

An integrated approach to Aid for Trade: Cambodia Trade Sector-wide Approach (SWAp)¹

Project/programme: Cambodia Trade SWAp

Aid for Trade categories: Trade policy and regulations

Donors: Supported by various donor programmes. Key donors: UNDP, World Bank, EC, UNCTAD

Project dates: Ongoing process since 2005

Summary:

This case study analyses Cambodia's Trade Sector-Wide Approach (SWAp) from an inclusive growth and poverty reduction perspective. Through a Trade SWAp, the government of Cambodia is seeking to integrate trade policy into a broader development and poverty reduction agenda. Supported by a number of key donor agencies and the government, the Trade SWAp represents a framework for channelling Aid for Trade resources to enable pro-poor growth through trade development. The example of Cambodia demonstrates how government and donor coordination and alignment, genuine stakeholder engagement and ex ante analysis of human development implications of trade reform were integral to achieving a pro-poor trade strategy with a long-term vision. The Trade SWAp in Cambodia remains a work in progress and its success in generating pro-poor development impacts remains to be seen. Nonetheless, a number of lessons for the development of an integrated framework for pro-poor Aid for Trade can be drawn from Cambodia's progress.

Lessons and recommendations on aid effectiveness and the Trade SWAp:

- Maintain and deepen stakeholder engagement during implementation.
- Ongoing sector-specific engagement by government and the donor community has been demonstrated clearly in Cambodia's successful garment sector initiative.
- An integrated approach to Aid for Trade must extend beyond the policy level to the level of programme implementation.
- Inter-ministerial coordination: Unless other ministries are actively integrated into the process and given responsibility for elements within the trade programme, an integrated approach cannot take shape in practice.
- A champion for donor coordination enabled the Trade SWAp to gradually take shape.

Lessons and recommendations on strengthening the pro-poor focus of the Trade SWAp:

- Sector-level priorities should be clearly grounded in an analysis of impacts across sex and other relevant socioeconomic criteria to ensure that benefits reach poor stakeholders.
- Link crosscutting policy issues with a set of specific export sectors.
- Recognise that the sector-specific approach is no more than an entry point to address the ultimate goal of poverty reduction.
- Poverty assessments and civil society engagement are key to enhance the voice of marginalised and poor groups.
- A government champion can help promote the Integrated Framework as a vehicle for supporting a demand-driven, strategic approach to pro-poor trade development.
- A champion for pro-poor growth. Placing an actor with an explicit poverty focus in a leadership role strengthens the pro-poor focus of the SWAp.

¹ Please cite this case study as ODI (2009).

1. Introduction

1.1 Overview

This case study analyses Cambodia's Trade Sector-Wide Approach (SWAp) from an inclusive growth and poverty reduction perspective. It contributes to a programme of work titled 'Aid for Trade: Promoting Inclusive Growth and Poverty Reduction', co-funded by the UK Department for International Development (DFID) and the Swedish Ministry for Foreign Affairs and commissioned on behalf of European Union (EU) Member States to strengthen the quality and poverty focus of EU Aid for Trade Strategy implementation.

The case study is structured as follows. The introductory section sets the trade, growth and poverty context of Cambodia and briefly outlines the Aid for Trade agenda. Section 2 situates this case study within this agenda and provides background on two key trade sector programmes – the Cambodia Better Factories programme and the Integrated Framework launched in 2001. Section 3 provides a detailed analysis of the key elements of the Trade SWAp. Finally, Section 4 provides a summary of the key conclusions and lessons learned for the implementation of an integrated approach to pro-poor Aid for Trade.

This case study was conducted as a desk review. It is based solely on key informant interviews, available published literature and programme and project documentation.

1.2 Trade, growth and poverty in Cambodia

Cambodia has established a remarkable track record of economic growth over the past 10 years. Between 1997 and 2007, the economy grew at close to 10% per annum during the entire period. Vigorous economic growth has also translated into important reductions in poverty, with per capita income more than doubling, from \$285 to \$593, and the poverty rate declining from 45-50% in 1993/94 to 30% in 2007 (World Bank, 2009). However, inequality has increased over this period, undermining future potential for growth.

Cambodia's sustained economic expansion has been driven in large part by rapid export growth. Foreign sales have increased by more than 20% per year since 1998, and exports in goods and services accounted for 65% of gross domestic product (GDP) in 2007 (World Bank, 2008a).

Cambodia's textile and garment industry has been the cornerstone of this export performance, for 16% of GDP in 2007 and 2.4 points of GDP growth between 1998 and 2007. Despite Cambodia's poor overall governance, public-private collaboration in the sector has created an enabling environment conducive to growth (World Bank, 2009). For over 10 years, foreign sales in the industry grew at approximately 28% per year, from only around \$26 million in 1995 to almost \$2.8 billion in 2007 (ILO, 2008). More than half the 280,000 skilled and unskilled jobs in the industry in 2006 were created over the five preceding years, making the industry by far the largest source of job growth during this period (Polaski, 2006). Moreover, between 85% and 90% of these jobs have gone to women workers, which implies an important positive impact on women's empowerment in Cambodia. Finally, about 90% of workers send home an average of 50% of their wages to support their families in their villages of origin, thus helping to boost the standard of living in rural areas (MoC/ADB, 2004).

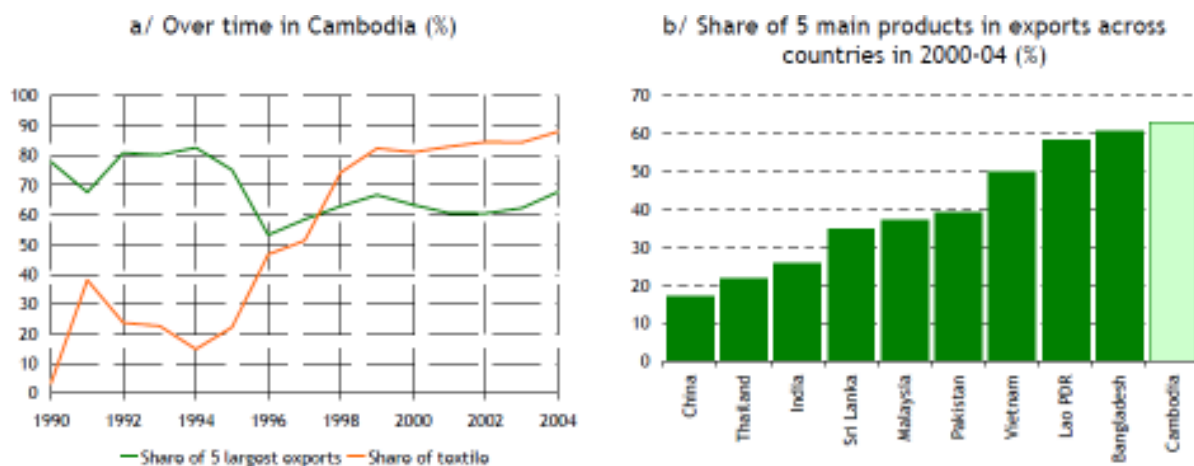
This expansion in the garment sector has been complemented by growth in the tourism sector. The hotel and restaurant industry represents 4% of GDP and contributed 0.5 points of GDP growth from 1998-2007.

