) performance. *Possible ratings for Borrower Performance:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Preface

This Project Performance Assessment Report (PPAR) assesses the Cambodia Trade Facilitation and Competitiveness project that was financed by an IDA grant in the amount of \$10 million and a government contribution equivalent of \$0.33 million. The project was approved by the World Bank's Board of Directors on June 2, 2005. Its objective was to support the government's strategy to promote economic growth by: (i) reducing costs associated with trade and investment; (ii) introducing transparency in the investment process; and (iii) facilitating access of enterprises to export markets. The purpose of this PPAR is to assess the outcome of the Cambodia Trade Facilitation and Competitiveness project and to provide an input to IEG's forthcoming macro evaluation on Facilitating Trade.

Methodology: The Independent Evaluation Group (IEG) prepared this report. This assessment is based on: (i) a desk review of project documentation—including the project appraisal document, implementation status and results reports, restructuring papers, the implementation completion report and the implementation completion report review; and (ii) interviews with key stakeholders, including World Bank staff, project implementation agencies, ministries and departments involved in the project, exporters under the matching grant scheme, and other development partners. As part of evidence collection for this PPAR and to understand the outcomes and impacts from the project, an IEG mission comprising Asita De Silva (Senior Consultant) visited Cambodia from December 10-15, 2017.

Summary

Cambodia is a lower middle-income country in Southeast Asia, with a 2016 population of 15.8 million. Over the last two decades, Cambodia has seen rapid economic growth and substantial poverty reduction. The economy grew by an average of 7.6 percent a year in 1994-2015, among the fastest growth rates in the world. GNI per capita rose from \$400 in 2004 to \$1,140 in 2016, making Cambodia a lower middle-income country in 2015. Among the key drivers of growth have been garment exports and tourism.

In 2005, notwithstanding substantial recent progress, Cambodia remained one of the world's least developed countries. An emerging challenge was to sustain garment exports following the recent end of the multifiber agreement, and to expand the narrow base of the economy. Significant obstacles undermined competitiveness of the private sector, including poor infrastructure, corruption, anticompetitive practices, and regulatory policy uncertainty. Trade facilitation and legal transparency practices stood out as particularly burdensome, with surveys indicating that over 80 percent of firms perceived the judiciary and customs negatively and 60 percent gave negative ratings to government offices dealing with trade. Multiple agencies were responsible for border operations; 44 documents were required to clear import shipments; and all cargo underwent secondary inspection. To address these issues, in 2004, the government had embarked on a broad private sector development strategy that included specific measures to improve trade facilitation. Also, as part of the World Trade Organization (WTO) accession process, Cambodia had started reforming its customs regime consistent with the Revised Kyoto Protocol. Cambodia became the 148th member of the WTO on 13 October 2004.

The FY05 Trade Facilitation and Competitiveness Project (P089196) was a US\$10 million IDA grant to Cambodia. The objective of the project was to support the government's strategy to promote economic growth by helping (i) reduce transaction costs related to trade and investment; (ii) introduce transparency in investment processes; and (iii) facilitate access of enterprises to export markets. The project had four components: (i) the Trade Facilitation Component to finance automation and reform of trade facilitation processes; (ii) the Export Market Access Fund to provide matching grants to local firms to help access export markets; (iii) the Public Participation in Infrastructure (PPI) and Investment Component to help improve capacity of key agencies to attract foreign investment and manage PPI transactions; and (iv) the Legal Transparency Component to establish websites to publish legal judgments and commercial laws and regulations.

During the restructuring of this project in December 2009, its development objectives remained unchanged, but its main indicator was reformulated to focus on the perceptions of trading and trade related companies (rather than general "investors") and to focus on the performance of the customs (rather than the overall trade process which included variables outside the control of the Customs Department). Several intermediate indicators were modified on the basis that they were not currently measured or no objective measurement methodology existed (e.g. response time to investors) or because they needed to be better aligned with project inputs.

Other changes to the project as a result of the 2009 restructuring include: (i) shifting of resources from the establishment of an electronic “single window” to further roll-out of the customs automated system (ASYCUDA) and the automation of Certificates of Origin. This decision was made after an in-depth review of the ASYCUDA implementation in March 2009. Based on the lessons learnt from this in-depth review, decision was made to devote significant resources to improving the sustainability of the ASYCUDA system as well as extending its deployment to new locations; (ii) providing additional support to the Better Factories Cambodia (BFC) project. This was because the BFC project was monitoring compliance with labor standards in the garment industry and was planning to shift from its original compliance approach to a fee-based service approach of monitoring, training, and good practice sharing in the area of work conditions as well as shift to independent Cambodian management (without ILO direct support); and (iii) financing a “Trade Information Website” to support transparency for traders and trade related companies. This website was expected to cover the activities of all trade-related agencies and link a number of websites to create an exhaustive collection of regulations, processes, fees, etc.

The **relevance of objectives** is rated as “*High*” given the consistency of the project’s objectives with conditions in Cambodia at the time; consistency with the government’s on-going private sector development initiatives; and consistency with the World Bank’s assistance strategy for Cambodia throughout its implementation. The project’s objectives remained appropriate to conditions in the country throughout its implementation. The objective of reducing transaction costs related to trade and investment reflected the high trade transaction costs at the time; increasing transparency in investment processes responded to the high incidence of corruption; and helping increase export market access was important to help expand the narrow base of Cambodia’s exports. The project supported the government’s on-going private sector development strategy, including its Twelve Point Action Plan for trade facilitation and investment. The project also remained consistent with the only World Bank Country Assistance Strategy for Cambodia that was in effect during the project’s implementation – the FY06-FY08 CAS that was then extended to FY11. Since there was a pause in new IDA financing to Cambodia from 2011 until 2015—mainly due to differences between the government and World Bank over the findings of the World Bank Inspection Panel on the application of safeguards in the IDA-supported Land Administration and Management Project—, there was no new CAS in effect from FY11 until a country engagement note was prepared in 2015. The project’s objectives were fully consistent with the CAS objective of helping improve aspects of economic governance that raise the cost of doing business, deter investment and trade, and hold back broad-based private sector development.

The **relevance of the project’s design** is rated as “*Modest*”. Regarding the project’s design, the overall and intermediate objectives generally followed a clear logical framework. Its trade facilitation components, which were the primary focus of the project, were based on substantial analytical underpinnings. Although the World Bank conducted several analytical works in the PPI space in Cambodia, the intermediate objective proved too ambitious given the limited set of project interventions. In addition, shortly after project implementation commenced, the government decided not to pursue the national single window due to disagreement with the World Bank on whether the single window should be housed in the customs department or elsewhere, and whether

the system should be managed by the government or a public private partnership. This component was dropped during the formal restructuring of the project in 2009.

There was good coordination among several donors in the preparation of the project. A Trade Sector Wide Approach (SWAp) was started in 2004 and coordinated by the World Bank. The World Bank supported the government in aligning resources from key donors of the trust fund (AusAID, EU, DFID and JICA) on key reforms and reducing duplication. A donor Consultative Group (CG) meeting in 2004 recognized the reform strategy supported by the project as a central pillar of the overall CG framework for Cambodia. There was some duplication among several value-chain analyses and interventions but in the context of good overall efforts among the participating donors to improve coordination.

The **contribution of the project to helping reduce transaction costs** related to trade and investment is rated as “*Substantial*”. The project helped achieve substantial progress in customs modernization in Cambodia. The project financed the roll out of customs automated software (ASYCUDA) at most border checkpoints and introduced a Single Administrative Document for customs clearance. The number of documents required for import clearance was reduced from 44 in 2004 to 14-8 at present. A risk management system was introduced and physical cargo inspections at the main port dropped from 100 percent in 2004 to 8 percent in 2016. Automation of Certificates of Origin was commenced under the project and subsequently fully implemented. These accomplishments contributed substantially to improvements in customs processing times and to reduced perception of customs processes as a constraint to trading. As of 2017, the average time for clearing a shipment was less than two hours. Only 4 percent of firms reported that customs/trade was a “severe” constraint to doing business in 2014, compared to 26 percent in 2004. Cambodia’s overall ranking in the Logistics Performance Index improved substantially from 129 in 2010 to 73 in 2016. On the other hand, there was lack of progress in implementing merit-based human resource policies and implementing a customs integrity action plan, both of which would have likely enhanced transparency and reduced informal border-related costs had they been implemented.

The **contribution of the project to facilitating access of enterprises** to export markets is rated as “*Modest*”. Following a slow start, the Export Market Access Fund (EMAF) began operations in 2008. The project supported 75 firms and business associations in preparing export development plans, exceeding its target of 65. Most of the firms reported achieving their export objectives. While the program made a positive contribution to helping firms access export markets, it is difficult to attribute a firm’s export performance to a relatively small set of activities and limited funding (that averaged \$6,400 per firm) to the EMAF program. The program’s effectiveness and contributions were significantly undermined by the delay in starting up and its short period of activity. It did not begin operations until three years after project effectiveness due to delays in appointing a supervisory committee and difficulties in retaining a qualified consulting firm. A first phase involved a very cumbersome approval stage and only in the final 11-month phase of the project did the EMAF operate effectively. Alongside substantial other donor support for the BFC program, the project’s financing contributed to BFC’s achievements in helping Cambodia’s garment factories achieve core

labor standards, that in turn helped attract buyers outside Cambodia. The EMAF program could have achieved substantially more had it had a longer active period.

The **contribution of the project to helping introduce transparency** in investment processes is rated as “*Modest*”. The initiatives under the project intended to help introduce transparency in investment processes saw mixed progress. The project financed capacity building and IT systems to the investment promotion agencies and helped launch an investor tracking system. Although attribution to the project’s limited set of capacity-building interventions is difficult, the foreign investment promotion agency has emerged as an effective institution and Cambodia has seen significant success in attracting foreign investment. Foreign direct investment to GDP in Cambodia in 2007-16 averaged 10.6 percent, among the highest in the world among developing countries. The project helped build capacity to implement the Law on Concessions, but no PPI projects were realized under the project. In retrospect, this proved to be an unrealistic target given the limited set of capacity-building activities financed by the project. Commercial laws and legal decision were published on websites under the project, but they have not since been regularly updated and Cambodia’s commercial legal system continues to lack transparency. A Trade Information Website was initiated and completed under a follow-on project, but it remains unclear if the website has improved perceptions of the transparency of trade related processes and regulations.

IEG rates the achievement of the **overall project development objective** “to support the government’s strategy to promote economic growth” as “*Substantial*”. Regarding the achievement of objectives, although two of the three intermediate objectives of the project are rated as Modest (*i.e., the intermediate objectives “Facilitate Access of Enterprises to Export Markets” and “Introduce Transparency in Investment Processes” are both rated as Modest, whereas, “Reduce Transaction Costs Related to Trade and Investment” is rated as Substantial*), the project’s overall development objective was to “support the government’s strategy to promote economic growth” and evidence shows that Cambodia’s economic growth has been steady in the range of 7.5 to 7.7 percent both during the project implementation period 2005 (Board approval) to 2012 (Project Closure) and post-implementation 2005 (Board approval) to 2015 (Post-closure). This in turn has contributed to a high Gross National Income (GNI) per capita, resulting in Cambodia becoming a lower middle-income economy in 2015. Although the contributions from the EMAF, PPI, Investment Promotion and Legal Transparency components of the project to the economic growth were not significant, there is some evidence that the project likely contributed to the economic growth mainly through the substantial achievement of its intermediate objective related to trade facilitation.

Efficiency in achieving the project’s objectives is rated as “*Modest*”. The \$5.2 million invested through the project for trade facilitation helped realize substantial improvements in the customs processing function in Cambodia. However, efficiency of the project was undermined by a very slow start of all the components of the project. In 2007, following instances of fraud and corruption identified in other World Bank–financed projects in Cambodia, an Independent Procurement Agent was retained by the government to manage procurement under all World Bank–financed projects. Only after 2009, more than three years after project effectiveness, did procurement activities pick up pace. Under the EMAF component, the first phase proved to be far less efficient than the

second phase. In the 23-month first phase of the project, in which a government committee approved each grant, the program disbursed \$139,000 to support 24 firms. Under the 11-month second phase, in which approvals were delegated to the management team, the program disbursed \$341,000 to support 51 firms. Under the second phase, approvals were made 5 times faster than at the first phase. In the end, the EMAF program only ran at its most efficient for the final 11 months of the nearly 7 years that the Trade Facilitation and Competitiveness (TFC) project was active, undermining both its effectiveness and efficiency.

The **project's outcome** is rated as “*Moderately Satisfactory*”. The project was highly relevant. Although there were moderate shortcomings in the achievement of the project's intermediate objectives, overall efficacy was substantially achieved because there has been an impressive economic growth, and the project likely contributed to the economic growth through its trade facilitation component. The project had moderate shortcomings in efficiency. The “*Moderately Satisfactory*” rating reflects the combined ratings for relevance, efficacy, and efficiency.

The **risk to sustaining the progress** achieved under the project is rated “*Negligible to Low*” given the degree of government commitment to market-oriented growth and the sustained development progress seen in Cambodia over the last decade. In the years since the project closed, the government has shown strong political will and commitment to pursuing economic reforms and improving governance. In late 2017, five years after the completion of the initial roll-out, the automated customs system has been consolidated and installed at all major border points in Cambodia. The government has shown strong commitment to maintaining and enhancing customs modernization. Progress toward the other objectives achieved under project is also unlikely to be reversed. The Council for Development of Cambodia (CDC) has emerged as an effective institution and Cambodia has successfully attracted very high levels of foreign direct investment. In 2016, the government introduced a four-year roadmap to develop an appropriate environment for PPPs in infrastructure.

Overall Bank Performance is rated as “*Moderately Satisfactory*”:

- **Quality at entry** was “*unsatisfactory*” because although project was generally conceptually sound and reflected significant prior analytical work, some important design weaknesses were apparent. Several of the indicators were poorly chosen and inaccurately reflected the project's scope or were not reliably measurable and had to be restructured. In retrospect, readiness for implementation at the time of project approval was insufficient.
- The **quality of Bank supervision** was “*moderately satisfactory*”. It should be noted that IEG did not find any of the supervision reports from 2005 to 2010 or the mid-term report in institutional files and therefore, had to request them from the project team. A mid-term review conducted in May 2008 concluded that the PDO remained relevant but recommended restructuring the project. Project restructuring shortly before the original closing date reflected the slow proactivity and progress on nearly all elements of the project and the likelihood that the project would have not achieved any of its objectives by the original closing date.

Restructuring and a longer time frame were critical to enabling the project to achieve the objectives that it did. After 2008, the task team leader of the project was in Cambodia, which supported the effective supervision and restructuring of the project. According to the government, the World Bank adopted an appropriate “middle ground” between “steering the project” and taking a “hands off” approach to allow the government to develop the capacity to manage the project.

Overall Borrower Performance is rated as “*Moderately Satisfactory*”:

- **Government performance** is rated as “*satisfactory*”. The project was based on existing government private sector development strategies and the government played an active role in the project’s design and implementation. Financial management remained satisfactory throughout the project. According to the consulting firm that managed the EMAF component, there was substantial improvement in government performance during the project.
- **Implementing agency performance** was “*moderately satisfactory*”. The customs department played a central role and its performance largely accounted for the main achievements of the project. Implementation of customs modernization benefitted from a few key champions of reform in the Ministry of Commerce and the department of customs. The investment promotion agency and Ministry of Commerce also played positive roles in implementing the relevant components of the project. Less effective was the Ministry of Justice and Supreme Court who failed to update the websites established under the project due to lack of political will rather than institutional capacity constraints. The consulting firm contracted to manage the EMAF proved to be a capable organization with both international experience and staff as well as knowledge of the local business environment and private sector.

The **monitoring and evaluation** of the project is rated as “*Modest*”. The project’s monitoring and outcome indicators were generally based on existing and expected future analytical work. However, several of the indicators were poorly chosen and inaccurately reflected the project’s scope. Weaknesses in the project’s indicators were somewhat mitigated by the government’s progress in establishing a monitoring system for the trade Sector Wide Approach (SWAp). Monitoring reports and data collection were conducted on schedule. Close monitoring resulted in the restructuring and extension of the project in 2009 that allowed the project to achieve its objectives.

