I. Key development issues and rationale for Bank involvement Background

1. **Background.** The Bank has extensive experience in trade-related institutional reforms in Cambodia, having managed over 30 related projects in Cambodia over the past ten years. Lessons from previous trade-related technical assistance operations were incorporated into TDSP’s original design and monitoring framework and have likewise been incorporated into the design of the proposed additional financing operation. The Bank’s project team draws heavily on technical expertise of the International Trade Department and project personnel have established a strong and credible professional relationship with RGC officials.

2. The TDSP is a programmatic trust fund in which all activities must be agreed by an inter-ministerial Sub-Steering Committee (SSC) chaired by the Senior Minister of Commerce. This concept note contains, therefore, an indicative list of the activities that are likely to be approved by the Sub Steering Committee (SSC) when it meets on December 9, 2013.

3. The replenishment funds and extended closing date of the TDSP have been requested by the Minister of Economy and Finance, H.E. Aun Porn Moniroth, on the behalf of Royal Government of Cambodia, in a letter dated November 15, 2013. The proposed additional financing will build upon the success achieved under the first phase of the project by establishing a pipeline of trade-related technical assistance activities through the Recipient Executed Trust Fund (RETF).

4. The WB task team has jointly reviewed with the PIU to create a detailed budget and work plan in order to keep track of disbursements against program objectives. A sophisticated monitoring and evaluation framework linking projects to the trade SWAP is also helping the WB and the PIU keep track of progress towards the project development objectives (PDO). The WB task team has provided guidance and continues to provide strategic guidance to each of the implementing agencies (IAs) in order to assist them disburse appropriately in order to meet their
PDOs. The WB is closely monitoring progress in these areas by attending the monthly inter-ministerial "implementing committee" meetings and the 3-monthly Sub Steering Committee meetings, chaired by the Senior Minister, the Minister of Commerce.

5. The complexity of managing a programmatic trust fund in which no initial work program was in place, but in which ministries competed for funds based on proposals to a Steering Committee, was underestimated at the time of program planning. The oversight of multiple projects by government officials, rather than consultants, working at the Ministry of Commerce using World Bank rules for consulting service procurement was another complicating factor. In effect, the impact of these arrangements slowed down the disbursements in the early days of the program, as the Bank team needed to (i) provide detailed advice to line ministries to formulate proposals and (ii) provide capacity building to the executing agency at Ministry of Commerce so that they could manage the approved proposals. The WB team was obliged to work with Government to build an institutional framework within the SWAp for the review and endorsement of projects and to build the capacity of government officials in line ministries to implement their projects once approved, before spending could begin. This involved 23 major project activities across 17 Ministerial Implementing Agencies (IA), all with varying levels of capacity. For these reasons, there was an initial disbursement lag.

6. The MoC strategy is to increase the capacity of the PIU by reinforcing government officials with international consultants and to replace officials in the PIU that may be hindering disbursements. The program implementing unit (PIU) is ensuring full disbursement by (i) replacing the head of the Procurement Review Committee at the Ministry of Commerce, who was moving too slowly, and increasing the frequency of meetings (ii) increasing the capacity of the procurement department by (a) sending the procurement officer for training at an international institute, (b) recruiting a new national and international procurement consultant; (iii) recruiting an implementation advisor (international) to help the IAs push the projects to completion by helping them write specifications and TORs, when this is the problem, and generally supporting the PIU; (iv) engaging consultants with international experience in the area of legal reform, capacity building and Sanitary and Phyto-Sanitary (SPS) to work across all the projects within their area of expertise in order to assist IAs to finalize their projects and obtain the desired outcomes. An additional financial expert is in the process of recruitment to reinforce the financial officer at DICO.

7. Key Development Issue: The proposed operation is informed primarily by the documents such as the Government’s 2013 Cambodia Trade Integration Strategy (CTIS) and by related analytical work undertaken by the World Bank and development partners, including the 2013 Cambodia Investment Climate Assessment, and a series of trade-related analytical products prepared under the Cambodian MDTF for Trade-Related Assistance (including a Trade in Services Performance and regulatory Assessment, Trade and Transport Facilitation Assessment, Transport Corridor Assessment, NTM Roadmap, ASEAN Needs Assessment Toolkit.)