Despite the important increases in these industries, Cambodian households remain heavily dependent on agriculture. 59% of households depend on agriculture as their primary source

of income. Approximately 250,000 young Cambodians are entering the labour market per year (often with decreasing access to land resources), so the generation of adequate employment opportunities is of particular importance.

To generate employment opportunities, broadening Cambodia's export base and diversifying the economy as a whole are key. Cambodia's heavy dependence on the garment sector is an important vulnerability, one which has become painfully exposed during the current economic downturn. In January 2009, garment exports contracted to less than 30% of their value in 2008, and more than 20,000 workers are reported to have lost their jobs in the garment sector since the beginning of 2009. Simultaneously, the tourism sector has seen foreign arrivals drop by 2% compared with 2008. As a result, International Monetary Fund (IMF) estimates of current growth prospects are negative (Chun Sophal and Hor Hab, 2009).

Figure 1: Cambodia's poorly diversified export economy



Source: World Bank (2009).

Cambodia's over-reliance on the garment sector is only one challenge. The country's development over the past decade has also been accompanied by strong increases in inequality. Although a substantial reduction in poverty reduction has occurred, living standards have increased more rapidly for the wealthier groups. Moreover, the rural-urban divide is striking. Poverty rates in the capital city of Phnom Penh currently lie below 1%, compared with almost 35% in rural areas. These rising inequalities not only weaken the effect of growth on poverty reduction but also may represent an additional constraint for continued economic growth (World Bank, 2006).

Table 1: Growth, poverty and inequality

	mean p.c. consumption			poverty headcount			Gini coefficient		
	(riels per day, constant 2004 Phnom Penh prices)			(% below national poverty line)			(0 = perfect equality, 1 = perfect inequality)		
	2004	2007	change	2004	2007	change	2004	2007	change
rural	3,081	3,649	18%	39.1	34.7	-4.4	0.33	0.36	0.03
other urban	4,929	6,275	27%	25.8	21.9	-3.9	0.43	0.47	0.04
Phnom Penh	8,067	10,952	36%	4.6	0.8	-3.8	0.37	0.34	-0.03
Cambodia	3,692	4,616	25%	34.8	30.1	-4.6	0.39	0.43	0.04

Source: World Bank (2009).

Tackling these challenges of poverty and inequality goes beyond interventions to enhance export diversification. Nonetheless, as growth in Cambodia's garment sector has demonstrated, the alignment of a number of external drivers and deliberate interventions by

the public sector can leverage trade expansion to generate positive social impacts. By developing the Trade SWAp, the government of Cambodia is seeking to integrate trade policy into a broader development and poverty reduction agenda. Supported by a number of key donor agencies and the government, the Cambodian Trade SWAp represents a framework for channelling Aid for Trade resources to enable pro-poor growth through trade development.

1.3 Aid for Trade: A brief introduction

1.3.1 The origin and evolution of Aid for Trade

The origins of the Aid for Trade agenda lie in World Trade Organization (WTO) negotiations and can be traced back to developing country concerns. These focused on the limited benefits they had already experienced from increased market access, and those they were likely to see as a result of the Doha Development Round – unless their supply-side capacity constraints were addressed and they were compensated for adjustment costs associated with multilateral trade liberalisation, notably preference erosion and reduced trade-related fiscal revenue (IMF and World Bank, 2005).

In response to these concerns, the WTO Ministerial Meeting in Hong Kong in December 2005 called on donors to increase Aid for Trade resources in order to ‘help developing countries, (especially LDCs), build the supply side capacity and trade related infrastructure that they need to assist them to implement and benefit from WTO Agreements and more broadly to expand their trade’ (WTO, 2005). This led to a number of multilateral and bilateral development agencies committing substantial funds under the Aid for Trade rubric.² The Hong Kong Ministerial Meeting also established an Aid for Trade Task Force to develop recommendations on how to make Aid for Trade operational and contribute to the development dimensions of the Doha Development Agenda (OECD, 2007). This Task Force identified five priority Aid for Trade activities: trade policy and regulations; trade development; trade-related infrastructure; building productive capacity; and trade-related adjustment. In October 2007, EU Member States adopted a joint Aid for Trade strategy to implement the WTO Aid for Trade Task Force Recommendations, supporting ‘developing countries, particularly LDCs, to better integrate into the rules-based world trading system and to use trade more effectively in promoting the overarching objective of eradicating poverty in the context of sustainable development’ (EU, 2007).

1.3.2 Aid for Trade, inclusive growth and poverty reduction

Increased trade and economic growth can help deliver poverty reduction. The structure of economies and societies influences whether an increase in the volume and value of trade delivers economic growth and whether that growth, in turn, generates sustained poverty reduction and enhanced wellbeing. However, under the right conditions, trade and economic growth can be inclusive. Poor people can see their incomes, consumption and wellbeing rise. Trade can also support growth by enhancing a country’s access to a wider range of goods and services, knowledge and technologies. It can stimulate entrepreneurship in the private sector. It can attract private capital, create jobs and increase foreign exchange earnings. Such positive trends in an economy can enable governments to increase tax take, enabling them to invest in the types of expenditure that reduce poverty, inequality and exclusion (WTO, 2008). Together, these factors can increase the likelihood that the Millennium Development Goals (MDGs) are met – not just at the aggregate level but for all socioeconomic groups.