Lessons of the project include:

- **Early involvement with government.** In reform projects, prior policy dialogue and analytic work can enable the World Bank Group to develop a strong alignment of interest with the government counterparts, as counterparts in key positions are important to ensuring progress;
- **Expert assistance.** Programs (such as EMAF) that involve disbursement of funds and provision of technical assistance to firms under a matching grant scheme should ensure that there is a qualified and experienced team in place for effective utilization

of the matching grants. Otherwise, lack of capacity and cumbersome approval processes can result in significant delays in the disbursement of funds to potential firms;

- **Implementation readiness.** Prior to board approval, the team should ensure that the project is ready for implementation, especially by conducting a realistic assessment of the government's capacity to implement complex components (such as a national single window). Lack of implementation readiness can lead to significant delays and cancellation of components, and undermine the project's performance;
- **Trade-off between good governance and timely project implementation.** In instances of fraud and corruption in WBG portfolio in a country, timely project implementation may at times have to be forgone to safeguard good governance.

José C. Carbajo Martínez
Director
Financial, Private Sector and Sustainable Development
Independent Evaluation Group

1. Background and Context

Country Background

1. **Cambodia is a lower middle-income country with a strategic location in south east Asia.** The Cambodia is a lower middle-income country in South-East Asia, with a 2016 population of 15.8 million. Cambodia has a strategic central location in the ASEAN region that has facilitated its integration into regional and global supply chains. It has relatively cheap labor, which has attracted foreign direct investment in the past. It is also a prominent tourist destination, with a range of cultural, archeological, and leisure destinations that attracted more than 5 million visitors in 2016.¹ The country has extensive water resources, including the Mekong River that offer an estimated 10,000MW of hydropower potential.² Cambodia has also a history of intense conflict since its independence from France in 1953, including the genocidal Khmer Rouge regime in 1975-79 that resulted in the death of 21 percent of Cambodia's population (1.7 million people) and destroyed social, political, and administrative institutions.³ The incumbent Cambodian People's Party has been in power since 1993.

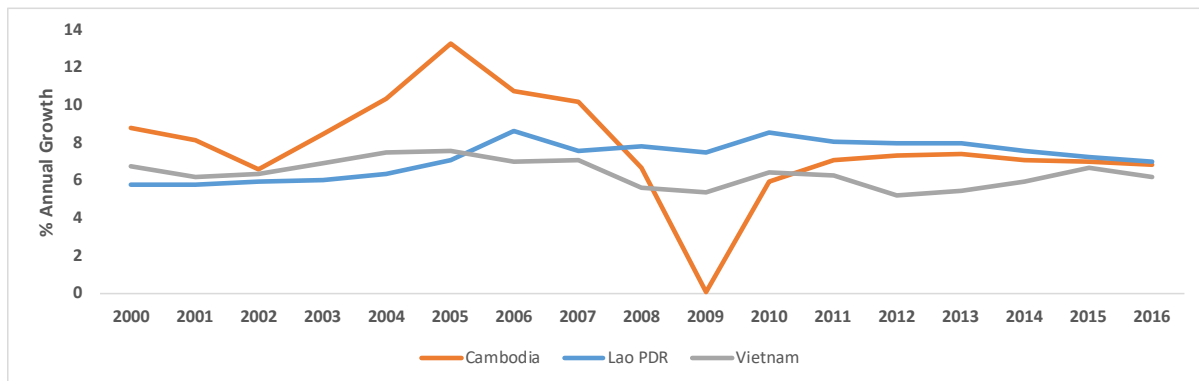
2. **Over the last two decades, Cambodia has seen rapid economic growth and substantial poverty reduction.** Cambodia's economy grew by an average of 7.6 percent a year in 1994-2015, among the fastest growth rates in the world over the period.⁴ Key drivers of growth have been garment and footwear manufacturing exports, tourism, agricultural exports (particularly rice) and more recently, light manufacturing and the construction and real estate sectors.⁵ Growth in exports of goods and services averaged 13 percent a year from 2004-16. Gross National Income (GNI) per capita rose from \$400 in 2004 to \$1,140 in 2016, making Cambodia a lower middle-income country in 2015.⁶ The proportion of people living under the poverty line fell substantially from 53 percent in 2004 to 21 percent in 2011 and to 14 percent in 2014.⁷ Social indicators also improved substantially, with life expectancy at birth rising from 58.4 in 2000 to 69 years in 2015 and mean years of schooling rising from 3.2 years in 2000 to 4.7 in 2015.⁸

3. **Structural reforms and trade openness helped generate strong export-oriented economic growth.** The strong export-driven economic growth in the last two decades was facilitated by structural reforms that transformed the economy from a closed, inward-looking command economy to an open, market-drive export-oriented economy. Key reforms included removal of price controls; guarantees against nationalization; elimination of quantitative barriers to trade; tariff rationalization and reduction; and maintenance of macroeconomic stability. At various times over the last two decades, Cambodia benefitted from most favored nation preferential access to US markets; supply quotas under the General System of Preferences; and preferential access to the European Union under the "Everything but Arms" program. Cambodia also benefits from the EU's "regional accumulation" allowances, where unfinished textile imports from ASEAN countries that are finished in Cambodia and exported to EU markets are considered of Cambodian origin. In 1990 Cambodia accessed the ASEAN common market and in 2015 ASEAN established the ASEAN Economic Community that established a common market among ASEAN countries. In 2004, it became the first least-developed-country (LDC) to join the World Trade Organization. Establishment of Special

Economic Zones with reliable infrastructure services and streamlined investment approval and border clearance procedures has helped encourage foreign direct investment.

4. **Several constraints to doing business persist.** Going forward, Cambodia faces continuing challenges to further diversify the economy, sustain elevated levels of growth, and raise income levels. According to a 2014 enterprise survey, the top constraints to doing business are the cost of electricity, corruption and anti-competitive practices, and transport and logistics.⁹ Notwithstanding Cambodia’s considerable hydropower potential, expensive and unreliable electricity supply remains a key obstacle to doing business. Firms outside the Special Economic Zones, in particular, are constrained by deficiencies in transportation, electricity, and telecommunications. Cambodia also scores very poorly on several Doing Business indicators. For example, in starting a business, it ranks 180 out of 190 countries and in enforcing contracts it ranks 179 out of 190 countries.¹⁰ The private sector comprises a few large firms that dominate the garments, tourism, and construction industries and microenterprises that account for 97.7 percent of firms. A “missing middle” of small and medium enterprises accounts for only 2.1 percent of firms.¹¹ According to the IMF, rapid credit growth in recent years driven by the real estate sector, foreign borrowing, and the rapid expansion of microfinance institutions has undermined stability in the financial system, while the country’s dollarization limits monetary policy responses and exposes the country to external shocks.¹² In 2016, the government launched an Industrial Development Policy to tackle many of these issues and upgrade Cambodia’s industrial structure from labor intensive production to one driven by skills by 2025.

Figure 1. GDP Annual Growth (%) of Cambodia, compared to Laos and Vietnam



Source: IEG calculations based on the data from World Development Indicator (WDI).

5. **World Bank lending to Cambodia was suspended in 2011-2015.** A 2010 World Bank Inspection Panel report on the Land Administration and Management Project concluded that the eviction of residents in the Boeung Kak Lake area of Phnom Penh in early 2009 violated the Land Administration and Management Resettlement Policy Framework. All new World Bank lending to Cambodia was subsequently suspended in 2011-15 due to differences between government and the World Bank over the findings of this report. In 2014, the World Bank and government commenced a dialogue to re-establish a relationship. An interim Country Engagement Note was prepared in 2015 and lending recommenced in 2016. Preparation of a renewed full partnership started in 2015 and is expected to be presented to the Board in 2018.

Project Context

6. **At the time of appraisal of the project in 2005, Cambodia had seen substantial progress since the end of the conflict, but remained one of the world's least developed countries.** Since 1991, Cambodia had made important progress in maintaining peace, rebuilding institutions, establishing a stable macroeconomic environment, and enabling an environment for private sector investment and development.¹³ However, Cambodia remained one of the poorest countries in the world, with over 50 percent of the people living below the poverty line, including 15-20 percent in extreme poverty. Its economic, political, and administration institutions remained fragile after the long periods of conflict. The economic base was narrowly concentrated in garments and tourism. Achieving many of the Millennium Development Goals posed a significant challenge.

7. **In 2005, sustaining Cambodia's garment exports was at risk following the recent end of the multifiber agreement.** By 2005, the garment industry had been well established as a key source of growth and employment creation. The value of Cambodia's garment exports had grown from \$28 million in 1995 to about \$2 billion in 2004, resulting in Cambodia becoming one of the 20 largest garment exporters to the United States. The sector employed over 270,000 people. However, with garments comprising 76 percent of total exports, Cambodia faced a risk of increased competition arising from the end of the quota system under the multifiber agreement on January 1, 2005. Increasing garment exports from China, especially threatened to erode Cambodia's market share. A key challenge, therefore, existed in retaining Cambodia's competitiveness in the garment industry as well as diversifying the economy into other areas.

8. **Significant obstacles undermined competitiveness of the private sector.** Cambodia's infrastructure coverage, including power supply, road and rail transport, and ports was the lowest in the East Asia region, contributing to high costs of doing business and limited access to markets. A large share of the private sector operated informally, contributing minimally to the tax base and having limited access to finance. According to the 2003 Doing Business report, the business registration process in Cambodia was one of the slowest and least affordable systems for business entry in the East Asia region. The 2004 Investment Climate Assessment identified a range of weaknesses in the policy and institutional environment facing firms, including (i) corruption (informal payments) and unfair competition, particularly from informal enterprises; (ii) regulatory constraints, including regulatory policy uncertainty, customs and trade regulations, taxes and tax administration, and business licensing and operating permits; and (iii) weakness of the court system and legal environment for market competition. The quality of the judiciary was also perceived as particularly poor by firms. Among public institutions rated for their integrity by firms in the 2003 Enterprise Survey, the judiciary was rated lowest. In specific ratings of the courts, 91 percent of respondents indicated that the judiciary was only "sometimes", "seldom", or "never" fair or impartial; 83 percent rated it negatively in terms of quickness; and 70 percent gave negative reviews for affordability and enforcement of decisions. The 2003 Doing Business ratings indicated that contract enforcement in Cambodia was expensive in comparison to many other countries in the region.

9. **Trade facilitation practices stood out as particularly burdensome.** According to the 2003 Enterprise Survey, over 80 percent of firms perceived the judiciary and customs

negatively. More than 60 percent of firms gave negative ratings to the Ministry of Commerce office dealing with trade. More than half of all respondents negatively rated pre-shipment inspection services.¹⁴ Import and export processing involved multiple steps that caused substantial delays, uncertainty, and discretion in the process. Among the major steps reported by trading firms were Customs clearance, Ministry of Transportation border authorization or border police, veterinary and phytosanitary inspection, and CAM control. Each involved delays, formal costs, and informal payments. Customs clearance imposed substantial delays and was uneven, causing unpredictability. On average, firms reported that imports took 6.5 days to clear customs, while exports took 4.5 days, although the time periods varied considerably. Firms reported documentation problems in 56 percent of cases for imports and 41 percent of cases for exports.¹⁵

10. Responsibilities among agencies involved in border operations were ambiguous and led to overlaps. In addition to customs, “CamControl” was responsible for the inspection of goods, both when they entered the country and in domestic markets. While Customs was responsible for revenue collection, protection of the economy, and trade facilitation measures, CamControl was vested with similar powers of investigation and control. Thus, there were often overlapping functions and there was apparently no integration of procedures between the two agencies at the border. Arriving ships were placed under the control of numerous agencies, without clear roles and responsibilities. Clearance usually involved several agencies, including the Port Authorities, Border Police, Customs, and CamControl. Clearance at the port of Sihanoukville involved, for Customs purposes only, 12 steps that could each involve long waits and possible negotiations.

11. In 2004, the Government had begun implementation of a broad private sector development strategy. In 2004, the government had begun to implement a series of reforms to enhance the role of the private sector. The 2004 “Rectangular Strategy” sought to “broaden the base of growth by strengthening governance to attract investment and ensuring competitiveness.” Key initiatives included rationalizing government agencies that imposed high costs and delays on the private sector and reducing transaction costs; promoting market infrastructure and deregulation; enhancing market access and access to information; enhancing key institutions and the rule of law; and promoting small and medium-sized enterprises. The Government was also introducing, on a pilot basis, differentiated compensation based on performance and merit in the Ministry of Economy and Finance. A decision had been made to apply the Merit Based Pay Initiative to the trade facilitation process, including in the Ministry of Commerce, Customs and Excise Department and Port Authority. To attract private investment into infrastructure development, the government had defined a new Concessions Law that defined the process for planning, approving, awarding, negotiating, and managing Private Participation in Infrastructure (PPI) investment.

12. The government also had developed specific measures to improve trade facilitation. As part of the World Trade Organization (WTO) accession process, Cambodia had started reforming its customs regime consistent with the Revised Kyoto Protocol. Cambodia became the 148th member of the WTO on 13 October 2004. The Government, with EU support had completed technical work that would introduce an enhanced customs declaration to serve as a Single Administrative Document, replacing 45 documents that were previously involved in an import transaction. The reforms specifically included the following

steps: (i) Economic Police Permit, Export License and Import Permit eliminated (ii) Consolidated inspection, rather than multiple agencies inspecting independently (iii) Certificate of Origin to be converted to post-shipment (iv) Single Administrative Document (v) Withdrawal of Officially Certified Invoice that was no longer required on demise of the MFA. In response to the findings of the World Bank's 2004 Investment Climate Assessment, the government had developed a Twelve Point Action Plan for trade facilitation and investment. The Twelve-Point Action Plan sought to reduce unofficial costs and clearance times, while increasing public revenue. Measures were undertaken 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. The Trade Facilitation and Competitiveness (TFC) project was designed to help the government implement its Twelve-Point Action Plan.

2. Objectives, Design, and their Relevance

Objectives

13. The objective of the FY05 Cambodia Trade Facilitation and Competitiveness Project, as defined in both the Project Appraisal Document and the Development Grant Agreement was to support the government's strategy to promote economic growth by helping:¹⁶

- 1) Reduce transaction costs related to trade and investment;
- 2) Introduce transparency in investment processes; and
- 3) Facilitate access of enterprises to export markets.

Relevance of Objectives

14. **The project's objectives were appropriate to conditions in the country at the time.** The objective of reducing transaction costs related to trade and investment reflected the high transaction costs in the country at the time. Import and export processing was a multiple step process and caused substantial delays, uncertainty, and discretion in the process. Increasing transparency in investment processes was also an appropriate objective given high perceptions of corruption in the mid-2000s. According to the 2003 Enterprise Survey, corruption was a leading constraint for Cambodian firms.¹⁷ Four-fifths of the private sector firms sampled by the survey acknowledged the necessity of paying bribes. Import and export processes were reported as having the highest unofficial costs among all Cambodia's regulatory processes. The integrity of the judiciary was rated lowest among public institutions in Cambodia in the 2003 Enterprise Survey and efforts to increase communication and transparency were warranted. Helping increase export market access was also relevant given the narrow base of Cambodia's exports at the time. Cambodia's exports were highly concentrated in garment exports that now faced the prospects of increased competition from countries such as China following the end of the Multi Fiber Agreement in January 2005.

15. **The project supported the private sector development strategy and initiatives that the government was implementing at the time.** Alongside the “Rectangular Strategy” being implemented to support the private sector, in June 2004, the government developed a multifaceted program to reduce unofficial border-related costs and clearance times, while increasing public revenue. This Twelve Point Action Plan responded to the findings of the 2004 Investment Climate Assessment and sought 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. Implementation of measures had already begun, including development of a policy on Private Participation in Infrastructure and Concessions that included definition of a process for planning, approving, awarding, negotiating, and managing PPI investment. The project was designed to support implementation of some elements of the government’s Twelve Point Action Plan, particularly through the application of appropriate Information & Technology systems to border management activities to streamline operations, improve the level of transparency and accountability, and facilitate the achievement of all border related government objectives.