8. The projects will be formed closely aligned with the RGC’s 5 year development plan, called the National Strategic Development Plan (NSDP). The program will contribute to the objectives of “increasing competitiveness and connectivity” as well as “strengthening government capacity to support growth diversification and competitiveness” mentioned in the NSDP. Both objectives are also prominently featured in the Rectangular Strategy and the 5th Mandate of the National Assembly 2013-2018.
9. **Rationale for the Additional Financing.** The proposed additional financing builds on the significant progress made to date and will provide support to the trade SWAp in the following way: First, it will support the Government’s work in trade facilitation, particularly the establishment and development of the national trade portal (or National Trade Repository), the automation of business registration, technical support to Customs automation, and automation of the Certificates of Origin process. The additional funds will also support legal reforms, particularly the e-commerce law and the investment law; and standards and technical barriers to trade through support to the reform of non-tariff measures (NTMs). Second, the funds will support performance monitoring through the trade sector – wide approach (Trade SWAp), which is a transparent mechanism for assessing progress in key areas of trade facilitation and business environment that has been endorsed by all stakeholders. Third, it will address the capacity needs of the agencies involved in trade policy formulation and implementation. Fourth, it will assist the Government to support the Ministry of Commerce implement and monitor the work of line ministries and agencies in its role as an executing agency.

10. The extended timeline of the project will allow the original Program Development Objectives to be fulfilled by allowing the completion of projects that are already underway and the addition of supplementary activities to complement those achievements.

11. Recent outcomes from the Trade program include customs and border automation, which has led to a leap of 29 rankings in the WB Logistics Performance Indicator; a stronger legal environment due to trade laws that have been drafted and the development of domestic standards. Institutional outcomes have been achieved in the creation of a sector wide approach that has increased coordination and trust between line ministries. The Ministry of Economy and Finance has started a process of eliminating non-tariff measures, which are obstructing market access. Trade reform and private sector development have been clearly reflected in the RGC’s recently launched 5 – Year Development Plan and the 5th Mandate of the National Assembly.

12. Connectivity, competitiveness and transparency can act as a powerful driver of pro-poor growth, but only if the right policies are put in place and the risks are carefully managed. The new set of projects envisaged for implementation with the additional funding will address weaknesses in the regulatory environment, cross-border trade and the investment climate. An indicative list of projects to be funded under RETF is attached.

13. A recent implementation support mission and external advisory review undertaken by an independent consultancy firm rated the TDSP as **Satisfactory** in meeting its development objectives and acknowledged that significant progress has been made on implementation. An independent review of TDSP by the EU in 2011 recommended a longer implementation period to March 31, 2015 and these findings were endorsed by the WB Trade Sector Manager, Ms. Mona Haddad in 2011 and 2012. Improvements to major indicators associated with trade facilitation and the business regulatory environment are evidence of the program’s impact. The recent Logistics Performance Indicator rankings showed that Cambodia has gained 29 rankings over the past two years. Likewise, a recent Investment Climate Survey noted that customs formalities have improved considerably over the past three years.

14. An external advisory panel also acknowledged the **Satisfactory** performance of the client in managing the project. The report did, however, acknowledge that in spite of achievements to date further support would be necessary to continue and extend the timeline and financial resources of the program in order for the full PDOs to be achieved.
II. Proposed Project Development Objective(s):

15. The TDSP’s development objective is to increase RGC’s efficiency in formulating and implementing effective trade policies. This is expected to lead to transparent and effective trade-related transactions, to export competitiveness, and poverty reduction. The TDSP’s focus is on establishing an enabling environment that reduces the risk to other sector- and product-specific trade promotion and development activities.

16. The TDSP will support the implementation of the Trade SWAp. The Trade SWAp will function as a coherent operating modality for interested donors to deliver trade-related assistance (TRA) and ensure its predictable, sustainable, efficient and effective financing.