Further, although there remain some differences of opinion on the direct causal relationship between trade, growth and poverty, we do know that countries that make trade a part of their development process have tended to grow, and reduce poverty, faster than those that have

² For instance, the 2005 financial commitment by the EU entails €2 billion per year (€1 billion per year each for the European Commission (EC) and the Member States) of trade-related assistance (TRA) to partner countries by 2010.

not (OECD, 2008; Prowse, 2009). Developing countries have almost doubled their share of non-oil world exports over the past 30 years and this has been accompanied by strong economic growth. More recently, developing countries have made important progress in accessing the markets of the industrialised world through the changed rules associated with WTO trade rounds (DFID, 2008).

But the gains from this have been unevenly spread, with the poorest countries being increasingly marginalised. For example, sub-Saharan Africa's share of world exports fell from 3.9% in 1980 to 1.9% in 2006 (OECD, 2008). In addition, there are signs that trade liberalisation in developing countries, while increasing aggregate growth, does not benefit everyone and can increase the poverty and ill being of some as well as contributing to higher levels of inequality. So, even where trade and growth are increasing, poor and marginalised groups may not be reaping the benefits of growth, or may be benefiting far less than other groups (DFID, 2008). This is widely recognised and it is these challenges, in part, that the Aid for Trade agenda seeks to address.

What we see is that developing countries have not been able to fully capture the benefits of trade, and that this is for a number of reasons. Although access to international markets is still an issue in some areas, for instance around agriculture, there are other 'behind the border' constraints. These include high transport costs, absent or unsupportive policies and regulations, cumbersome and slow export processing procedures, inadequate export and trade negotiating skills, poor product standards, low productivity and competitiveness, lack of export diversification and low added value production chains. Broader economic infrastructure issues also pose significant challenges: less developed countries are often poorly resourced in terms of energy, communications and transport infrastructure and markets in these often function poorly. These generate severe constraints for producers, workers, entrepreneurs and traders and stifle global competitiveness (see Figure 2).

Figure 2: Average time to export (no. of days)



Source: World Bank (2008b).

What this illustrates is that developing country governments and their international development partners have a huge opportunity to make positive changes. Changes that will reduce 'behind the border' constraints, smooth links between national and international markets and increase the ability of the full range of people to engage beneficially in trade. This is where Aid for Trade comes in – by helping developing countries maximise the growth and poverty reduction potential of trade. For example, Aid for Trade can promote an inclusive investment climate, enhancing the opportunities for a range of trading groups – including big business, small and medium enterprises (SMEs), entrepreneurs, informal traders, poor producers and workers – to participate in trade-related activities and benefit from trade. It can help trading groups overcome infrastructural barriers to benefiting from trade, by reducing the time and cost associated with transportation and border crossings. It can build productive capacity, which enables households and traders across the income distribution to participate in and benefit from tradable sectors, and it can support the diversification of these sectors into higher value-added products. Where necessary, it can support policies and programmes

to mitigate the adverse impacts of trade-related adjustment, by supporting regional-level adjustment facilities as well as social protection initiatives (Bird and Vandemoortele, 2009). In essence, Aid for Trade can help build the export potential of developing countries so that they are able to reap the benefits of global trade and it can help poor and excluded people to engage in domestic and international markets in a way that benefits them. It can do this by supporting improved market access, enterprise development and employment creation.

Through this range of entry points, Aid for Trade has the potential to contribute simultaneously to trade expansion and poverty reduction efforts through job creation and income generation.

2. The Cambodia Trade SWAp: An integrated framework for pro-poor Aid for Trade

Rather than focusing on one particular trade-related assistance programme, this case study analyses the emerging Trade SWAp. This SWAp was developed by the Cambodian Ministry of Commerce (MoC) in collaboration with the donor community and underpinned by the updated Diagnostic Trade Integration Study (DTIS). It represents a framework for developing, financing and implementing an integrated trade sector strategy. It is, therefore, anchored in the first Aid for Trade category: Trade policy and regulations.

The Trade SWAp builds on and further develops and concretises the basic principles and mechanisms set forth in the Integrated Framework³ for Trade-related Technical Assistance to Least Developed Countries. First, it acknowledges that, to have an impact on poverty reduction, TRA needs to be an integral part of a country's development strategy. Second, it recognises that, to be effective, relevant stakeholders, both within and outside of government, need to build consensus on a national trade strategy.⁴

This case study considers the benefits and synergies as well as the challenges of the Trade SWAp's integrated approach to trade and development. It includes a brief discussion of the implementation of the Integrated Framework in Cambodia in 2001 and highlights an innovative partnership between government, the private sector and the international donor community for enhancing the social benefits of growth in the crucial garment sector.

2.1 Leveraging the garment sector for social benefit: An innovative collaboration between the US and Cambodian governments, the private sector and the ILO

Cambodia's emergence as a significant player in the export of textiles and garments began in the mid-1990s, when international trade in the sector was still governed by the Multi-Fiber Arrangement (MFA). Under this arrangement, the US and EU imposed quotas limiting the amount of textiles and garments specific developing countries could supply to their markets. Initially, Cambodia was not restricted by this arrangement, but once it became a serious contender in the textile and garment sector, the US garment industry called for the Cambodia's integration into the quota system. Simultaneously, an increasingly vocal labour movement – both domestically in Cambodia and internationally – raised the issue of poor working conditions and abuses of labour rights.

³ The Integrated Framework process is based on the formulation of a DTIS, supported by the Integrated Framework Trust Fund and one of the Integrated Framework core agencies. The DTIS is then intended to function as the basis for mainstreaming trade into national development strategies and formulating an action plan for TRA in partnership with the donor community. For more background on the Integrated Framework, see Working Together to Enable LDCs to be Active Players and Beneficiaries of the Global Trading System: The Integrated Framework explained (www.integratedframework.org).

⁴ This includes engagement by the development community to support the integration into broader development strategies as well as the coordinated delivery of TRA and capacity building.

In response to these developments, the US and Cambodia embarked on the negotiation of an innovative textile trade agreement which would ultimately govern trade relations until the expiry of the MFA at the end of 2004. An important feature of this was a mechanism that linked improvements in labour conditions to increases in the import quotas. This created the crucial incentive that enabled the collaboration between Cambodia's garment producers, the ILO and the Cambodian government.

The ILO was tasked with the implementation of a monitoring system to assess the compliance of Cambodia's textile factories with national labour laws and internationally agreed labour standards.

Based on this mandate, the ILO created the Better Factories programme. This was complemented with a capacity-building component to help factory owners achieve the required improvements on the factory floor. Although participation in the monitoring system was not mandatory, the government stipulated that only participating firms were eligible to benefit from the forthcoming quota expansions.