16. **The project remained consistent with the World Bank’s Country Assistance Strategies for Cambodia throughout its implementation.** During the life of the project (FY06-12), there was only one Country Assistance Strategy in effect, the FY06-FY8 CAS that was prepared in 2005 and then extended to FY08-FY11 in 2008.¹⁸ Since there was a pause in new IDA financing to Cambodia from 2011 until 2015—mainly due to differences between the government and the World Bank over the findings of the World Bank Inspection Panel on the application of safeguards in the IDA-supported Land Administration and Management Project—¹⁹, there was no new CAS in effect from FY11 until a country engagement note was prepared in 2015. The 2005 CAS established six objectives. These were to help: (i) improve aspects of economic governance that raise the cost of doing business, deter investment and trade, and hold back strong, broad-based private sector development; (ii) implement reforms to help the rural poor receive more benefits from sustainable natural resources management; (iii) address core issues of public financial management to improve service delivery; (iv) promote decentralization and citizen’s partnerships for better governance; (v) encourage holistic, poverty-focused approaches to the formulation and implementation of public policy; and (vi) provide analytical and investment services to help meet gaps in critical infrastructure and human development sub-sectors. The assistance strategies of ADB and DFID were developed in parallel to and in coordination with the World Bank’s. The project’s development objective was fully consistent with the CAS objective of helping improve aspects of economic governance that raise the cost of doing business, deter investment and trade, and hold back strong, broad-based private sector development;

17. **The relevance of objectives is rated as “High”.** The relevance of objectives is rated **high** given the consistency of the project’s objectives with conditions in Cambodia in the mid-2000s, the government’s on-going private sector development initiatives, and the Bank Group’s assistance strategy at the time.

Components

18. **The project had four components addressing both trade facilitation and the broader investment environment.** The components under the project were: (i) the *Trade Facilitation Component* that would finance automation and reform of trade facilitation agencies; (ii) the *Export Market Access Fund* that would provide matching grants to help achieve market standards; (iii) the *PPI and Investment Component* that would provide capacity building to help implement laws and improve the capacity of key agencies to manage and deliver PPI transactions; and (iv) the *Legal Transparency Component* that would finance the establishment and maintenance of websites in the Khmer language containing Supreme Court and Court of Appeal judgments and the publication of all Cambodian commercial laws and related regulations. No safeguard policies were triggered by the project. The composition of each component was as follows:²⁰

- **A. Trade Facilitation Component (Original amount \$6.15 million).** This component sought to automate border management activities to streamline operations, improve the level of transparency and accountability, and facilitate the achievement of all border-related government objectives. To this end, the project would finance (a) an electronic single window integrating all trade facilitation agencies, including the automation of customs functions through introduction of the ASYCUDA system and complementary improvements in the systems and procedures in each agency involved in product clearance; (b) strengthening of the capacity of border management agencies to use risk management practices and undertake inspections in accordance with the Revised Kyoto Convention; (c) design and implementation of a merit-based pay system for Cambodia’s cross-border regulatory agencies and introduction of a “single flat fee” for services provided by these agencies; and (d) the development of an Integrity Action Plan for Customs and Exercise Department (CED) based on a self-assessment.
- **B. Export Access Market Fund Component (EAMF) (Original amount 2.1 million).** This component would provide technical assistance to firms and organizations to help them achieve export market standards - including product quality standards, core labor standards, organic product standards and safety or environmental standards. The component would finance (a) technical support to the Ministry of Commerce’s Department of Export Promotion to establish the exporter technical assistance window, and (b) a technical assistance matching grant facility that would cover 50 percent of the costs of enterprises diagnostics and development of export plans; and measures to implement export market plans. The EAMF would offer its services only in response to private sector demand on a nondiscriminatory basis. An initial survey suggested demand from at least 100 enterprises.
- **C. Private Participation in Infrastructure and Investment Promotion Component (Original amount \$1.2 million).** The PPI and Investment Component would help (i) strengthen the institutional capacity of the government to facilitate private participation in infrastructure development that was conducted fairly, transparently, competitively and in the public interest; and (ii) enhance the capacity of Council for Development of Cambodia (CDC) and Cambodia Investment Board (CIB) to facilitate and promote foreign direct investment. To support capacity for PPIs, the project would help clarify the roles and responsibilities of agencies involved in the PPI process; build capacity in line ministries

and key agencies to design, award, and implement PPIs; and enable entities to act as checks and balances on the PPI process. The investment promotion component would support implementation of the Amended Law on Investment through adoption of strategies that streamline and made more predictable and transparent the process of foreign direct investment, and that enhance the attractiveness of Cambodia as an investment destination through improvements in the regulatory environment as well as in factor markets. Inputs expected were: appointment of Khmer-speaking consultant to support implementation; a series of 5-days training workshops for 15-20 CIB staff on subjects like investment generation and facilitation; and installation of IT system.

- **D. Legal Transparency Component (Original amount - \$0.4 million).** This component would finance: (i) the establishment and maintenance of a website in the Khmer language to make readily available to the public the final judgements of all cases in the Supreme Court and in the Court of Appeal; (ii) the establishment and maintenance of a website to ensure the electronic publication of all Cambodian laws, related regulations and draft legislation in the commercial law field; and (iii) training to utilize the established systems. An increase in confidence in the transparency and predictability of judgements would reduce the risk associated with private domestic and foreign investment.

19. **Restructuring in December 2009 retained the project’s objectives but adjusted the project’s outcome indicators to more accurately reflect the project’s scope.** The project was restructured twice after the mid-term review in May 2008: once on August 26, 2008; and again on December 1, 2009. The restructuring on August 2008 was minor, involving only a reallocation of funds to (i) conduct a study of Trade Information Website or Ministry of Commerce automation masterplan under Component 1; and (ii) to further support to Better Factories Cambodia (BFC) under Component 2. The December 2009 restructuring retained the overall project development objective but reformulated the main indicator to focus on the perceptions of trading and trade related companies (rather than general “investors”) and to focus on the performance of customs (rather than the overall trade process which included variables outside the control of the Customs Department). Several intermediate indicators were modified on the basis that they were not currently measured or no objective measurement methodology existed (e.g. response time to investors) or because they needed to be better aligned with project inputs. Other changes to the project as a result of the 2009 restructuring were as follows:

- **A. Trade Facilitation Component.** The restructuring shifted resources from the establishment of an electronic “Single Window” to further roll-out of the customs automated system and the automation of Certificates of Origin. The restructured project would devote significant resources to improving the sustainability of the ASYCUDA system as well as extending its deployment to new locations. Based on the lessons learnt from the in-depth review of ASYCUDA implementation in March 2009, restructuring focused on directing additional resources to develop the ICT support function within the General Department of Customs and Excise (GDCE).
- **B. Export Access Market Fund Component.** The 2009 restructuring proposed to provide additional support to the Better Factory Cambodia (BFC) project. The BFC project was monitoring compliance with labor standards in the garment industry and was planning to

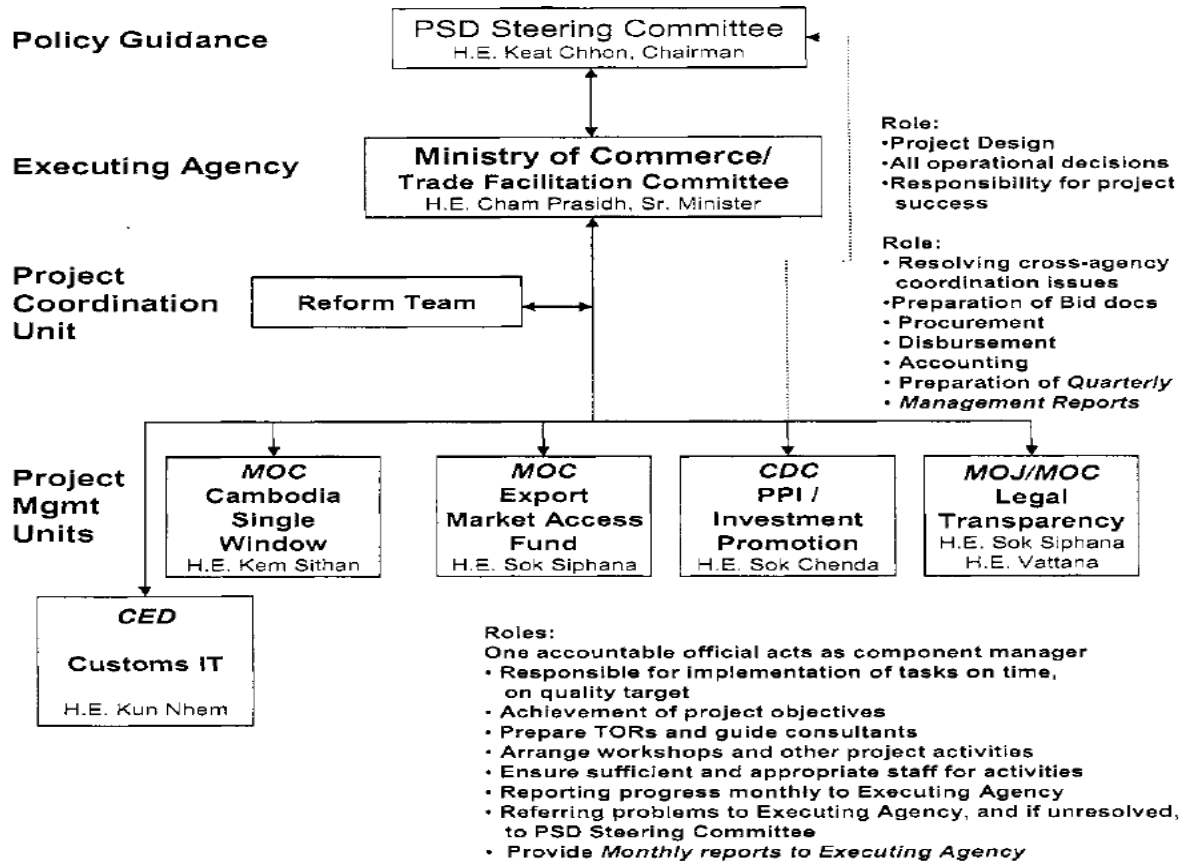
shift from its original compliance approach to a fee-based service approach of monitoring, training, and good practice sharing in the area of work conditions as well as shift to independent Cambodian management (without ILO direct support). It was agreed to finance an additional \$0.5 million, beyond the \$0.6 million originally planned and the \$0.2 million agreed during the minor restructuring in August 2008.

- **C. Private Participation in Infrastructure and Investment Component.** No changes were made under the 2009 restructuring for this component.
- **D. Legal Transparency Component.** To support transparency for traders and trade related companies, the restructured project sought to finance a “Trade Information Website”. This website was expected to cover the activities of all trade-related agencies and link a number of websites to create an exhaustive collection of regulations, processes, fees, etc. for traders. Building on lessons learnt during the ASYCUDA implementation, the Trade Information Website would be part of the Ministry of Commerce ICT masterplan to ensure sustainability.

IMPLEMENTATION ARRANGEMENTS

20. **The project sought to use existing government coordination and management structures.** In August 2004, the government had created a Special Inter-Ministerial Task Force on Trade Facilitation and Investment Climate that was chaired by the Minister of Economy and Finance and Vice-Chaired by the Minister of Commerce. A Steering Committee on Private Sector Development was established as the focal point for reform of the investment climate, trade facilitation, SME promotion, and Private Participation in Infrastructure. As over 80 percent of the project’s funds were to be used for the trade facilitation and market access components, the Ministry of Commerce was nominated as the implementing agency that would coordinate activities. Each component would be managed by Project Management Units that were established within each key agency, including the Ministry of Commerce, Customs and Excise Department, Council for Development of Cambodia, and Ministry of Justice. The government’s “Reform Team” was responsible for coordinating project tasks, managing, procurement, and preparing quarterly management reports to be provided to the World Bank and other donors.

Figure 2. Project Management Structure at Project Approval



Source: Project Appraisal Document, 2005.

Relevance of Design

21. **The project's stated overall and intermediate objectives generally followed a clear logical framework.** The stated project objectives were generally linked to the intermediate outcomes identified for the project (Figure 3), with some exceptions (indicated in para 23). Reduced transaction costs associated with trade would result from the intermediate outcomes of increasing predictability and reducing the transaction costs and time of importing and exporting. The second objective of "introducing transparency in investment processes" would be influenced by the components designed to introduce transparency/accountability in the PPI and investment processes and publication of commercial laws and judgements on websites. The third objective of "facilitating access of enterprises to export markets" would flow directly from the matching grants scheme designed to help companies access export markets.

22. **The project's trade facilitation components were based on substantial analytical underpinnings.** The trade facilitation components were based on the 2001 Diagnostic Trade Integration Strategy, the 2003 Enterprise Survey, the 2004 Investment Climate Assessment, and research and assessments related to the WTO accession process, including the Integrated Framework for Trade-Related Technical Assistance. In addition, the International Monetary Fund had provided the Customs and Excise Department with resident technical assistance for two years in the context of their Poverty Reduction and Growth Facility. This TA supported

the development of the Customs Law and related sub-decrees, as well as internal reorganization and reform plans. A major recommendation of the assistance was the automation of customs processing. The IMF supported the development of bidding documents, and an evaluation of alternative providers of such automation.

23. **Although the World Bank conducted several analytical works in the PPI space in Cambodia, the intermediate objective proved too ambitious given the limited set of project interventions.** The objective of creating an enabling environment for private participation in infrastructure was relevant. The World Bank conducted several analytical works in the PPI space in Cambodia—e.g. a detailed study on Country Framework Report on Private Solutions for Infrastructure in Cambodia (2002), PPIAF grants to provide technical assistance for the PPP agenda etc. However, the project interventions comprised a limited set of training and advisory interventions that would need to influence the behavior and activities of a broad range of institutions, including the Ministry of Economy and Finance, the Council for Development of Cambodia, National Audit Authority, infrastructure regulatory bodies such as the Electricity Authority of Cambodia, and infrastructure line Ministries. Although the government had developed the Law on Concessions, there was a less clear analytical framework and roadmap to overcoming the range of constraints that inhibited emergence of an environment for PPIs that both encouraged the private sector to participate in infrastructure sectors that were often commercially less viable as well as limited liabilities to the government and ensured that public interests were best served.