III. Project Description:

17. **Scope of Additional Financing.** The Project Development Objective remains relevant and no changes are required. Project performance indicators likewise remain relevant although specific definitions have been clarified and target values have been increased to reflect progress achieved to date and an enhanced level of ambition.

18. The additional financing will provide further support in four key areas all designed to ensure full and effective implementation of the Trade SWAp, including regulatory reform, capacity building and the translation of international commitments into modern customs procedures and the development of a business friendly environment. First, it will support ongoing reform in the area of customs, trade standards and related legal reforms. Second, the evolution and application of a viable Trade SWAp that establishes benchmarks, creates milestones and reports transparently on progress towards targets. Third, a significant amount of funds will be devoted to sustainable capacity building for government officials. Fourth, the additional financing will support implementation of the project.

19. For ease of administration the project will maintain the same four components and related subcomponents.

**COMPONENT 1: TRADE POLICY FORMULATION AND IMPLEMENTATION (US$ 1,100,000)**

20. The additional financing will cover the costs of consultant services, goods, operating costs, and staff development required to implement activities identified in the Trade SWAp. This would include the following substantive sub-components:

- *1a: Technical Barriers to Trade (TBT) and Sanitary and Phyto-Sanitary (SPS)*

  $(US$ 200,000). This first sub-component is designed to accelerate the implementation of Government’s commitments in the area of SPS and TBT. Most of the products identified as high export potential by the DTIS 2013 are SPS sensitive and both SPS and TBT are increasingly important and challenging for Cambodian exporters. A review of the law on industrial standards and related implementing regulations is a necessary adjunct to the draft national standards that have already been funded by TDSP, in order for Cambodia to become fully WTO compliant; as is support to the automation of phytosanitary certificates.
in provincial offices. Training to strengthen RGC’s capacity to undertake risk assessment is envisaged as a capacity-building component of the phytosanitary automation project.

1b: Trade Facilitation (US$ 900,000). This second subcomponent will focus on implementation of the Revised 12-point Action Plan on Trade Facilitation, 2013. Through a further reduction in import and export costs at the border, this will lead to increased transparency in trade-related transactions and export competitiveness. An initial set of activities has been agreed and includes: (i) creation of a Trade in Services Portal, as an adjunct to the Trade in Goods portal funded under the current TDSP workplan; (ii) complete automation of the Certificates of Origins and process re-engineering to abolish unnecessary certificates (thus improving Cambodia’s Doing Business rankings), which are reforms that go beyond the originally specified project and will require additional funding; and (iii) automation of business registration, including process re-engineering to abolish unnecessary procedures (improving the time to register a new business.) Activities beyond the first year should include the implementation of a WTO-compatible Valuation methodology; and an ASEAN national logistics workshop. This sub-component would complement the development of a business case for a National Single Window separately funded by the global Trade Facilitation Fund.

- 1c: Other Legal Reforms and RGC WTO Obligations. The third sub-component will support the implementation of other Government’s commitments to ASEAN and WTO, as called for in the recent WTO Trade Policy review of Cambodia. The RGC has defined an ASEAN- WTO work program for updating relevant commercial laws. Progress has been significant but the agenda is unfinished. Activities will include the finalization of the e-commerce law (A draft e-commerce law has already been developed under TDSP funds, but a revised draft that incorporates comments from stakeholders can be completed using TDSP additional financing), draft standards law (see SPS/ TBT component above) a sub-decree on Non-Tariff Measures in addition to antidumping and trade remedies draft laws (the latter to be funded from a reallocation of existing funds).

COMPONENT 2: PERFORMANCE MONITORING (US$ 300,000)

21. The additional financing will cover the cost of consultant support to the M&E unit in D/ICO and to the revision of the SWAp Roadmaps, based on the Cambodia Trade Integration Strategy (CTIS) which is being updated.

22. As part of the Revised 12-Point Action Plan, the RGC agreed to abide with and update a performance monitoring system that monitors progress accurately, engenders the trust of all stakeholders in the reform, and transparently reports progress to the public. The automation of customs, the evolution of the Roadmaps in line with the priorities articulated in the CTIS 2013 and the future development of the National Trade Information Website (sometimes referred to as a Trade Portal). The TDSP will complement the World Bank’s work on improving the investment climate assessment, time release studies, and assistance in implementing/improving internal time tracking systems located within trade-related agencies. The National Trade Information Website will increasingly be used as an automated, transparent and real time monitoring tool.