The result was full participation by Cambodia's garment industry and, consequently, important improvements in the sector's labour conditions and wage levels. The programme also revealed important benefits in enabling Cambodia's producers to access more lucrative foreign markets. Sustained consumer pressure on leading apparel firms in the US and Europe today to require verify good labour practices as a part of their sourcing requirements also contributes to the implementation of the programme.

The ILO Better Factories programme continues to function, despite the expiry of the MFA in 2004, as it represents a credible and cost-effective monitoring arrangement with a capacity-building component. In fact, the success of the Cambodian programme has led to the launch of ILO's Better Work programme, which will apply the approach in three additional countries (Lesotho, Jordan and Vietnam). (For more details on the programme's main features and lessons learned, see Box 1).

Box 1: Better Factories – Lessons from the Cambodian experience

Better Factories Cambodia runs a programme of unannounced factory visits to check on working conditions. The monitors' checklist, based on Cambodian labour law and ILO standards, and endorsed by the government as well as by employers and unions involved in the garment industry, runs to almost 500 items. They cover a host of issues, including compliance with laws on the minimum wage and overtime payment, fundamental workers' rights (such as the right to organise) and health and safety conditions at the factories. To ensure accuracy, workers and management are interviewed separately and confidentially. Factory managers get reports of the findings, which include suggestions for improvement. After time for discussion and follow-up action, the monitors again visit the factory to check and report on progress.

Better Factories Cambodia also provides training opportunities and resources to help the industry improve working conditions, while improving quality and productivity. Workplace cooperation between management and unions is at the heart of the Better Factories Cambodia *training measures*.

The cost of the monitoring is modest – less than \$3 a year for each worker, or \$2800 for each factory. Factories taking part in training programmes contribute further to the cost. At present, *Better Factories Cambodia* is funded by the Agence Française de Développement (AFD), the Asian Development Bank (ADB), the Cambodian Confederation of Trade Unions (CCTU), the Cambodian Labour Confederation (CLC), the Garment Manufacturers Association in Cambodia (GMAC), New Zealand's International Aid and Development Agency, the Royal Government of Cambodia and the World Bank.

Lessons learned

In an analysis of the Better Factories programme in the context of the US–Cambodian textile quota agreement, Polaski (2006) identifies the following lessons:

1. *Incentive structure*: It was essential that incentives for improving working conditions in Cambodia's factories be positive, rather than punitive, and incremental rather than one-off. The positive pull effect of additional market access granted progressively in return for continuous improvements proved more effective than a system where benefits are revoked based on the failure of complying with regulations.
2. *Realistic goals based on a collaborative process*: The identification of realistic goals based on dialogue among the US government, the Cambodian government, the ILO and the private sector was crucial in maintaining a continuous process of improvement and the required success in achieving the desired benchmarks.
3. *ILO involvement*: The presence of the ILO and the credibility it has given to the monitoring process were decisive factors in ensuring the buy-in of all actors, including the buyers of the garments in the US, who depend on a credible assessment of their supply chain.
4. *Transparency*: By providing transparent information on individual factories rather than the garment sector as a whole, the programme was able to provide the required information for buyers concerned about reputational risk.

Sources: Excerpts from www.betterfactories.org; Polaski (2006).

2.2 The need for economic diversification: The origin of the Trade SWAp

As pointed out in the World Bank's Country Economic Memorandum (2009), the *Better Factories* arrangement represented an innovative solution to sustaining rapid growth in Cambodia, despite relatively poor overall governance. Close cooperation between the government and the Garment Manufacturers Association in Cambodia (GMAC) via Cambodia's Government-Private Sector Forum helped sustain the arrangement and enabled these actors to continually address industry constraints. However, strong dependence on the garment sector makes the country's progress extremely vulnerable to external shocks.

2.3 The Integrated Framework in 2001: A mixed success

While the success of the Integrated Framework in Cambodia has been mixed, it has demonstrated the importance of a long-term, strategic approach for developing and operationalising an integrated, pro-poor trade agenda. Rather than generating quick wins, the Integrated Framework has developed the foundation for a long-term process of institutional development in the Cambodian government.

In cooperation with the six core agencies of the Integrated Framework, Cambodia conducted a DTIS (2002) called 'Cambodia: Integration and Competitiveness Study'. The study proposed measures to improve export performance to generate broad-based welfare gains. It also led to the development of a matrix of prioritised trade-related capacity-building and technical assistance needs linked to the country's overall development strategy.

The Trade Sector Programme was considered an important instrument in supporting the country's accession to the WTO, and it helped establish trade-related issues within the country's poverty reduction strategy. Several activities were involved in this process. First, the trade agenda was formulated in tandem with the poverty reduction strategy paper (PRSP) process and was guided by an early assessment of the incidence and nature of poverty using Cambodian poverty surveys. This identified the importance of reducing impediments to trade for rural household production in areas such as diversified agriculture, handicrafts and labour services. Second, the impact of trade reform (notably tariff reductions) was assessed using household survey data (Prowse, 2002). Third, in parallel to this, the government, with support from the International Trade Centre (ITC) and the UN Development Program (UNDP), launched its first strategic programme for the development of a pro-poor export industry in the silk sector (see Ress, 2006) and conducted a social impact assessment of its export processing zone in Koh Kong. Fourth, a 'core team' of government officials to promote a 'national constituency on trade and poverty' (UNDP, 2004) was created. According to one government representative, Integrated Framework support during

the WTO accession process was key to in building the political commitment and stimulating needed domestic reforms for developing Cambodia's outward-oriented development model.

The programme, however, was only partially successful, since the government did not acquire financing for the majority of the suggested activities. As an evaluation of the Integrated Framework process suggests, the integration of trade concerns in national development strategies does not necessarily imply investments in trade-related activities. The evaluation also points out that Cambodia's Integrated Framework strategy lacked the required linkages to productive sector activities, and needed a more 'holistic, result-based programme management processes' (Agarwal and Cutura, 2004). In other words, the Integrated Framework fell short of implementing the integrated trade sector strategy it was intended to support.

Despite the shortcomings, the programme set the stage for future activities and generated important lessons for the further development of Cambodia's trade agenda. So, while the trade focus in Cambodia's PRSP may not have stimulated immediate returns in terms of trade-related investments, it was the first step towards building a political constituency and government capacity for the implementation of a pro-poor trade integration process.