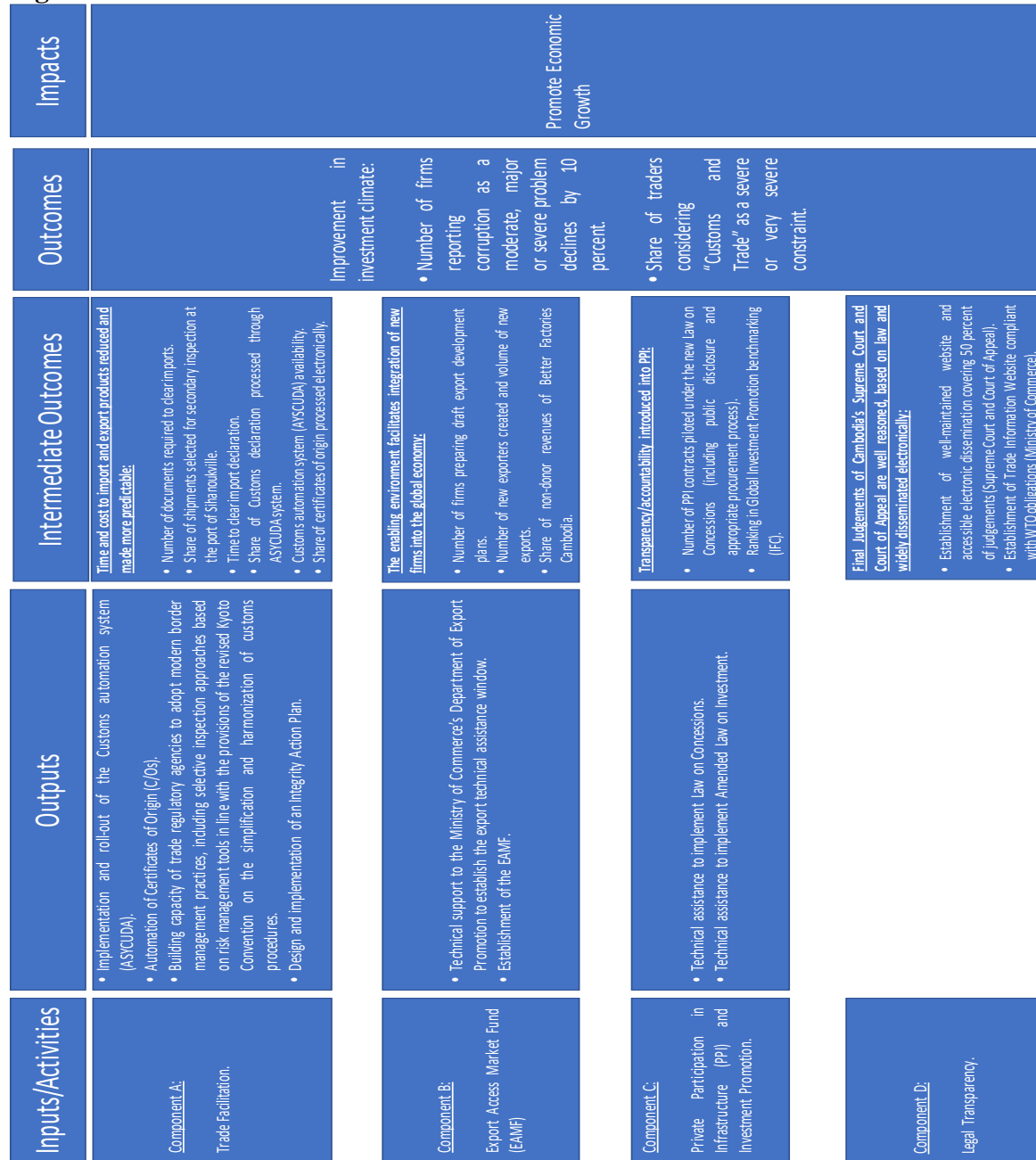
24. **The project’s legal transparency objectives were fairly narrow and, due to lack of political commitment, did not try to help improve the legal commercial system.** The project’s objectives in legal transparency were confined to publishing existing commercial laws and judgments on websites. The World Bank deliberately did not seek help reform the commercial legal system as it had determined to “not engage to any significant degree with the reform of state institutions until credible evidence of political commitment to reform is demonstrated.” In retrospect, however, the lack of political commitment to reform the commercial legal system carried over to increasing transparency of the system by publishing laws and decisions on websites. Greater transparency was unlikely to be achieved in the absence of more fundamental reform of the commercial legal system.

25. **In retrospect, the design of the single window component overestimated the government’s will and readiness to implement it.** Coordination among ministries and government’s will turned out to be inadequate to implement the single window and this initiative was dropped early in the project. According to the World Bank, it had overestimated the government’s capacity to implement a national single window and “the project design presumed a degree of maturity and cooperation among the various interested government bodies, that experience subsequently showed was lacking”.

26. **The relevance of design is rated as “Modest”.** The project’s stated overall and intermediate objectives generally followed a clear logical framework. Its trade facilitation components, which were the primary focus of the project, were based on substantial analytical underpinnings. However, the intermediate objective involving the PPI component proved too ambitious given the limited project interventions. The design of the single window component

also overestimated the government’s will and readiness to implement it. On this basis, the relevance of the design of the project is rated as **modest**.

Figure 3. Results Framework



3. Implementation

Planned versus Actual Expenditure by Component

27. **Project restructuring in 2009 increased allocations to two of the project’s components.** Allocations to two components increased when the project was restructured in 2009. Allocations to the “Export Market Access Fund” component increased by 36 percent; and to the “Legal Transparency” component by 96 percent. In addition, within the trade facilitation component, funds were reallocated away from the single window sub-component to further extension of the automation of customs systems. Increased allocations to the legal transparency component reflected a new activity—to create a Trade Information Website.

Table 1. Project Cost by Component

Project Components	Cost at Appraisal (\$million)	% Share of Total	Cost at Restructuring (\$million)	Cost at Closing (\$million)	% Share of Total	Cost at Closing as % of Cost at Appraisal
A. Trade Facilitation	6.15	60%	5.26	5.26	51%	86%
B. Export Market Access Fund	2.1	20%	2.85	2.85	28%	136%
C. Private Participation in Infrastructure and Investment Promotion	0.8	8%	0.47	0.47	5%	59%
D. Legal Transparency	0.4	4%	0.78	0.78	8%	196%
Project Coordination	0.3	3%	0.81	0.81	8%	270%
Replenishment of Project Preparation Facility	0.58	6%	0.16	0.16	2%	27%
Total Project Cost	10.33	100%	10.33	10.33	100%	100%

Source: Following documents from OPCS Project Portal: PAD and Project Restructuring Paper; ICR.

Implementation Experience

28. **The project saw slow initial progress across all its components and was restructured shortly before the original closing date.** A mid-term review conducted in May 2008 concluded that the PDO remained relevant but recommended restructuring of the project. At the end of September 2009, shortly before the original closing date, the project had disbursed just 40 percent of the total grant amount after four years of implementation. The slow disbursements reflected the allocations to the single window, which was not implemented, slow initial progress in procuring the customs automation system, and a slow start to the Export Market Access Fund component. In its later stages, the project’s implementation was affected by the strained relationship after 2011 that affected government incentives to pursue some measures of the project, such as the private participation in infrastructure component. In retrospect, the initial time period of the project was insufficient to implement its components given the readiness of the government to meet procurement standards. Project restructuring shortly before the original closing date reflected the slow progress on nearly all elements of the project and the likelihood that the project would have not achieved any of its objectives. The extension of the project by almost 3 years nearly doubled the originally envisioned implementation period.

29. **There was good coordination among several donors in the preparation of the project.** At the time of project approval, a range of development partners were engaged in supporting trade and investment related initiatives under the Twelve Point Action Plan. The European Union was supporting streamlining of documentation necessary to introduce a Single

Administrative Document, and improvements in CamControl, standards, intellectual property rights, customs; United Nations Development Programme (UNDP) was supporting capacity-building in trade-related agencies; Japan was supporting the Special Economic Zones, the Cambodia Investment Board and risk management in the customs department; AusAID was helping implement a risk management strategy; the IMF was engaged in helping reform the Customs and Excise Department; UNCTAD and United Nations Industrial Development Organization (UNIDO) were supporting investment climate reforms, public private partnerships in infrastructure, and WTO compliance measures; and German Organisation for Technical Cooperation (GTZ) was supporting export diversification initiatives. A Trade Sector Wide Approach (SWAp) was started in 2004 and coordinated by the World Bank. The World Bank supported the government in aligning resources from key donors of the trust fund (AusAID, EU, DFID and JICA) on key reforms and reducing duplication. A donor Consultative Group (CG) meeting in 2004 recognized the reform strategy supported by the project as a central pillar of the overall CG framework for Cambodia. There was some duplication among several value-chain analyses and interventions but in the context of good overall efforts among the participating donors to improve coordination.

SAFEGUARDS COMPLIANCE

30. **The project did not trigger any safeguard policies.** The project was assigned an environment category of “C” because it involved the installation of IT systems and related equipment, and technical assistance, and therefore, did not trigger any safeguard policies.

FINANCIAL MANAGEMENT AND PROCUREMENT

31. **The project faced persistent procurement challenges in its first years of implementation.** In 2007, following instances of fraud and corruption identified in other World Bank–financed projects in Cambodia, an Independent Procurement Agent was retained by the government to manage procurement under all World Bank–financed projects. Difficulties with the initial firm resulted in the recruitment of another firm in 2009 to manage procurement. The Independent Procurement agent managed all procurement except low value and straightforward procurement falling below thresholds agreed between the World Bank and government. Under the project, additional complications arose from the technical nature of the customs software and systems required, and from a lack of qualified consulting firms and suppliers with the required technical capacity and familiarity with the ASYCUDA system who were willing to bid for a project in Cambodia. Both of these caused further initial delays. The procurement to supply a system for automating issuance of Certificates of Origin at the Ministry of Commerce elicited only a few bids, all which were rejected as non-compliant or non-responsive. Following restructuring in 2009, procurement improved substantially.²¹

32. **Financial management remained satisfactory throughout the project.** No significant issues arose with respect to financial management of the project. The government submitted quarterly financial monitoring reports that were generally on schedule. Annual audited financial statements were submitted on a timely basis and internal and external audits completed as required.

4. Achievement of the Objectives

33. The project's development objective was to "support the government's strategy to promote economic growth". Its intermediate objectives were to: (i) reduce transaction costs related to trade and investment; (ii) introduce transparency in investment process; and (iii) facilitate access of enterprises to export markets that would lead to the achievement of the development objective of "Promoting Economic Growth". This section is organized into two parts: (i) the first part provides evidence on the achievement of outputs and outcomes under each of the three intermediate objectives of the project; and (ii) the second part provides evidence on how achievement of these intermediate objectives leads to the achievement of the project's development objective "to support the government's strategy to promote economic growth".

Intermediate Objective 1: Reduce Transaction Costs Related to Trade and Investment

OUTPUTS

34. **By the end of the project, substantial progress had been made in rationalizing and automating customs processes.** Following a slow start due to delays in procurement, substantial progress was made on the implementation of the ASYCUDA-World customs automation system. As a precursor to automation, a range of trade-related documentation and procedures were rationalized and simplified. All relevant agencies signed administrative agreements on procedures and guidelines for the inspection and clearance of imported and exported goods. In 2007, the government adopted the Law on Customs that was prepared with IMF assistance, which enabled the application of international standards and best practices for customs control and trade facilitation. In May 2008, ASYCUDA was launched at the main port in Sihanoukville which accounted for 50 percent of imports into the country. The system was subsequently rolled-out to 20 out of 21 customs checkpoints in Cambodia by project completion. In 2008, a "Single Administrative Document" which functions as the customs declaration was also introduced, first manually and then integrated into electronic ASYCUDA system. By the end of the project, the Single Administrative Document (SAD) was deployed to all border points and covered nearly 100 percent of customs declaration clearances. With the roll-out of ASYCUDA, a risk management system was implemented and the percentage of consignments selected for secondary inspection at the port of Sihanoukville was reduced from 100 percent in 2004 to 14 percent in 2012 and then to 8 percent in 2016.²²

35. **Since the end of the project, continued progress has been made in rolling out ASYCUDA and further facilitating border-related processes.** Since the end of the project, the GDCE has since continued to make progress in rolling out the ASYCUDA system. At present, according to the GDCE, ASYCUDA has been implemented at 74 major border posts and offices and processes 99 percent of customs declarations (the single administrative document).²³ A one-stop service window with five government agencies represented in a single room and joint customs/CamControl inspections has been established in several of Cambodia's Special Economic Zones. In January 2013, the government introduced advance ruling under which GDCE issues an "advance ruling" on tariff classification, customs valuation, and rules

of origin that are then valid for three years and simplifies border procedures. In June 2014, Cambodia introduced a "Best Trader Program" under which "highly compliant traders" receive streamlined and prioritized treatment for border-related processes.²⁴ In July 2014, Cambodia became a party to the International Convention on the Simplification and Harmonization of Customs Procedures (the Revised Kyoto Convention) and in February 2016, Cambodia ratified the WTO Agreement on Trade Facilitation.

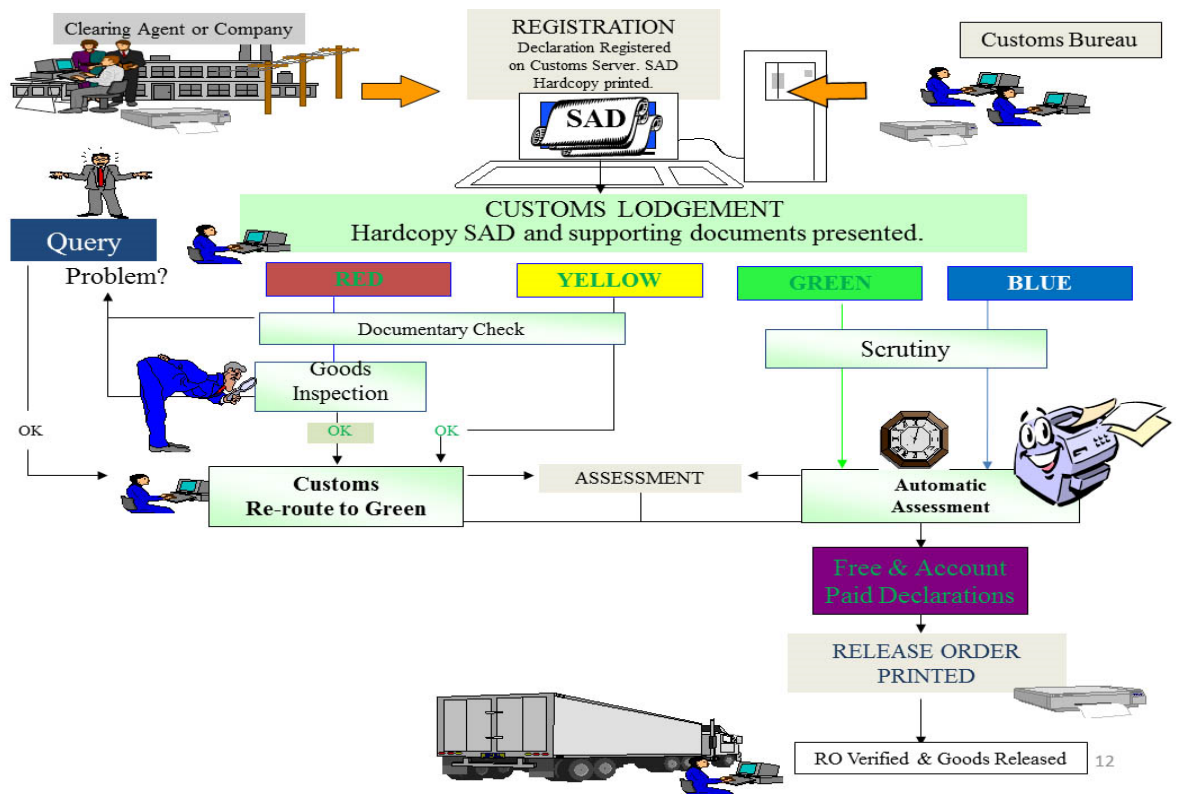
36. **As of 2017, the ASYCUDA system, the single administrative document and risk-based inspections were used at all border points.** The number of documents required for import clearance was reduced from 44 in 2004 to between 4 and 8 at present. The current process for imports is that the customs broker/declarant inputs the information from SAD directly into ASYCUDA, which verifies the information and registers the SAD. The registered SAD then needs to be signed and submitted with all required documents to a customs officer. The minimum documentation to be submitted with the SAD are the invoice, packing list, transportation documents (bill of lading/airway bill/truck bill). If required, additional documents to be submitted include the manifests, licenses, permits, certificate of origin and any other related documents such as SPS certificates. After the customs officer verifies the SAD and documentation the ASYCUDA system then assigns a risk-based color code and processing lane for the shipment. In the green lane, the SAD is automatically assessed and a clearance document issued. The yellow lane requires an additional document check before being cleared. The red lane requires physical inspection and further document checks prior to clearance. In the blue lane, the shipment is treated the same as the green lane but is subject to a post clearance audit. As of 2017, the average time for clearing a shipment, i.e., the time between the lodgment of the SAD and cargo release, was less than two hours.²⁵

37. **Border processing for exports was also substantially improved.** On the export side, at present, an exporter needs to obtain permission to export from the General Department of Customs and Excise. Export permission is provided once the goods and documents have been checked by both customs and CamControl. The exporter then files a Single Administrative Document as an export customs declaration through ASYCUDA. Other documents required are an invoice, packing list, and transportation documents. In addition, if required, the exporter will need to provide a manifest, license, permit, certificate of origin, and SPS certificate as needed. The customs clearance process then follows the same procedure as that for imports. For garment exports, physical inspection is done jointly and simultaneously by both customs and CamControl, which then issue a single Joint Inspection Report and seal the container with a customs seal and a CamControl seal.²⁶

38. **Although the single window was not pursued under the project, the Government has subsequently made preparations to implement it.** Shortly after project implementation commenced, the Government decided not to pursue the national single window. According to the government, the World Bank and Government disagreed on hiring a private contractor to manage it, indicating that, "while [the World Bank] wanted a private entity to implement the Electronic Single Window, the Government felt that it should operate on its own."²⁷ According to the World Bank, it had overestimated the government's capacity to implement a national single window and "the project design presumed a degree of maturity and cooperation among the various interested government bodies, that experience subsequently showed was lacking."²⁸ The World Bank and Government agreed that the single window would not be

pursued under the project and the funds were reallocated at project restructuring in 2009. Since then, however, following full automation of customs and progress on rationalizing and unifying non-customs border-related functions under CamControl, the Government has planned to proceed with development of a national single window. Progress to date has included preparation of a National Single Window Blueprint (with support from the World Bank under the follow-on project); development of a governance and operational model, a procurement strategy, and a project implementation plan; and completion of a Legal Gap Analysis. According to the GDCE, “the policy of the Royal Government of Cambodia is to develop, own and operate the system and the GDCE will lead and manage the project and be the operator of the system once implemented.”²⁹

Figure 4. Risk-Based Procedures Under ASYCUDA for Imports into Cambodia



Source: General Department of Customs and Excise, Cambodia <http://www.customs.gov.kh/trade-facilitation/customs-automation/> accessed on 10 January 2018.