COMPONENT 3: INSTITUTIONAL AND HUMAN CAPACITY (US$ 500,000)

23. The additional financing will continue to strengthen institutional and human capacity by equipping RGC staff with appropriate skills and experience to implement RGC trade policies.
This component will include individual training and institutional capacity-building, most importantly through the establishment of a Trade Research and Training Institute (TRTI) at the Ministry of Commerce to train Government officials about the implementation of trade regulation and border processes. This training may also be extended to the private sector.

24. An ongoing set of capacity-building activities - such as procurement and finance training and English and computer literacy training - will continue for staff in line agencies that are responsible for formulating and implementing trade policies. These activities emanate from a comprehensive human resources capacity assessment carried out in 2012 that identified areas of weakness and proposed a series of ongoing training and capacity building programs to remedy these weaknesses. The initial set of activities will be complemented by training to RGC officials at the Royal School of Administration using a trade curriculum that was funded under the original budget allocation for TDSP. Future activities could include demand-driven training, and strengthening of internal audit functions in trade-related agencies.

**COMPONENT 4: TDSP IMPLEMENTATION SUPPORT (US$ 1,200,000)**

25. The project management arrangements currently in place for the TDSP will be maintained. A seamless migration from the TDSP to the additional financing operation is envisaged, taking full advantage of existing project management experience and physical resources. All key local personnel and existing project monitoring mechanisms will be retained - including the existing procurement and financial management staff. Support will also be provided for secretarial functions, materials and travel expenses, translation and interpretation services, procurement, implementation, M&E and FM advisors, a project auditor, incremental operating costs and transport.

**IV. Financing**

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<thead>
<tr>
<th>Source:</th>
<th>(USD in million.)</th>
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<tr>
<td>BORROWER/RECIPIENT</td>
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<td>International Development Association (IDA)</td>
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<tr>
<td>Additional contribution to the TDSP Multi Donor Trust Fund</td>
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**V. Proposed Processing Schedule.** Building on policy dialogue undertaken as part of the MTR mission, the task team has proposed a timeline to deliver the additional financing within FY14, with indicative timings detailed below.

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<thead>
<tr>
<th>Proposed preparation timetable</th>
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<tr>
<td>Approval of Concept Memorandum</td>
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<tr>
<td>Appraisal</td>
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<tr>
<td>Negotiations (provisionally by exchange of letters)</td>
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<tr>
<td>Create AIS, prepare project paper package, incl. ISDS and ORAF</td>
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<td>RVP approval</td>
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<tr>
<td>Grant Agreement/signing of Grant Agreement</td>
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<td>Effectiveness</td>
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IV. **Safeguard policies that might apply**

The proposed additional financing to TDSP was reviewed by an environment and a social specialist and was classified as Category C. The program will be implemented nationwide with policy towards achieving maximized contribution of trade to economic development and poverty reduction in the country. In the context of the on-going Cambodia Trade Facilitation and Competitiveness, the Executing/Implementing Agencies have limited exposure to social and environmental safeguard as the project mainly concentrates on trade facilitation efforts and does not trigger safeguards policy.

V. **Contact point**

Contact: Julian Latimer Clarke  
Title: Senior Economist  
Tel: +855 23 861 300  
Fax: +855 23 861301  
Email: jclarke1@worldbank.org

The InfoShop  
The World Bank  
1818 H Street, NW  
Washington, D.C. 20433  
Telephone: (202) 458-4500  
Fax: (202) 522-1500  
Email: pic@worldbank.org  
Web: http://www.worldbank.org/infoshop

VI. **Contact for Executing Agency**

Ministry of Commerce  
Contact Person: H.E. Ms. Tek Reth Kamrang  
Telephone No.: +(855) 17 333456  
Fax No.: +(855) 23 866064  
Email: Kamrang7@gmail.com