3. Building the institutional and strategic framework for Cambodia's Trade SWAp

Since its successful accession to the WTO, the Cambodian MoC has focused its attention on further developing the conceptual and institutional foundations for the kind of holistic approach the original Integrated Framework programme did not establish.

In 2005, the MoC created the concept of a Trade SWAp. Instrumental in creating the strategic and institutional foundation for the ongoing Trade SWAp process was the combination of MoC leadership and parallel donor activities in the areas of strategy development, policy advice, institutional reform and capacity building. Enabling progress towards operationalising the Trade SWAp was the MoC's entrepreneurial approach in harnessing existing donor activities, combined with donors' willingness to provide concrete assistance to realise the Trade SWAp.

Vital support for the Trade SWAp agenda has come from UNDP, the EC and the World Bank and has been complemented by important capacity-building efforts led by the UN Conference on Trade and Development (UNCTAD). While UNDP focused on supporting the development of a strategic framework through the DTIS process, the EC programme focused on building the needed institutional structure. The World Bank's ongoing work on the investment climate and strengthening the competitiveness of the Cambodian economy helped lay a strong foundation for the development of an agenda of crosscutting reforms, further elaborated and supplemented with sector-specific analysis in the DTIS.

3.1 Creating an Institutional Framework: MoC leadership and EC technical support

Based on a request from the MoC, the EC supported an institutional structure within the Cambodian government to coordinate the formulation and implementation of an integrated trade strategy. It financed a resident technical advisor for the development of the Trade Sector Programme 2006-2008, which focused on the institutional reforms required for the implementation of a coordinated Trade SWAp. The technical advisor not only supported the development of the reform agenda, but also helped build the required consensus among relevant stakeholders.

The Trade Sector Programme 2006-2008 was aligned with Cambodia's overall development strategy and received the endorsement of the Prime Minister. It reiterated the existing

emphasis on private sector development and employment generation in the National Strategic Development Plan (NSDP) 2006-2010.⁵ With this high-level political commitment, the MoC embarked on a series of institutional changes focused on effective coordination among relevant donors and ministries. (For details on the institutional reforms undertaken under the Trade Sector Programme, see Box 2.)

3.2 Building a policy agenda: World Bank policy advice on crosscutting reforms

The World Bank's work on the investment climate set a basis from which to build the Trade SWAp agenda. Its Investment Climate Assessments (in 2004 and 2007) helped define and update a 'Twelve Point Plan to Improve the Investment Climate and Trade Facilitation'⁶ – a central element of the government's trade agenda. This plan provided the impetus to create the coordinating structures of the Trade SWAp. Although the Integrated Framework and World Bank policy advice were not necessarily pro-poor, they set the foundations for a pro-poor SWAp (as discussed in subsequent sections).

Box 2: Restructuring the MoC for the creation of a Trade SWAp.

The first step in the MoC reform process was the creation of a Sub-steering Committee for Trade Development and Trade-related Investment, including representatives from relevant line ministries, donors and the private sector. The role of the committee is to develop and monitor the strategic direction of the country's trade integration programme and ensure the alignment and coordination of its individual activities.

The next step was the reorganisation of the MoC itself. This resulted in the consolidation and strengthening of the departments concerned with trade development, the creation of a department focused on trade policy issues and multilateral trade agreements, as well as a new Department for International Cooperation to coordinate all TRA.

Finally, in an effort to further strengthen coordination within the Cambodian government, the Inter-ministerial Coordinating Committee for Implementing the Obligations and Commitments of Cambodia in the WTO was created.

With this institutional framework in place, the final step will be a prime ministerial decree mandating the engagement of all relevant line ministries in the newly created coordinating bodies.

Source: <http://www.moc.gov.kh/TradeSwap>.

3.3 Creating a pro-poor strategy for the trade sector: Updating DTIS with UNDP assistance

In parallel with ongoing policy dialogue and institutional changes, UNDP has been instrumental in developing the updated DTIS. According to a UNDP representative, particular emphasis was placed on involving the government alongside a range of donor agencies in the process of developing the study. This participatory approach built the foundation for a trade sector strategy that both is strongly owned by the government and enjoys the support of all key donor agencies.

Box 3: DTIS 2007 – core objectives

1. Identify a set of possible priority product or service sectors to serve as a basis for strengthening and diversifying Cambodia's export basket. Strengthening exports may involve expanding sales into new import markets or capturing greater value added through more advanced processing.

⁵ Considered the Cambodian PRSP by donors.

⁶ For the implementation of the Twelve Point Plan, the government created the Private Sector Development Steering Committee, subdivided into three Sub-steering Committees on i) Trade Facilitation; ii) SME Development; and (iii) Investment Climate and Private Participation in Infrastructure. The Sub-steering Committee on Trade Facilitation was eventually converted into the Sub-Steering Committee for Trade Development and Trade-related Investment, now responsible for coordinating the Trade SWAp under the strengthened leadership of the MoC.

- Diversifying exports will require expanding existing but smaller exports, or developing products or services not currently produced or exported.
2. Identify bottlenecks, either common to all priority sectors or specific to each, which need to be removed to promote development of those export sectors.
 3. Link more clearly trade sector development with human development and poverty reduction (main streaming).
 4. Serve as a basis for formulating clear trade sector development priorities shared by the Cambodian government, its development partners and other concerned stakeholders to be implemented by all through a Trade SWAp.

Source: MoC/UNDP (2007b).

Another important feature of the DTIS is its explicit focus on developing the country's export potential while generating desired human development impacts. It provides an Export Potential Analysis, which identifies 19 potential export industries. It then screens these according to their potential to generate export growth as well as positive human development impacts. The assessment of human development impacts incorporates both a quantitative estimate of current employment in the sector and a qualitative assessment related to issues, such as income generation, education, women's participation and wealth of households employed in the sector. (For a summary of the results from the screening of human development impacts, see Annex.) The study also includes a more detailed scoping of the relevant human development linkages for five of the 19 priority sectors, including an analysis of living standards and demographics of participants in the sectors, focusing on differences between sexes. (See Box 4 for an example from the fishery sector.)