39. **Automation of Certificates of Origin was initiated under the project and subsequently fully implemented.** Although automation of Certificates of Origin was not completed by project closing, it was subsequently fully implemented. Under the project, initial efforts were made to rationalize and simplify procedures for exporters to document the local content in their products. A roadmap to automate the processing of Certificates of Origin was also developed. However, during the project, the procurement to supply a system for automating issuance of Certificates of Origin at the Ministry of Commerce elicited only a few bids, all which were rejected as non-compliant or non-responsive. Re-bidding delayed implementation and it could not be completed by the time of project closure. The procurement

was subsequently completed under the follow-on Trade Development Support Project. In 2015 automation of Certificates of Origin was introduced. The system was developed in partnership with a Singapore-based company. Exporters can now apply for and obtain Certificates of Origin online. According to the website, exporters and manufacturers can now create, submit and electronically pay for certificates of origin over the internet 24 hours a day, seven days a week.³⁰

40. **The merit-based remuneration initiative was dropped by the government in 2009.** Under the project, supplementary allowances were provided to project officers and staff. However, beginning on June 30, 2010, the supplementary allowance was cancelled by the government. No merit-based pay initiative was implemented after cancellation of the supplementary allowance.

41. **There was also no progress in designing and implementing an Integrity Action Plan for the customs department.** No consultant was hired to conduct a self-assessment and gap analysis on the performance of the GDCE relative to the revised Arusha Declaration. Thus, the development of an Integrity Action Plan, that was to be based on the assessment made by the consultant, was also not prepared.

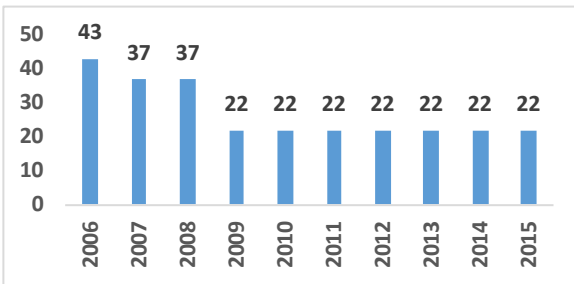
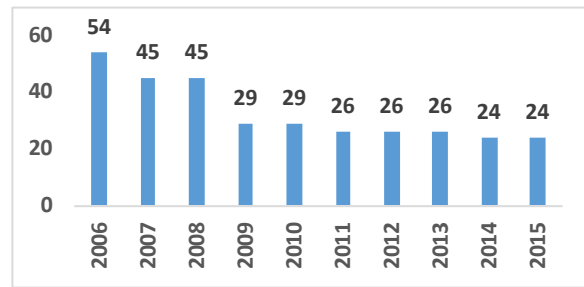
OUTCOME

42. **The project achieved its objective of helping reduce transaction costs associated with trade.** The project's primary achievement was in helping improve predictability and accountably and reduce the cost and time associated with customs processes for the import and export of goods. Overall, customs clearance times were reduced from 6.5 days in 2004 to 1.4 days in 2014.³¹ As of 2017, the average time for clearing a shipment, i.e. the time between the lodgment of the SAD and cargo release, was less than two hours.³² The overall time to export was reduced from 43 days in 2006 to 22 days at the time of project closing in 2012 and remained at 22 days in 2015 (Figure 5a).³³ Similarly, the overall time to import reduced from 54 days in 2006 to 26 days in 2012 and 24 in 2015 (Figure 5b). The automation process initiated under the project also helped improve consistency and transparency in how the customs treated traders. The computerized customs clearance system also resulted in less physical interaction with customs officers, reducing opportunities for informal payments. The customs reform process also resulted in an increase in customs revenue by 222 percent between 2004 and 2012.

43. **The initiation and initial progress of customs automation in Cambodia can be largely attributed to the project.** The results in reducing the time and costs of customs processing can also be largely attributed to the TFCP project. When the project was approved in 2005, Cambodia still processed all its customs border transactions manually and it had not yet begun to procure and install an automated customs system. This process was initiated under the TFCP project and substantial progress in procuring and rolling out the system was conducted with TFCP funds. At the same time, however, other parallel initiatives supported further roll-out and consolidation of the system. On the part of the World Bank, both the 2009-16 Trade Development Support Project as well as the 2007-10 Poverty Reduction Support Operation (PRSO) also contained substantial components related trade facilitation and customs automation.

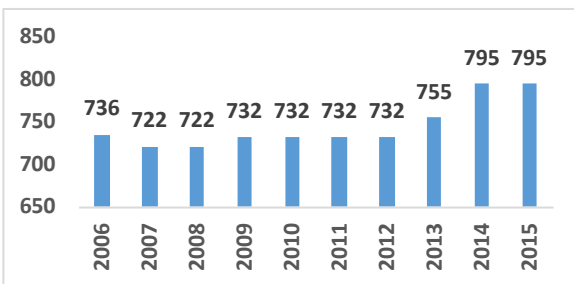
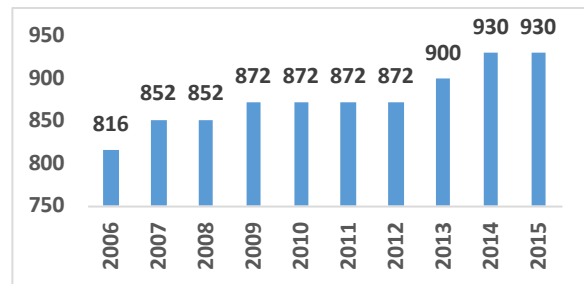
44. **Reduced transaction costs through customs automation contributed to substantial improvements in trade facilitation indicators.** In enterprise survey, the proportion of firms for whom customs/trade was reported as a “severe” or “very severe” constraint dropped from 26 percent in 2004 to 4 percent in 2014. The proportion of exporters for whom customs/trade was a “severe” or “very severe” constraint declined from 34 percent in 2004 to 20 percent in 2014.³⁴ These improvements contributed to substantial improvements in Cambodia’s rankings in the Logistics Performance Index prepared by the World Bank. Its overall ranking improved from 129 in 2010 to 101 in 2012 to 73 in 2016; its customs ranking improved from 95 in 2010 to 77 in 2016; and its timeliness rank improved from 132 in 2010 to 73 in 2016. Cambodia’s trade indicators (toward which improved customs processes contribute to, but are driven by a range of factors beyond customs processes) have also shown substantial improvements. Cambodia’s exports to GDP averaged 59 percent in 2007-16 compared to a Lower Middle Income (LMI) country average of 27 percent and an EAP average of 31 percent. Export growth averaged 11 percent a year over the ten-year period from 2007-16 (compared to 5 percent in LMI countries). The ratio of total trade in goods and services to GDP increased from 127 percent in 2011 to 140 percent in 2016.³⁵

45. **Although customs processes have improved, various factors add to the costs of trading.** Of note is the Doing Business Indicators Cost to Export/import, which have increased over the past decade. The Cost to Export increased from \$736 in 2006 to \$795 in 2015 and the Cost to Import increased from \$816 in 2006 to \$930 in 2015. These include costs for documents, administrative fees for customs clearance and technical control, customs broker fees, terminal handling charges, and inland transport.³⁶ According to a draft World Bank report on logistics constraints in Cambodia, several constraints add to the transaction costs of importing and exporting. These include (i) undermining of competition among local transporters and freight forwarders by a system of nominations in the garment sector where an international buyer nominates a shipping line, who nominates a specific logistics company, who nominates the dry ports used, who nominates the trucking company used by the manufacturer; (ii) persistent major deficiencies in Cambodia’s transport infrastructure; (iii) Cambodia’s continuing lack of an adequate legal and regulatory framework in the transport and logistics sector; and (iv) High logistics costs with poor quality and reliability of domestic logistics services.³⁷

Figure 5. Reduction in Time to Export and Import (in days)**a. Time to Export (in days)****b. Time to Import (in days)**

Source: World Bank. *Doing Business 2006-2015*. Washington, DC: World Bank.

<http://www.doingbusiness.org/Custom-Query>

Figure 6. Cost to Export and Import (in \$)**a. Cost to Export (in \$)****b. Cost to Import (in \$)**

Source: World Bank. *Doing Business 2006-2015*. Washington, DC: World Bank.

<http://www.doingbusiness.org/Custom-Query>

46. **Achievement of the objective of helping reduce trade transaction costs is rated as “Substantial”.** The project helped roll out customs automated software at most checkpoints and implemented the Single Administrative Document for electronic customs clearance. Automation of Certificates of Origin was commenced under the project and fully implemented under a subsequent World Bank–supported project. These were major accomplishments that contributed substantially to improvements in customs processing times and reduced the perception of customs processes as a constraint to trading. On the other hand, there was lack of progress in the implementation of appropriate merit and incentive-based human resource management policies and designing and implementation of an Integrity Action Plan, both of which would have likely enhanced the transparency and reduced informal costs of border-related processes if they had been implemented. Although the original project objective was to reduce both trade and investment costs, the 2009 formally restructured project refocused the project indicators to focus on traders rather than “investors”. Overall, the efficacy of the project in contributing to achievement of this intermediate objective is therefore rated as **Substantial**.

Intermediate Objective 2: Facilitate Access of Enterprises to Export Markets

OUTPUTS

47. Following a slow start, the Export Market Access Fund began operations in 2008.

The EMAF did not begin operations until three years after project effectiveness due to delays in appointing a supervisory committee to approve beneficiary grants as well as difficulties in retaining a qualified consulting firm. In 2008, Emerging Markets Consulting, a locally-based consulting firm with both international staff and experience as well as local knowledge, was contracted to implement the EMAF. The program was implemented in two phases. The first phase commenced in October 2008 and ran for 23 months until August 2010. Operations were then stopped and following a 10-month gap,³⁸ the second phase then commenced in July 2011 and ran for 11 months to project closing in June 2012. Under the first phase, the government supervisory committee approved each grant. However, approval entailed a cumbersome process and the committee only met every two months, leading to very slow progress. Under Phase 2, the project Management Team that met every two weeks approved individual grants within guidelines set by the Ministry of Commerce. Progress and disbursement of matching grants increased substantially in the second phase.

48. The EMAF supported 75 mostly small and medium firms develop export development plans.

A total of 75 firms were supported under the EMAF. Under the first phase, the program disbursed \$139,000 to support 24 firms and under the second phase, it disbursed \$341,000 to support 51 firms, exceeding the project target of 32 firms. The program supported a wide range of activities including website development, attendance at tradeshows, training, market visits, and promotional material. On average, activities were valued around \$4,000. In terms of client businesses size (by number of workers), micro and small firms accounted for almost 70 percent of approved companies. Agricultural companies tended to be over represented amongst medium and large companies, whilst fashion and handicrafts companies tended to be over represented amongst smaller companies. Of the firms supported, 65 percent were Cambodian owned and 41 percent were based outside Phnom Penh. The sector breakdown of EMAF clients was agriculture & food processing (41 percent); fashion & handicrafts (24 percent); tourism (9 percent); IT (9 percent); and healthcare & beauty (6 percent). Female owned companies constituted 33 percent of EMAF clients.³⁹

49. A key project output was support for the Better Factories Cambodia program.

The project provided \$1.3 million to the Garment Manufacturers' Association of Cambodia to finance the Better Factories Cambodia program. The program has been conducting independent assessments of working conditions in Cambodian apparel factories since 2001. Its objective is to help Cambodia's garment factories achieve core labor standards. Each assessment consists of management, union and worker interviews, document reviews, and factory observations. In 2001, Cambodia became the first ever country to establish factory assessments by the ILO as a legal requirement for garment exporting factories. BFC also provides tailored training for both workers and managers, factory advisory services, and public disclosure of working conditions on factory floors. In 2016, there were 577 factories. Women workers represented 85 percent of the total workforce in the program (577,732).⁴⁰

OUTCOME

50. **The firms supported by EMAF reported largely achieving their export objectives.**

A total of 75 firms and business associations were supported by project completion. Of these, 13 were “new” exporters (defined as having less than \$10,000 in exports in 2011). At project completion, 30 out of 37 interviewed clients responded that they had met their export objectives.⁴¹ According to the ex-post beneficiary survey, firms that benefitted from grants estimated that they had generated an average of \$32 in exports for every \$1 granted from EMAF shortly after the program closed. In the medium term, they estimated that they would generate \$274 for every \$1 granted in the 12 months following activity implementation. The ex-post assessment of the program estimated total export revenue generated by the program would be \$28 million in the 12 months following program completion. EMAF clients that forecasted the highest export sales as a result of the support they received from the program were: two rice companies (\$9.8 million); and a toy manufacturer (\$2.9 million).

51. **Although company export performance cannot be attributed to the EMAF program alone, it offered clear benefits to client firms.**

Among clients surveyed, the majority (78 percent) responded that they would have conducted the export-related activities even without EMAF support. However, a large proportion of them would have done so on a reduced scale (59 percent), and a further 22 percent said they would not have conducted the activities at all were it not for EMAF support. Firms appreciated the technical support under the EMAF. Clients were satisfied with the program overall, with no average scores below 7.3 out of 10 for any aspect of the program. ‘Program concept’ and ‘support from the EMAF team’ received the highest ratings. However, feedback on the application process and the organizational impact of the grants were less positive. EMAF clients gave lower scores to ‘length of application process’ and ‘organizational impact’. Respondents made some suggestions for improvement to the program, such as on extending the running time, simplifying administration (specifically procurement), increasing fund allocation and providing grants in advance, and more technical export advice.⁴²

52. **An example of the contribution of the EMAF program was its support for AMRU Rice.**

The company was established in 1960 and following completion of a new rice mill in 2012, it launched an export drive. It approached EMAF, which helped AMRU develop an export strategy and attend three major international events in China, France and the United States. According AMRU’s Chairman, EMAF supported the company at a critical stage in its growth and helped it eventually become one of the two largest milled rice exporters in Cambodia. Between 2012 and 2015, AMRU’s rice exports increased by about 300 percent from approximately 20,000 tons per year to 60,000 tons per year. Due to this growth in rice exports, AMRU invested in additional mills and rice drying equipment and now owns facilities around the country. The company has also implemented contract farming to secure paddy supply, supporting the income of approximately 10,000 farmers. These investments and commitment to premium quality were recognized when AMRU achieved GMP/HACCP and Organic certification, crucial to continued growth in key international markets.⁴³

53. **The short time frame of the second phase undermined the EMAF’s effectiveness and contribution.**

Although the second phase of the program ran for less than half the time of the first, the streamlined processing meant that it could approve and disburse substantially

more funding than under the first phase. However, although it been planned as a two-year program it started late due to delays in contracting and ran for just 11 months. The delay and short time-frame undermined the number of clients the program could support. As marketing had to be restarted, approvals did not pick up until four months into the program and then was curtailed 3 months before the end to give EMAF clients time to implement their plans. The abbreviated running time also limited the amount of time clients had to implement their export development plans, which affected the type and complexity of the activities initiated, particularly towards the end of the program. According to the consulting firm’s assessment of the program, “to a certain extent this contradicted the purpose of the Export Development Plan, which was intended to be a holistic assistance approach. Instead, as a result of these time constraints, EMAF clients received support for only distinct export-related activities.” In addition, some EMAF clients had to cancel activities because of insufficient time for implementation.⁴⁴ A further key obstacle was the cumbersome nature of the application process, which discouraged many firms from applying and encouraged others to drop out. This was especially the case for small firms.

54. **Better Factories Cambodia (BFC) has continued to effectively serve the garment sector.** This component has served to improve working conditions, improve business outcomes for factories, and attract brands. An IFC report highlighted the following achievements in the garment sector in Cambodia that BFC contributed to: (i) Nearly all factories pay the minimum wage compared to less than 70 percent when the baseline was established in 2004; (ii) there has been a 46 percent increase in factories’ full compliance with 21 legal requirements (including functional emergency-exit doors, the absence of child labor, and the like) since the beginning of BFC Public Transparency initiative in 2014; (iii) an independent assessment by Tufts University showed that factories that were more compliant with labor laws - a key objective of Better Work - were more likely to survive the 2008 financial crisis; (iv) a report using data from BFC shows that factories’ increased compliance with international labor standards is associated with higher productivity, increased profitability, improved employee retention, higher incomes for workers and their families, and smaller gender wage gaps.

55. **Better Factories Cambodia also reduced its dependence on donor funding.** The share of non-donor funding - that is, share of the program’s budget earned from factory subscriptions and industry groups rather than from external development partners - was 54 percent in 2012, below the expected target of 65 percent. However, the share of non-donor funding to BFC increased significantly—from 27 percent in 2009 to 36 percent in 2010 and to 54 percent in 2011. At present, BFC earns nearly 70 percent of its annual budget through non-donor support including contributions from the Garment Manufacturers Association in Cambodia, the government of Cambodia, and income from paid services such as the sale of factory assessment reports, training programs and advisory services. The remaining 30 percent of BFC’s budget comes from international donor organizations.⁴⁵ The share of buyers’ subscriptions (part of non-donor funding) in the overall funding increased significantly from 6 percent in 2010 to 26 percent in 2016 and remains a major contributor to BFC’s finances.⁴⁶

Figure 7. Share of Non-Donor funding to BFC

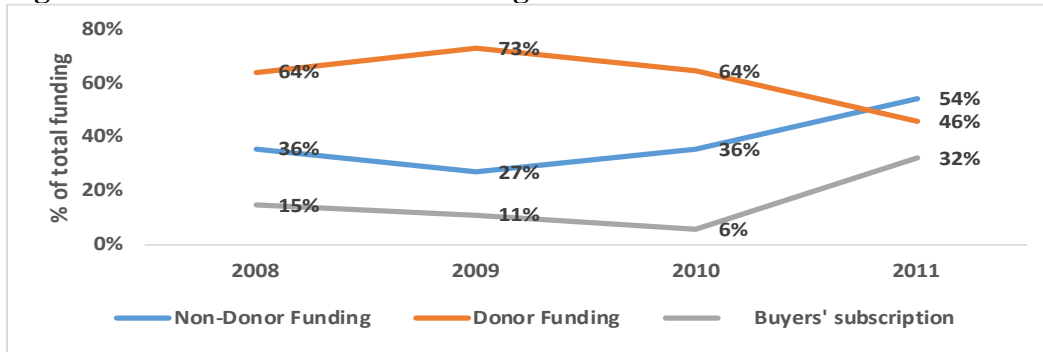
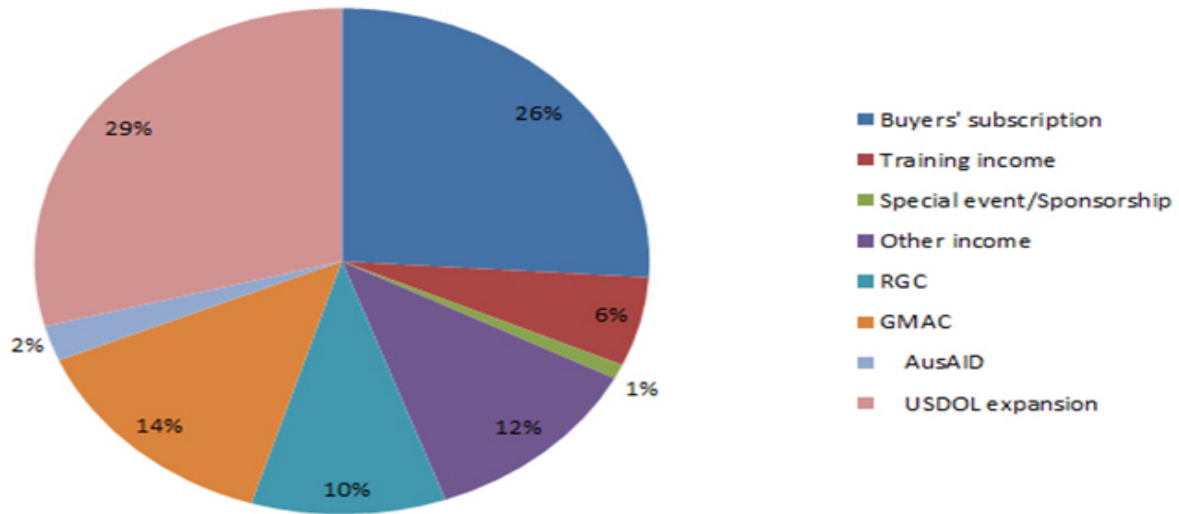
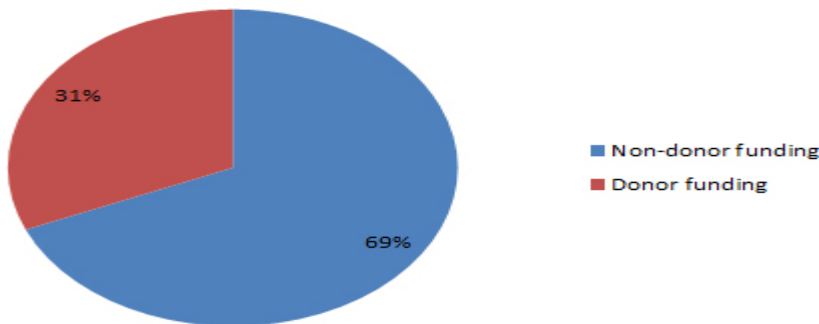


Figure 8. Better Factories Cambodia Sources of Income, 2016



Source: http://betterfactories.org/cambodia/?page_id=71#!prettyPhoto accessed 11 January 2018.

Figure 9. Donor versus Non-Donor Funding of Better Factories Cambodia



Source: http://betterfactories.org/cambodia/?page_id=71#!prettyPhoto accessed 11 January 2018.

56. Overall, the efficacy of the project in contributing to achievement of this intermediate objective is rated Modest. The project supported 75 firms and business

associations in preparing export development plans, exceeding the target of 65. Most of the firms reported achieving their export objectives. While the program made a positive contribution to helping firms access export markets, it is difficult to attribute a firm's export performance to a relatively small set of activities and limited funding (that averaged \$6,400 per firm) to the EMAF program. The program's effectiveness and contribution was significantly undermined by the delay in starting up and the short active period. Alongside the various other donors supporting BFC, the project's financing to GMAC to fund BFC contributed to BFC's progress in helping Cambodia's garment factories achieve core labor standards, that in turn has helped increase confidence among buyers outside Cambodia. Given that the EMAF program could have achieved substantially more had it had a longer active period, achievement of this objective is rated as **Modest**.

Intermediate Objective 3: Introduce Transparency in Investment Processes

OUTPUTS

57. **The project helped build capacity to implement the Law on Concession, but no PPIs were developed under the project.** The Law on Concession was enacted in 2007 to promote and facilitate the implementation of privately financed infrastructure projects under a concession contract.⁴⁷ The project financed preparation of legal documentation (implementing rules and regulation) for the Concessions Law and government officials were provided training to manage future PPI projects. Ten training sessions were conducted for relevant central and provincial government staff. The Khmer version of the Sub-Decree in the Law of Concessions was revised and three suitable pilot PPI projects were identified. However, the pilot projects were found to be not feasible and no pilot private participation in infrastructure projects were realized as envisioned in the project design. This was a result of several factors including a relatively lower government priority placed on developing concessions for infrastructure services for the private sector; the onset of the financial crisis in 2008 that caused a worldwide slowdown in private infrastructure investment; and inherent challenges in developing PPIs that a limited set of training events were unlikely to address.

58. **Capacity building and IT systems were provided to the investment promotion agencies.** The project financed training programs on investment promotion and advisors on strategy implementation for the CDC and CIB. A foreign investor perception survey was also financed. Under the project, an Investor Tracking/Client Relationship Management System was also procured and installed. The system collected information from various government sources and initial training and customization of the system was conducted under the project. By project completion, the initial Investment Tracking System had been rolled out to one department and data was being migrated from the old system to the new system and the roll-out of this system to six CDC departments was not completed by project closing in 2012. The project also financed upgraded computer hardware and software for the CDC and CIB.

59. **Under the project, commercial laws and legal decision were published on websites but they have not since been regularly updated.** Under the project, websites for the Ministry of Justice and Supreme Court were designed, developed, and made available to the public.⁴⁸ The project also funded consulting services to train judges and key staff in the administration and usage of the websites. A selection of civil and criminal judgment cases from 1994 to 2006

were published. A number of laws and regulations were also posted on both websites, including the Commercial Law. However, no commercial law judgements were published. Moreover, no civil and criminal judgements after 2007 were published. The initial delay was apparently due to the need for legal experts to determine which cases were appropriate to make public but since then there has been no progress in publishing judgments. Both websites fell short of expectations under the project and progress since then has been limited.

60. **A national trade repository was initiated under the project and subsequently fully implemented.** The Trade Information Website was initiated but not completed by project closing. Relevant documents and a prospective system were designed, but its installation was delayed when all tender bids were rejected as unresponsive and non-compliant. It was subsequently re-tendered and installed under the follow-on World Bank-supported TDS project. In 2015, the Ministry of Economy and Finance established Cambodia's national trade repository (NTR) - www.cambodiantr.gov.kh - an online portal where traders can access all trade-related information needed to import into or export from Cambodia. The NTR aims to help reduce "discovery" costs, where trader have to identify exactly what government procedures are required, and how to comply with them.⁴⁹ The NTR also fulfills commitments under the ASEAN Trade Agreement in Goods Agreement and is part of the broader ASEAN Trade Repository. The portal assimilates information from all line ministries and institutions, involved in the import/export processes in Cambodia. The information content is managed by the National Trade Repository Secretariat located at the Department of Economic Integration and ASEAN of the Ministry of Economy and Finance.⁵⁰

OUTCOME

61. **Cambodia has seen limited PPIs to date and the government recently developed a roadmap to create an enabling environment for PPPs by 2020.** To date, Cambodia has seen some PPP projects in the power sector and public physical infrastructure including roads, bridges, and airports as Build-Operate-Transfer, Build-Own-Operate, or Maintain-Operate-Transfer that were "initiated, proposed and studied by private sector themselves."⁵¹ In the 2016 *Policy Paper on Public-Private Partnerships for Public Investment Project Management, 2016- 2020*, the government acknowledged that "since sub-decrees, legal instruments and operational management procedures to support the implementation of the Law on Concessions have not been developed and enforced, Public-Private Partnerships have not been fully and effectively implemented." Cambodia had not yet developed "a clear and comprehensive institutional mechanism" to manage public investment project cycle through PPPs. Instead, ad-hoc mechanisms that varied by each project prevailed, with no proper assessment of a project's viability and risks. The government acknowledged that this "decreased attractiveness for involvement from private sector and financial institutions, reduced project effectiveness, and heightened risks related to contingent liabilities on national budget."⁵² The 2016-2010 strategy identifies a wide range of measures needed to gradually establish an enabling environment that would both encourage private investors and protect public interest. These include, reviewing and revising the legal framework, identifying appropriate institutional mechanisms, setting out operational management procedures, establishing financial support mechanism, and clearly defining public investment priority sectors to be implemented through PPPs.

62. **Despite continuing issues in the business environment, Cambodia has seen significant success in attracting foreign investment.** The CDC remains responsible for public and private foreign investment and offers a “One-stop Service mechanism” for foreign investors. Within the CDC the Cambodian Investment Board is responsible for evaluating and approving foreign direct investment and coordinating and implementing the one-stop services. The Cambodian Special Economic Zone Board manages investment projects in SEZs. In 2007, the CDC established a Japan Desk and in 2015 a Korea Desk to facilitate investors from these countries. Overall, Cambodia has succeeded in sustaining very high levels of foreign direct investment. The ratio of FDI to GDP in Cambodia over the 10-year period 2007-16 was one of the highest in the world among developing countries. FDI to GDP averaged 10.6 percent in Cambodia in 2007-16, compared to 5.4 percent in Laos and 6.5 percent in Vietnam. Cambodia has attracted investment into the garment and footwear, light manufacturing, food and beverage processing, construction, tourism, and emerging mining and exploration industries. The main sources of foreign investment have been regional countries, including China, Japan, South Korea, and Vietnam.

Figure 10. Foreign Direct Investment in Cambodia, 2007-16 (Percent of GDP)



Source: World Bank Data - <https://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS?locations=KH>.

63. **Cambodia’s commercial legal system continues to lack transparency.** Following adoption of the Commercial Arbitration Law in 2006, Cambodia established the National Commercial Arbitration Center (NCAC) in 2009 an alternative dispute resolution mechanism to resolve commercial disputes more quickly and less expensively than through the court system. In 2013 NCAC was officially launched and in 2014 it adopted a set of arbitration rules. However, as of 2016 it had limited capacity and had only received only four cases.⁵³ In general, however, investors remain reluctant to use the Cambodian judicial system to resolve commercial disputes because the courts are perceived as unreliable and susceptible to external political influence or bribery.⁵⁴ Cambodia ranked 179 out of 190 countries in Enforcing Contracts in the 2017 Doing Business Report. According to a US State Department assessment, “most commercial disputes are currently resolved through negotiations facilitated by the Ministry of Commerce, the Council for the Development of Cambodia, the Cambodian Chamber of Commerce, or other institutions”⁵⁵

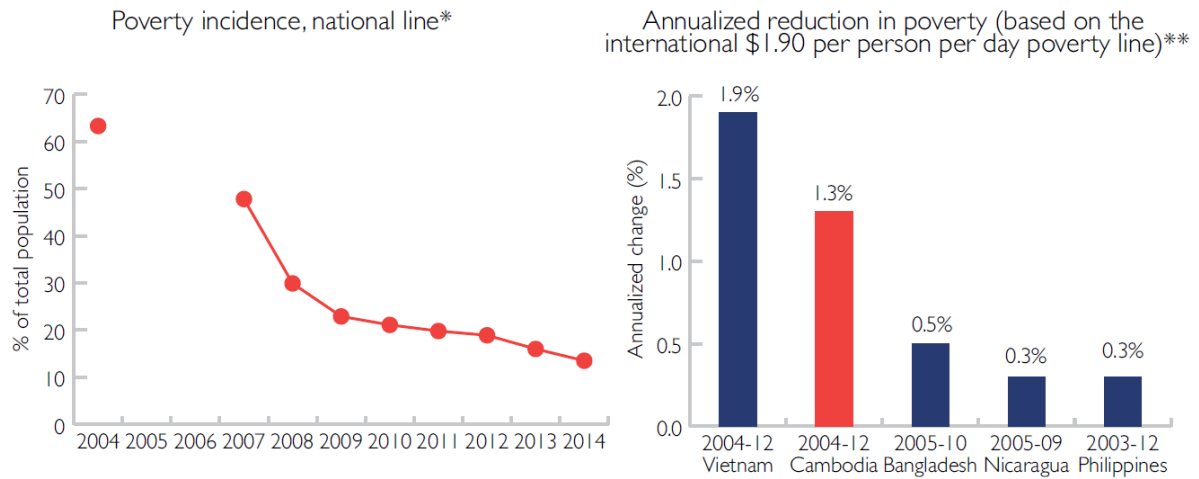
64. **It remains unclear if the Trade Information website has improved perceptions of the transparency of trade related processes and regulations.** At project completion, there had not been a significant improvement in indicators of transparency in the investment process. According to the 2014 ICA, 37 percent of enterprises felt that they have sufficient information about domestic regulations and only 3 percent reported having adequate information about customs and trade-regulations. The 2018 ICA (expected in April 2018) should provide an indication of firm perceptions since the Trade Information Website was rolled out.