Box 4: Human development issues in the Cambodian fishery sector

Interventions in the fishery sector will have 'high human development impact', states the DTIS. Three key reasons for the high human development impact in this sector include:

- *Gender inequalities in small-scale trading:* Along the fish trade chain, women are concentrated in small-scale trading. Women are in a weaker bargaining position than men traders because they have both less capital (thus are more vulnerable to price fluctuations) and fewer connections to government officials;
- *Demographics:* Fishing is often carried out by poor farmers as a supplementary activity. The age distribution of those involved in the fishing industry closely resembles the overall age distribution of the labour force in Cambodia. There is a substantial literacy gap between men and women in the fishing industry. Addressing the gender gap in literacy is important not only to reduce gender disparities but also to enhance the bargaining power of poorer fishing families dealing with larger and more diverse markets.
- *Living standards:* Individuals in the fishery sector display greater signs of poverty.

Priorities for action include the following:

- *Strengthening small-scale fisheries:* Fishermen and women in Cambodia face several common problems that can best be addressed collectively. There is a role for encouraging formation of small-scale fisher associations. In particular, there is a need for women's groups in this area.
- *Reducing legal, institutional and infrastructural impediments to trade:* A critical source of inefficiency is the substantial barriers to trade in terms of both infrastructure and official or non-official facilitation fees. Given that poor people and especially women are the most exposed to fees and license arrangements, there is a need to improve accessibility to licenses and permits as well as to increase the transparency of regulations. These will also serve to make Cambodian fish produce more reflective of cost price and hence more competitive on the global market.

Source: MoC/UNDP (2007a).

The DTIS provides an Attractive Markets Analysis to identify the opportunities and challenges Cambodia faces in the most promising markets for existing and potential exports. To face competitive pressures,⁷ the DTIS identifies a range of product-specific as well as

⁷ The Attractive Markets Analysis study has found that Cambodia no longer benefits from any substantial tariff preferences, owing to overall tariff reductions and to competitors among LDCs that enjoy similar market access.

crosscutting measures for action. These measures are consolidated in an Action Matrix, which builds on existing programmes and initiatives and integrates these with priorities emerging from the analysis.

3.4 The Trade SWAp as a framework for pro-poor TRA in Cambodia

The Trade Integration Strategy, set out in the DTIS, was adopted by the newly formed Sub-steering Committee for Trade Development and Trade-related Investment in 2007.⁸ The action plans form the basis of a three-year rolling plan for trade sector development. Though still a work in progress, this framework has become an important reference point for the donor community as a whole⁹ and, because it is informed by the DTIS, pro-poor implications are considered.

3.5 Leveraging trade for poverty reduction: Linkages with pro-poor value chains

In principle, the Trade SWAp structure provides the framework required to support pro-poor activities with the necessary enabling environment at the macro level. Pillar 2 of the SWAp, on Product and Service Export Supply Development, represents the crucial link between Cambodia's broader trade sector strategy and poverty reduction goals, as it comprises sectors selected based on their export potential and relevance for human development.

The remaining challenge is to fully operationalise the strategic and institutional design of the Trade SWAp, so that synergies and linkages between the three pillars can be exploited. In practice, this means that the priorities defined in Pillar 2 need to remain a central guide for the development of the broader Trade SWAp process. This goal has been clearly set forth in the World Bank's Trade Development Support Programme.¹⁰ To make this goal a reality, a joint monitoring framework for the Trade SWAp as a whole will be established as a basis for discussion in the Sub-steering Committee.

Moreover, the quality of analysis conducted by donors and government counterparts directly involved in the priority sectors will play a key role in ensuring that concerns articulated at the sector level reflect a poverty focus. While the human development impact outlined in the DTIS provides a basis, more detailed analysis focusing on specific categories – such as sex and other socioeconomic criteria, will be needed. For example, women businesses often face a different set of barriers to trade and market access than men businesses do. Ensuring that women entrepreneurs reap the same benefits as men from trade-related assistance measures has important implications for maximising positive impacts on poverty reduction (IFC, 2009).

8 Based on the strategy, the committee then created three 'pillars': corresponding to working groups: Pillar 1 – Legal and Institutional Crosscutting Reform for Trade Development; Pillar 2 – Product and Service Export Supply Development; and Pillar 3 – Capacity Development for Trade SWAp Management. Each pillar has been assigned a 'shepherd' from the donor community to help develop an action plan and coordinate assistance in the respective area (Pillar 1: World Bank; Pillar 2: UNDP; Pillar 3: UNCTAD).

9 The EC, the Danish International Development Agency (DANIDA) and the UN Industrial Development Organization (UNIDO) are financing the World Bank-managed multi-donor trust fund which, in turn, finances important elements in Pillars 1 and 3 of the Trade SWAp, focusing on areas of trade policy development, performance monitoring and capacity building. A number of other donors, including the ADB, are providing additional support through activities aligned with the Trade SWAp's crosscutting policy agenda. While the leadership in Pillar 2 rests with UNDP, a number of other donors, including the US Agency for International Development (USAID) and German Technical Cooperation (GTZ), are adapting their programmes to support the priorities defined in the DTIS.

10 The programme document states that the components under Pillars 1 and 3 'would give priorities to reform and capacity development that would enable growth in the priority sectors identified in the DTIS and supported by the second pillar of the Trade SWAp' (World Bank, 2008a).

Figure 3: Trade SWAp policy flow chart



Source: H.E. Cham Prasidh (2006).

3.6 Leveraging trade for poverty reduction: Strengthening the private sector's voice at the provincial level

Strengthening the provincial private sector voice will be crucial for enhancing the pro-poor benefits of trade development. While it is too early to determine to what extent the effects on poverty reduction will be, a number of agencies have activities in the area of value chain promotion and local economic development.

USAID's strategy proposes strengthening the ability of local private sector actors to articulate their needs at provincial and national levels, while supporting information dissemination at the national level and administrative implementation capacity at the provincial level. A number of activities to meet these goals are being developed in cooperation with the MoC.

GTZ is placing a particular emphasis on integrating the concerns of SMEs from rural areas in the Government–Private Sector Forum.¹¹ A recent evaluation pointed out that the Government–Private Sector Forum remains dominated by the interests of the most established export companies (i.e. the garment sector). Though viewed as a successful instrument for public–private sector dialogue, it appears to leave little room for the interests of poor producers outside the capital city of Phnom Penh. GTZ is, therefore, working to strengthen the Provincial Public–Private Dialogue within the forum, and supporting SMEs to articulate their concerns via provincial-level associations and business chambers.