65. **Achievement of this objective is rated Modest.** The project provided capacity building and IT systems to the investment promotion agencies and also helped launch the Investor Tracking System in CDC. Although attribution to the project is difficult, CDC has emerged as an effective institution and Cambodia has seen significant success in attracting foreign investment. The project helped build capacity to implement the Law on Concession, but no PPIs were developed under the project. In retrospect, this proved to be an unrealistic target given the limited set of capacity-building activities financed by the project. Under the project, commercial laws and legal decision were published on websites but they have not since been regularly updated and Cambodia's commercial legal system continues to lack transparency. A Trade Information Website was initiated and completed under a follow-on project but it remains unclear if website has improved perceptions of the transparency of trade related processes and regulations. On this basis, achievement of this objective is rated as **Modest**.

Project Development Objective: To Support the Government's Strategy to Promote Economic Growth

66. **Over the last decade, high economic growth in Cambodia has been accompanied by an impressive reduction in monetary poverty, with Cambodia outperforming its peers.**⁵⁶ According to the World Bank's 2017 Systematic Country Diagnostic Report for Cambodia (World Bank, 2017b), as of 2014, only 13.5 percent of the population lived under the national poverty line, compared to 47.8 percent of the population in 2007 (Figure 11, left panel). The reduction was dramatic during the 2007-9 period, at the peak of the agricultural commodity boom, when poverty declined by about 25 percentage points, and then 3.3 million people escaped poverty. Over a comparable time period between 2004 and 2012, extreme poverty (based on USD 1.90 a day at 2011 PPP) declined at a rate of 1.3 percentage points per year on average—the second highest rate among Cambodia's peers, behind only Vietnam where poverty declined by 1.9 percentage points per year over that period (Figure 11, right panel).

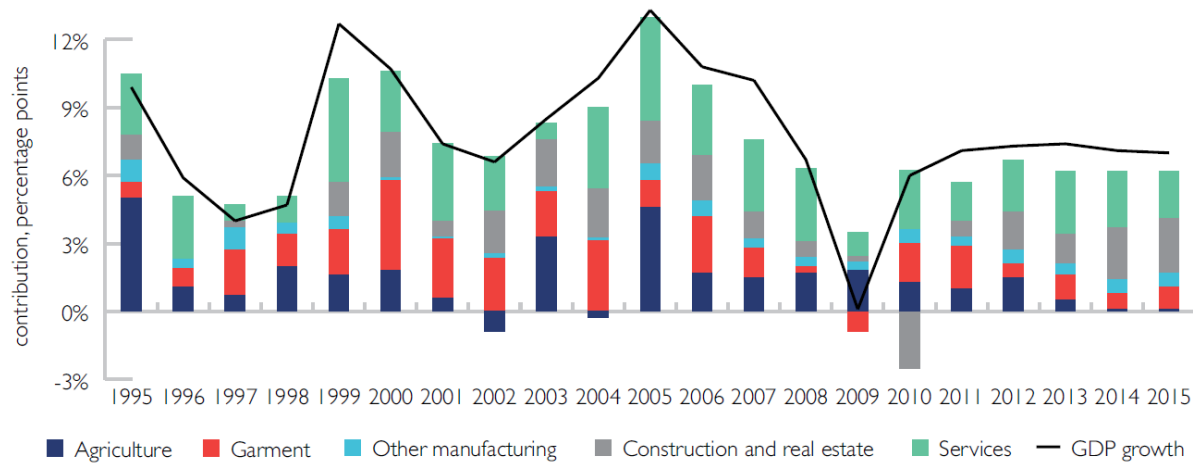
Figure 11. Cambodia has achieved impressive progress in poverty reduction over the past decade



Source: Official estimates, and CSES (2004-2014); World Bank staff estimates from the Global Monitoring Report (2015).

Notes: *Authorities re-estimated the poverty line using the 2009 CSES and have not produced comparable estimates for 2004. ** Different periods used in cross-country comparisons due to data availability.

67. **Cambodia sustained an average growth rate of 7.6 percent in 1994-2015, ranking sixth in the world, and has now become a lower middle-income economy (World Bank, 2017b).** Growth has been driven by exports of goods and services (mainly garments and tourism), which grew by a blistering 19.6 percent a year, with Cambodia ranking second in the world after Equatorial Guinea and ahead of stellar performers such as Vietnam (15.5) and Bangladesh (15.3). Agriculture and more recently, construction and real estate have also been main engines of strong economic growth. As a result, gross national income (GNI) per capita more than tripled from USD 300 in 1994 to an estimated USD 1,070 in 2015, the year in which Cambodia became a lower middle-income economy. Cambodia's impressive achievements have been built upon openness to trade and capital flows and driven by preferential trade treatment and large official development assistance (ODA) and foreign direct investment (FDI) inflows—7.9 percent of GDP on average in 2005-15.

Figure 12. Sector Contribution to GDP

Source: National accounts of Cambodia.

68. **In addition, Cambodia adopted a series of reforms aimed at becoming a highly open market-oriented economy and fostering private sector development (World Bank, 2017b).** The most notable reform was the adoption of the 1994 law on investment, which allowed 100 percent foreign-owned investment and provided guarantees against nationalization and regulation on price. The creation of the CDC as a one-stop service office for investors also helped channel foreign investment. This was accompanied by the enactment of critical regulations, including land, banking, bankruptcy, and company laws. Cambodia has also introduced notable cross-border trade facilitation improvements in recent years, resulting in faster export and import procedures. Cambodia ranks among the top 5 percent of economies in the world in terms of merchandise trade (imports plus exports), at 144 percent of GDP in 2015. Compared to other Southeast Asian countries, Cambodia is also recognized as having the least trade restrictions in services.

69. In terms of achievement of objectives, although two out of the three intermediate objectives of the project are rated as Modest (*i.e., the intermediate objectives “Facilitate Access of Enterprises to Export Markets” and “Introduce Transparency in Investment Processes” are both rated as Modest, whereas, “Reduce Transaction Costs Related to Trade and Investment” is rated as Substantial*), the project’s development objective was to “support the government’s strategy to promote economic growth” and evidence shows that Cambodia’s economic growth has been steady in the range of 7.5 to 7.7 percent both during the project implementation period 2005 (Board approval) to 2012 (Project Closure) and post-implementation 2005 (Board approval) to 2015 (Post-closure). This in-turn has contributed to a high GNI per capita, resulting in Cambodia becoming a lower middle-income economy in 2015. Although the contributions from the EMAF, PPI, Investment Promotion and Legal Transparency components of the projects to the economic growth were not significant, there is some evidence that the project likely contributed to the economic growth mainly through the substantial achievement of its intermediate objective related to trade facilitation. Since there has been an impressive economic growth and the project has likely contributed to the economic growth through its trade facilitation component, IEG rates the achievement of the overall

project development objective “to support the government’s strategy to promote economic growth” as **Substantial**.

5. Efficiency

70. **There is some evidence that the project’s trade facilitation component likely contributed to the overall economic growth and some evidence of benefits from the other components of the project.** The \$5.2 million invested through the project for trade facilitation helped realize substantial improvements in the customs processing function in Cambodia. A modest amount of \$0.5 million supported 75 firms develop export plans, while \$1.3 million supported the Better Factories program that has played an important role in helping Cambodia’s garment factories meet international standards. The project also made contributions to capacity-building in various agencies involved in trade and investment: \$0.8 million for legal transparency; \$0.5 million for strengthening capacity to implement PPI’s and improve investment promotion capacity in CDC and CID. Although some of these components did not achieve their final objective and attribution of subsequent progress to the project is difficult, some unquantifiable benefits to the relevant staff and institutions are likely to have accrued from the training and advisory services provided.

71. **Efficiency of the project was undermined by very slow start-up of all components of the project.** Due to issues with procurement, each of the components saw considerably start up delays that necessitated the three-year extension of the program. In 2007, following instances of fraud and corruption identified in other World Bank–financed projects in Cambodia, an Independent Procurement Agent was retained by the government to manage procurement under all World Bank–financed projects. Difficulties with the initial firm resulted in the recruitment of another firm in 2009 to manage procurement. Only after 2009, more than three years after project effectiveness did procurement activities pick up pace. Under the EMAF component, the first phase proved to be far less efficient than the second phase. In the 23-month first phase of the project in which a government committee approved each grant the program supported \$139,000 to support 24 firms. Under the 11-month second phase, in which approvals were delegated to the management team with appropriate guidelines, the program disbursed \$341,000 to support 51 firms. Under the second phase, approvals were made 5 times faster than at the first phase. In the end, the EMAF program only ran at its most efficient for the final 11 months of the nearly 7 years that the TFC project was active, undermining both the EMAF’s effectiveness and efficiency.

72. **Efficiency in achieving the project ’s objectives is rated as “Modest”.**

6. Ratings

Outcome

73. **The project was highly relevant but had moderate shortcomings in its achievement of objectives and efficiency and is rated “moderately satisfactory”.** The relevance of the project’s objectives was high given the consistency of the project’s objectives with conditions in Cambodia in the mid-2000s, the government’s on-going private sector development initiatives, and the Bank Group’s assistance strategy at the time. While the objectives remained relevant throughout the life of the project, there were some shortcomings in the project’s initial design to achieve these objectives. The project was a customs modernization project with less developed, relatively minor “investment” components added on. These components were de-emphasized in the formal restructuring in 2009. The project substantially achieved its objective of contributing to reduced trade transaction times and cost through the successful roll-out of customs automation. The project supported 75 firms and business associations in preparing export development plans and most of these firms reported achieving their export objectives. However, delays in implementation and a flawed initial design limited the extent of the EMAF’s contribution. The project also made contributions to capacity-building in various agencies involved in trade and investment. CDC has emerged as an effective institutions and Cambodia has seen sustained success in attracting foreign direct investment. However, the project was not able to achieve ambitious targets in PPPs in infrastructure or substantially increase transparency in the legal commercial system by ensuring updated laws and legal judgments were published on websites. Although there were moderate shortcomings in the achievement of the project’s intermediate objectives, overall efficacy was substantially achieved because there has been an impressive economic growth and the project has likely contributed to the economic growth through its trade facilitation component. Efficiency of the project was undermined by very slow start-up of all components of the project. The “moderately satisfactory” rating reflects the combined ratings for relevance, efficacy, and efficiency.

Risk to Development Outcome

74. **The risk to sustaining the reforms supported by the project is low.** In the years since the project closed, the government has shown strong political will and commitment to pursuing economic reforms and improving governance that were the underlying objectives that the TCF project sought to support. Its 2016 Industrial Development Strategy, identifies a broad range of policy measures designed to “*maintain sustainable and inclusive high economic growth through economic diversification, strengthening competitiveness and promoting productivity.*”⁵⁷ In late 2017, five years after the completion of the initial roll-out phase under the TFC project, the automated customs system has been consolidated and rolled out to all major border points in Cambodia. The government has shown strong commitment to maintaining and enhancing customs modernization and it is highly unlikely that the progress to date will be reversed. Progress toward the other objectives achieved under project is also unlikely to be reversed. The CDC has emerged as an effective institution and Cambodia has successfully attracted very high levels of foreign direct investment over the past decade. In 2016, the government introduced a four-year roadmap to develop an appropriate environment

for PPPs in infrastructure and it is likely that progress toward this goal will continue. Some of the exporters supported under the EMAF have continued exports while some others have ceased business as is to be expected in the private sector.

75. **The risk to development outcome is rated Negligible to Low.** Overall, Cambodia's exports have seen consistently high levels of growth over the past decade and it has succeeded in diversifying exports into light manufacturing and food processing. Cambodia faces continuing challenges in further improving its investment climate, improving governance, and maintaining competitiveness in the changing global environment. There are also political uncertainties associated with its political system. However, given the degree of government commitment to market-oriented growth and the sustained development progress seen in Cambodia over the last decade the risk to sustaining the progress achieved under the project is rated **Negligible to Low**.

Bank Performance

QUALITY AT ENTRY

76. **The project was generally conceptually sound and reflected significant prior analytical work in the sector, although some design weaknesses were apparent.** The project's strategic relevance and approach well reflected conditions in Cambodia in the mid-2000s, responded to government demand for support for elements of its on-going private sector development strategy, and remained consistent with the Bank Group's assistance strategy in Cambodia throughout its life. Its stated overall and intermediate objectives generally followed a clear logical framework. The project's trade facilitation components, in particular, were based on substantial analytical underpinnings by both the World Bank and other development partners. For example, the activities that helped the government to commit to the reform supported by the project were part of a multi-year effort, including a series of analytical pieces (ICA, value chain analysis, PPP country study, etc.), technical assistance in a range of areas, workshops and major conferences, donor coordination and policy lending. However, there were some areas of weaknesses in the initial design. Several of the indicators were poorly chosen and inaccurately reflected the project's scope or were not reliably measurable and had to be restructured. The project established overly ambitious outcomes for the limited set of capacity-building activities planned under the PPI component.

77. **In retrospect, readiness for implementation at the time of project approval was insufficient.** In September 2009, shortly before the original closing date, the project had disbursed just 40 percent of the total grant amount after four years of implementation. Project restructuring shortly before the original closing date reflected the slow progress on nearly all elements of the project and the likelihood that the project would have not achieved any of its objectives. In retrospect, several shortcomings in the identification and appraisal of some of the project's components and in project preparation undermined the project's performance. Shortly after effectiveness, the government decided to not pursue the single window (due to disagreement with the World Bank on whether the single window should be housed in the customs department or elsewhere and whether the system should be managed by the government or a public private partnership), which was a significant part of the initial project

concept. Insufficient preparation and design of the EMAF component resulted in the program only operating effectively in the final 11 months of the 7-year duration of the project.

78. **Several of the indicators were poorly chosen and inaccurately reflected the project’s scope or were not reliably measurable.** The direct linkage between the project development objective and the final outcomes in the original results framework was not clear. For example, the outcome indicator of firms reporting corruption as a moderate, major or severe problem was influenced by a much broader set of factors than those addressed in the project. In other cases, the indicators were not reliably or accurately measured, such as response time on investor inquiries. The reallocation of the grant that accompanied the 2009 restructuring of the project gave primary attention to trade rather than to investment. On the legal transparency component, it turned out that it was difficult to determine the exact number of judgements being made by the courts and it was therefore difficult to ascertain the proportion of cases published on the website.