UNDP support the provincial departments of the MoC to raise provincial-level issues within the context of the Trade SWAp structure.¹²

11 This forum provides a formal channel for private sector interests to be raised with the government. Within this structure, the Working Group on Export Processing and Trade Facilitation provides a direct link to the ongoing discussions in the Sub-steering Committee for Trade Development and Trade-related Investment.

12 This implies strengthening the ability of these provincial offices to engage with local economic actors while supporting their communication with the MoC's Department of Donor Coordination in Phnom Penh.

3.7 Considering the economic and social costs of trade reforms: Civil society participation and appropriate impact monitoring

Economic and social costs of trade reforms should be considered in the implementation of the Trade SWAp. To this end, UNDP conducted two Human Development Impact Assessments (HDIAAs), conducted in parallel with the DTIS. UNDP remains committed to conducting further HDIAAs to monitor the impacts of the Trade SWAp on an ongoing basis.¹³ To ensure that the results of these HDIAAs are integrated explicitly into the Trade SWAp monitoring system, representatives from civil society groups and academia who are involved in the HDIA process should be involved in the discussions of the Sub-steering Committee on Trade Development and Trade-related Investment. Currently, the participation of several civil society organisations (CSOs) is through the role of observers in the Sub-steering Committee.

3.8 Remaining challenges: MoC leadership and the challenge of inter-ministerial coordination

The leadership of the MoC has been critical to the success of the Trade SWAp framework. It not only created the vision for an integrated trade sector programme, but also took crucial steps to orient technical assistance towards the continuing process of institutional reform underpinning the envisioned Trade SWAp. It was effective in convincing key donors to support the initiative and acquired substantial financing to implement key parts of the trade sector strategy based on the Trade SWAp framework.

It has also built support for the Trade SWAp within the government. It received the Prime Minister's support for the programme, and it engaged other relevant ministries in the Trade SWAp working groups. For example, the Ministry of Women's Affairs (MoWA) was actively involved in the formulation of trade policy as early as the first Integrated Framework programme. It was asked to provide a gender perspective during the WTO accession process and collaborated with the MoC and the ITC during the development of the country's silk sector strategy.

That said, the leadership and coordination aspect of the Trade SWAp remains the most important challenge for the programme as it moves forward. Concentration of the Trade SWAp agenda in the hands of the MoC implies an important risk of losing critical support among other ministries that are relevant for the effective implementation of a truly integrated trade strategy. To ensure cooperation of other ministries, the Prime Minister is expected to issue a sub-decree, which will formally acknowledge the Trade SWAp structure.

While this acknowledgement is a necessary condition for the functioning of the Trade SWAp, it will not be sufficient. To make the Trade SWAp a success, the MoC will have to show continued leadership and commitment to the approach, while turning over responsibility and resources for certain aspects of the programme to other ministries. In particular, strong cooperation with the Ministry of Industry, Mines and Energy (MIME), which chairs the parallel Sub-committee on SME Development within the Private Sector Development Steering Committee structure, will be essential. Additionally, involving a range of other ministries, including MoWA, the Ministry of Social Affairs (MoSAVY), the Ministry of Rural Development (MRD) and the Ministry of Economy and Finance (MEF), is key to ensuring the success of an integrated and pro-poor Trade SWAp. Donors can support this process by working with different ministerial counterparts, while promoting coordination within the Trade SWAp structure.

¹³ UNDP is supporting consultations with stakeholders from government, civil society and academia to identify emerging issues that require additional analysis. As the Trade SWAp moves forward, the intention is to work with local universities and research facilities to ensure ongoing monitoring of the relevant issues.

4. Conclusions and lessons for Aid for Trade programming

For Aid for Trade programming, Cambodia's experience demonstrates that stakeholder coordination and alignment, as well as ex ante analysis of human development implications of trade reform, were integral to achieving a pro-poor trade strategy with a long-term vision. Despite a long process of technical assistance and capacity building, the Trade SWAp in Cambodia remains a work in progress. Its success in generating pro-poor development impacts remains to be seen.

A number of lessons for the development of an integrated framework for pro-poor Aid for Trade can be drawn from Cambodia's progress. These lessons are discussed in two areas; aid effectiveness and the Trade SWAp, and strengthening the pro-poor focus of the Trade SWAp.

4.1 Lessons and recommendations on aid effectiveness and the Trade SWAp

- **Maintain and deepen stakeholder engagement during implementation.** To be successful, the Trade SWAp requires the engagement of all relevant stakeholders, not only during strategy development but also throughout the implementation of the trade sector programme. It is precisely the ability of the Trade SWAp structure to facilitate this engagement throughout the implementation process that represents its key benefit.
- **Ongoing sector-specific engagement by government and the donor community** has also been demonstrated clearly in Cambodia's successful garment sector initiative.
- An integrated approach to Aid for Trade must **extend beyond the policy level to the level of programme implementation.** Donor support, in particular from the EU, for the process of creating these institutional structures and for building capacity within the government to work effectively within these structures was a crucial element in advancing the Trade SWAp in Cambodia.
- **Inter-ministerial coordination and engagement with government.** Unless other ministries are actively integrated into the process and given responsibility for elements within the trade programme, an integrated approach cannot take shape in practice. If other ministries share responsibility in the implementation of the Trade SWAp, it has the potential to become an effective mechanism for attracting additional donor funds.
- **A champion for donor coordination.** UNDP's role in coordinating the engagement of a number of government and donor partners in the development of a pro-poor trade integration strategy enabled the Trade SWAp to gradually take shape

4.2 Lessons and recommendations on strengthening the pro-poor focus of the Trade SWAp

- **Link crosscutting policy issues with a set of specific export sectors.** Only by aligning crosscutting reform interventions with priorities identified at the sectoral level can the desired impacts on job creation and pro-poor economic development be targeted explicitly by macro-level interventions. And only through the necessary investments in those export sectors can the benefits of the macro-level interventions be maximised for pro-poor development. It is, therefore, crucial that macro-level analysis is linked explicitly to sector-specific concerns.
- **The sector-specific approach is no more than an entry point to address the ultimate goal of poverty reduction.** It is therefore critical to ensure that local-level concerns are reflected in the sector-level programmes and that these issues help to shape the overall trade agenda. Strengthening provincial-level public-private dialogue is an important factor in moving towards this objective.