79. **Based on these factors, quality at entry is rated “Unsatisfactory” because there were major shortcomings in preparation and appraisal.**

QUALITY OF SUPERVISION

80. According to the ICR, over the seven- year life of the project, the World Bank conducted 16 supervision mission in which ISRs were filed and aide-memoirs recorded their findings and were shared with the government. However, it should be noted that IEG did not find any of the supervision reports from 2005 to 2010 or the mid-term report in institutional files and therefore, had to request them from the project team. A mid-term review conducted in May 2008 concluded that the PDO remained relevant but recommended restructuring of the project. Project restructuring shortly before the original closing date reflected the slow proactivity and progress on nearly all elements of the project and the likelihood that the project would have not achieved any of its objectives by the original closing date. Restructuring was critical to enabling the project to achieve the objectives that it did. Several of the outcome indicators of the project were changed at the time of restructuring in 2009 due to their inaccurate reflection of the project’s scope as well as difficulty in collecting data. After 2008, the task team leader of the project was located in the Cambodia country office that supported the supervision and restructuring of the project. According to the government, the World Bank adopted an appropriate “middle ground” between “steering the project” and taking a “hands off” approach to allow the government to develop the capacity to manage the project. On this basis, the quality of Bank supervision is rated **Moderately Satisfactory**.

81. Together, these lead to an overall rating of Bank performance of **Moderately Satisfactory**, given the fact that the project development outcome is rated Moderately Satisfactory.

Borrower Performance

GOVERNMENT PERFORMANCE

82. **Government performance was satisfactory.** The project was based on existing government private sector development strategies and the government played an active role in the project's design and implementation. Shortly after the project became effective, the government determined to not pursue the single window concept under the project and instead delayed it to a future date. Financial management remained satisfactory throughout the project. No significant issues arose with respect to financial management of the project. The government submitted quarterly financial monitoring reports that were generally on schedule. Annual audited financial statements were submitted on a timely basis and internal and external audits completed as required. According to Emerging Markets Consultants, who managed the EMAF component of the project, there was substantial improvement in government performance from the beginning to the end of the process. Initially, the government took 8 months to appoint the management committee for the EMAF, considerably delaying progress. During the second phase, government performance improved substantially and it limited its role to providing guidance and oversight while delegating most decisions to the EMAF management team. On this basis, government performance is rated **Satisfactory**

IMPLEMENTING AGENCY PERFORMANCE

83. **Implementing agency performance was mixed.** The General Department of Customs and Excise played a central role in the project and its performance largely accounted for the main achievements of the project. Implementation of customs modernization benefitted from a few key champions of reform in the Ministry of Commerce and the GDCE. The Minister of Commerce at the time played an important role as a champion of reforms. The then Deputy Director-general of GDCE is currently the Director-General and played an important role in shepherding the GDCE through the modernization process, helping ensure the largely successful outcome. The CDC and Ministry of Commerce also played positive roles in implementing the relevant components of the project. Less effective was the Ministry of Justice and Supreme Court were unable to update the websites established under the project. The consulting firm contracted to manage the EMAF proved to be a capable organization with both international experience and staff as well as knowledge of the business environment in Cambodia and the local private sector. On balance, the performance of the implementing agencies is rated **Moderately Satisfactory**

84. These ratings lead to an overall borrower performance rating of **Moderately Satisfactory**.

Monitoring and Evaluation

Monitoring and Evaluation Arrangements

85. **The project's monitoring and outcome indicators were to be drawn from the Investment Climate Assessments (ICAs) and Time Release Studies.** The original baseline indicators for the project were drawn from the first ICA conducted by the World Bank in

Cambodia in 2004. A second Investment Climate Assessment was expected in 2006/07 that would inform the mid-term review of the project. The government also planned to establish a performance monitoring system for trade facilitation, based on a simplified version of the World Customs Organization's Simplified Time Release Study as well as a user survey based on the Investment Climate Assessment. Indicators for the trade facilitation component would encompass border-related processing times, inspections, steps, and costs. The PPI component would be monitored through the Ministry of Finance and CDC's ongoing role in project approval, as well as a government/private sector forum. Progress on the legal transparency component was to be measured by the proportion of judgments that were published on the website, which was expected to be readily observable on the relevant websites.

86. However, as discussed above, several of the indicators were poorly chosen and inaccurately reflected the project's scope. Several of the outcome indicators of the project were changed at the time of restructuring in 2009 due to their inaccurate reflection of the project's scope as well as difficulty in collecting data. To better reflect the project's scope, the main outcome indicator was revised to focus on the perceptions of trading and trade-related companies rather than general "investors" and to focus on the performance of customs rather than the overall trade process, which included variables outside the control of the Customs Department. Other changes were made to some of the indicators because they were either not being measured or objective measurement methodology did not exist or due to adjustment in project design that required some changes to better align some of the indicators with project inputs. With respect to progress on the legal transparency component, it turned out that it was difficult to determine the exact number of judgements being made by the courts and it was therefore difficult to ascertain the proportion of cases published on the website. The project was therefore unable to report the outcome with any accuracy but instead had to use a rough estimate of the proportion of cases published.

Implementation of Monitoring and Evaluation

87. Monitoring reports and data collection were generally conducted on schedule. A mid-term review was conducted in May 2008 that drew on the enterprise survey for the 2008 Investment Climate Assessment. The World Bank conducted a large number of ISR missions as well as a mid-term review that enabled it to closely monitor progress. In 2007, a DTIS Update was prepared with support from the Enhanced Integrated Framework (EIF), the successor to the IF program. In 2014, a third DTIS update was prepared that was fully led by the government rather than a development partner.

88. Weaknesses in the project's indicators were somewhat mitigated by the government's progress in establishing a monitoring system for the trade SWAp. The parallel TDSP (2009-16) provided resources necessary to recruit full-time international and national M&E consultants, who collected data on all supported projects on a regular basis and provided feedback to stakeholders on progress in trade-related areas. The Trade SWAp roadmap that had been endorsed by all key ministries and agencies became a tool to guide World Bank interventions in trade-related areas.

Utilization

89. **Close monitoring resulted in the restructuring and extension of the project in 2009 that allowed the project to achieve its objectives.** The close monitoring of the project in 2008 made it clear that the project would likely not achieve any of its objectives by the closing date. The restructuring was driven by the need to redefine the project's indicators to better reflect the project's scope as well as its modified focus following a reallocation of funds within the project's components.

90. **Overall, project M&E is rated as Modest.**

7. Lessons

91. **Early involvement with government: In reform projects, prior policy dialogue and analytic work can enable the World Bank to develop a strong alignment of interest with the government counterparts, as counterparts in key positions are important to ensuring progress.** Prior to the approval of this project, the World Bank had engaged with key Government counterparts through policy dialogue informed by value chain work and the 2004 Investment Climate Assessment (which relied on both an enterprise survey and the value chain work). This led to a mutual understanding between World Bank and Government counterparts of the challenges faced by Cambodia. By the time this project was formulated, WBG had built a basis of agreement around the severity and nature of the problems. Due to the strong alignment of interest between the World Bank and the Government counterparts, the successful customs modernization efforts were in part driven by champions in key positions in the Ministry of Commerce and customs department. These individuals were fully committed to the success of the modernization process, aligned differing interest groups, and effectively managed the project through its completion.

92. **Expert assistance: Programs (such as EMAF) that involve disbursement of funds and provision of technical assistance to firms under a matching grant scheme should ensure that there is a qualified and experienced team in place for effective utilization of the matching grants. Otherwise, lack of capacity and cumbersome approval processes can result in significant delays in the disbursement of funds to potential firms.** Under the EMAF component of the project, the first phase proved to be far less efficient than the second. That is, during the 23-month of the first phase, a government committee approved each grant and disbursed \$139,000 to support 24 firms. Whereas, under the second phase, a locally-based consulting firm with both international staff and experience as well as local knowledge, was contracted to implement the EMAF program. During the 11-month of the second phase, the program disbursed \$341,000 to support 51 firms. That is, under the second phase, approvals were made five times faster than the first phase. In the end, the EMAF program only ran at its most efficient for the final 11 months of the nearly 7 years that the project was active, undermining both the EMAF's effectiveness and efficiency.

93. **Implementation readiness: Prior to board approval, the team should ensure that the project is ready for implementation, especially by conducting a realistic assessment of the government's capacity to implement complex components (such as a national single window). Lack of implementation readiness can lead to significant delays and cancellation of components, and undermine the project's performance.** The World Bank and government had not agreed on the underlying approach toward a single window at the time of project approval. Substantive differences on whether the single window should be located within or outside customs and be managed by a public private partnership or by the government could not be resolved and the component was eventually dropped from the project. These differences should have been resolved prior to Board presentation to have avoided undue delays and eventual cancellation of the component.

94. **Trade-off between good governance and timely project implementation: In instances of fraud and corruption in WBG portfolio in a country, timely project implementation may at times have to be forgone to safeguard good governance.** The World Bank insisted on stringent procurement safeguards in the context of widespread governance issues prevalent in the country at the time. In several cases this resulted in the rejection of all bids and created delays of up to 6-12 months due to the need to rebid. From the perspective of local stakeholders, the World Bank was at times excessively rigid in its management of procurement.

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- ¹⁶ PAD page 8; Development Grant Agreement, Schedule 2 Description of the Project, p. 14. The Projects development objectives were consistent across both the PAD and Development Grant Agreement.

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- ²⁴ General Department of Customs and Excise, Cambodia <http://www.customs.gov.kh/business-traders-3/best-traders/>
- ²⁵ Government of Cambodia, *Policy Statement on Trade Policy Review Report by the WTO*, 2017.
- ²⁶ See World Trade Organization, *Cambodia Trade Policy Review*, 2017.
- ²⁷ Government of Cambodia, *Grantee's Implementation Completion and Results Report, Trade Facilitation and Competitiveness Project*, 2012.
- ²⁸ World Bank, *Implementation Completion Report, TFCP*, 2012.
- ²⁹ General Department of Customs and Excise, Cambodia, <http://www.customs.gov.kh/trade-facilitation/national-single-window/>
- ³⁰ See <https://co.moc.gov.kh/About>.
- ³¹ World Bank, *Cambodia - The investment climate assessment 2014: Creating Opportunities for Firms in Cambodia*, 2014. See also Time Release Study conducted by the Asian Development Bank and the Japan Fund for Poverty Reduction in 2013; and
- ³² Government of Cambodia, *Policy Statement on Trade Policy Review Report by the WTO*, 2017
- ³³ World Bank. Doing Business 2006-2015.
- ³⁴ World Bank, *Cambodia - The investment climate assessment 2014: Creating Opportunities for Firms in Cambodia*, 2014. Note that the ICR incorrectly reports the proportion of traders rather than exporters in the results matrix.
- ³⁵ Of note is the Doing Business Cost to Export increased from \$736 in 2006 to \$795 in 2015 and the Cost to Import increased from \$816 in 2006 to \$930 in 2015. These include costs for documents, administrative fees for customs clearance and technical control, customs broker fees, terminal handling charges, and inland transport.
- ³⁶ Doing Business indicator details.
- ³⁷ World Bank, *Draft Logistics Assessment Cambodia*, draft, 2018.
- ³⁸ The original intention was to follow up immediately after the first phase with the second phase of the project, however due to delays in project commissioning, this was not possible. (Source: Cambodia's Export Market Access Fund II Final Report. Emerging Markets Consulting. 2012).
- ³⁹ Source: <http://www.emergingmarkets.asia/consulting/news/2014/02/21/export-market-access-fund/>.
- ⁴⁰ Source: Better Factories Cambodia: Thirty third compliance synthesis report / International Labour Office; International Finance Corporation. - Geneva: ILO, 2016.
- ⁴¹ Emerging Market Consulting, *Cambodia's Export Market Access Fund II: Final Report*, 2012.
- ⁴² Emerging Market Consulting, *Cambodia's Export Market Access Fund II: Final Report*, 2012.
- ⁴³ Source: <http://www.emergingmarkets.asia/consulting/news/2016/06/07/amru-rice/>.
- ⁴⁴ Emerging Market Consulting, *Cambodia's Export Market Access Fund II: Final Report*, 2012.
- ⁴⁵ At present, BFC is a partnership between the ILO and IFC. Its main funding sources include Australia (Department of Foreign Affairs and Trade, DFAT); The Garment Manufacturers Association of Cambodia (GMAC); Germany (Federal Ministry for Economic Cooperation and Development, BMZ; Deutsche Gesellschaft für Internationale Zusammenarbeit, GIZ); Netherlands (Ministry of Foreign Affairs); The Royal Government of Cambodia; United States (US Department of Labor, USDOL).
- ⁴⁶ http://betterfactories.org/cambodia/?page_id=71.
- ⁴⁷ <http://www.ppp.mef.gov.kh/sites/default/files/Cambodia%20-%20Law%20on%20Concessions.pdf>.
- ⁴⁸ The websites are: www.moj.gov.kh (Ministry of Justice), and www.supremecourt.gov.kh (Supreme Court).

⁴⁹ Government of Cambodia, Policy Response to WTO Paper, 2017.

⁵⁰ See “Cambodia National Trade Repository” website: <http://www.cambodiantr.gov.kh/index.php?r=site/display&id=12>.

⁵¹ Cambodia, *Policy Paper on Public-Private Partnerships for Public Investment Project Management, 2016 – 2020*, 2016.

⁵² Cambodia, Policy Paper on Public-Private Partnerships for Public Investment Project Management, 2016 – 2020”, 2016.

⁵³ World Trade Organization, Trade Policy Review Cambodia, 2017.

⁵⁴ World Trade Organization, Trade Policy Review Cambodia, 2017.

⁵⁵ US Department of State, Office of Investment Affairs’ 2015 *Investment Climate Statement*, 2016.

⁵⁶ World Bank, Cambodia: Systematic Country Diagnostic, 2017.

⁵⁷ Government of Cambodia.

Appendix A. Basic Data Sheet

TRADE FACILITATION AND COMPETITIVENESS

(IDA-H1650)

Key Project Data (amounts in US\$ million)

	<i>Appraisal estimate</i>	<i>Actual or current estimate</i>	<i>Actual as % of appraisal estimate</i>
Total project costs	10.33	10.33	100
Loan amount	0.00	0.00	0
Cofinancing	10.00	10.00	100
Cancellation	0.00	0.1	1

Cumulative Estimated and Actual Disbursements

	<i>FY06</i>	<i>FY07</i>	<i>FY08</i>	<i>FY09</i>	<i>FY10</i>	<i>FY11</i>	<i>FY12</i>	<i>FY13</i>
Appraisal estimate (US\$M)	2.00	4.00	2.00	2.00	0.00	0.00	0.00	0.00
Actual (US\$M)	1.4	0.5	0.9	1.0	1.5	1.7	2.1	0.8
Actual as % of appraisal	70	12.5	45	50	100	100	100	100
Date of final disbursement:								11/30/12

Project Dates

	<i>Original</i>	<i>Actual</i>
Concept Review	n/a	7/22/2004
Appraisal	n/a	4/18/2005
Board approval	n/a	6/2/2005
Signing	n/a	6/14/2005
Effectiveness	12/12/2005	12/12/2005
Restructurings	n/a	05/02/2008 08/26/2008 12/03/2009
Closing date	12/01/2009	07/31/2012

Staff Time and Cost

Stage of Project Cycle	Staff Time and Cost (World Bank budget only)	
	<i>Staff Weeks (number)</i>	<i>US\$ 000s (including travel and consultant costs)</i>
Lending		
FY04	4	47.80
FY05	57	256.13
FY06	39	111.28
FY07	11	40.12
Total:	111	455.33
Supervision/ICR		
FY06	19	102.98
FY07	14	66.38
FY08	12	86.15
FY09	31	0.00
FY10	41	141.40
FY11	27	86.60
FY12	30	102.11
FY13 (as of September)	6	9.98
Total:	180	683.73

Other Project Data*Borrower/Executing Agency:***Follow-on Operations**

<i>Operation</i>	<i>Credit no.</i>	<i>Amount (US\$ million)</i>	<i>Board date</i>
P109648	TF-93573	14.72M	07-Jan-2009

Appendix B. Borrower Comments

NO COMMENTS WERE RECEIVED FROM THE BORROWER.