- **Poverty assessments and civil society engagement.** An important element in the development of Cambodia's DTIS has been the incorporation of HDIAs in key policy areas. The continuation of dialogue on poverty and social impacts of trade policy reform is essential for considering any negative implications and adjustment costs resulting from policy changes. Continued development of analytical capacity to conduct poverty and social impact analysis in an inclusive manner is also key.
- **Sector-level priorities should be clearly grounded in disaggregated analysis** by sex and other relevant socioeconomic criteria to ensure that benefits reach poor stakeholders. Here, disaggregated analysis entailed the assessment of human development impacts across 19 sectors, and within those sectors – an examination of impacts on several issues including income generation, education, women's participation and wealth of households employed in the sector. This analysis has become an important reference point for the donor community as a whole and has informed the SWAp process. Pro-poor implications are considered.
- **A government champion** can help promote the Integrated Framework as a vehicle for supporting a demand-driven approach to pro-poor trade development. In the case of Cambodia, it is very clear that, without the continued leadership of the MoC, the Trade SWAp concept would not be as close to implementation as it is today.
- **A champion for pro-poor growth.** Placing an actor with an explicit poverty focus in a leadership role strengthens the pro-poor focus of the SWAp. UNDP combined a focus on human development concerns with engagement with development partners and has successfully built the required support for a trade strategy that includes the required links to poverty reduction goals.
- **Long-term approach for sustainable results.** When guided by strong government leadership and appropriate levels of financing, the Integrated Framework can help provide a foundation for a long-term approach. It can do so by supporting the integration of donor programmes and developing the required capacity for implementation. By the same token, the Integrated Framework may not be suitable to deliver quick wins. To be effective, it requires a long-term vision combined with a number of intermediate short- and medium-term goals.

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Annex: Human Development Impact Potential for 19 Export Potentials (Excerpt from DTIS 2007)

Sector	Overall assessment of human development impact	Partial assessments based on...			Strengths and opportunities	Weaknesses and threats
		Employment only	Other criteria			
List 1:						
			ITC	PERI		
Garments	High	High (360,000)	Medium-High	High	<p>The sector provides most of the industrial employment in Cambodia, accounting for 10% of all non-agricultural employment and over 20% of all non-agricultural wage employment. Most of the workers are young women from rural areas, usually supporting their families with their income.</p> <p>Significant source of wage employment for women. Work force tends to be literate with higher than average educational levels.</p> <p>Earnings are somewhat higher on average compared to other non-agricultural activities.</p> <p>Major source of foreign revenue.</p>	<p>Limited human capital development, as the work tends to be repetitive and provides few challenges or opportunities. Turnover is high, there is a lack of long-term jobs, and companies provide little on-the-job training.</p> <p>Withdrawal of investors could seriously harm rural families who rely on remittances of family members working in the garment industry.</p>
Rice	Medium-High	High (2,940,000)	Medium-High	Medium	<p>Rice is by far the most important agricultural export product of Cambodia.</p> <p>High impact in terms of job creation and poverty reduction, especially in rural areas.</p> <p>Additional milling facilities could provide additional employment opportunities.</p>	<p>Since rice is a staple food for most Cambodians, price increases (e.g. due to increasing exports) could harm vulnerable groups who are net-buyers of rice.</p> <p>Households that depend on rice farming have lower living standards on average. Expansion of sector should focus on raising earnings, for example through productivity increases.</p>
Fishery	Medium-High	High (260,000)	Medium-High	Medium-High	<p>High human development impact as many Cambodians rely on fishery.</p> <p>Processing could provide additional employment opportunities.</p> <p>Sector has potentials for upgrading into higher value-added products</p>	<p>Increasing exports could lead to over-fishing and further threaten sustainability.</p>
Silk	Medium-High	Medium (20,500)	High	---	<p>Labor intense activity, mostly done by women, especially in rural areas. Opportunities for further job creation.</p> <p>Strong backward and forward linkages.</p> <p>Silk manufacturing supports the preservation of Cambodian cultural heritage.</p>	<p>Lack of formal training.</p>
Livestock	Medium	High (400,000)	Medium	Medium	<p>Important source of employment in rural areas, where more than 80% of households raise livestock.</p> <p>Downstream activities (e.g. dairy products) could provide additional employment and income opportunities.</p>	<p>Limited human capital development.</p> <p>At present the livestock trade is primarily through smuggling.</p>

Sector	Overall assessment of human development impact	Partial assessments based on...			Strengths and opportunities	Weaknesses and threats
		Employment only	Other criteria			
			ITC	PERI		
Rubber	Medium	Medium (40,000)	Medium	Low-Medium	Rubber plantation is labor-intensive and provides employment opportunities in rural areas. About half of all workers in the rubber sector are women. Most individuals engaged in primary production of rubber are self-employed. Compared to other types of agricultural production, earnings in rubber production are higher on average and human development outcomes are better.	Impact is concentrated in few areas, notably Kampong Cham. Few industrial employment opportunities due to a lack of processing facilities.
Cashew nuts	Medium	Medium (12,000)	Medium-High	Medium	Cashew nuts have a high impact on rural employment and provide a good use of low resource land for farmers. Only 2% of agricultural households report cultivating cashews. Possible additional employment opportunities with a processing industry.	Much of production is smuggled in raw form over the border to Vietnam. Production is also regionally concentrated with much production occurring in Kampong Chang.
Soybeans	Low-Medium	Medium (16,500)	Low-Medium	Low-Medium	Soybeans are the second crop after rice in terms of harvested areas. A processing industry might provide industrial employment.	Geographically concentrated impact, since most of the production is located in the Kampong Cham and Battambang region. Deforestation could be a substantial problem, since at least part of the expansion of soybean production was done at the expense of forest area.
Corn	Low-Medium	Medium (12,500)	Low-Medium	Low-Medium	Possible high socioeconomic impact in the western regions (Battambang, Pailin and Banteay Meanchey), where most of the production is located.	Positive impact would be geographically concentrated.
Footwear	Low	Low (4,500)	Medium	Low	Large source of foreign revenue for the country, as footwear is the second most important exporting industry. Strong employment creation, especially for women.	Production is concentrated in urban centres, no regional development. Low-qualification jobs without investment in human capital.
Cassava	Low	Low (4,000)	Low	Low	Most all cassava producers are self-employed, either own-account workers or unpaid family workers. Cassava farming is an entirely rural activity in Cambodia.	Industrial employment opportunities are scarce, as there is little cassava processing. Child-labor is relatively common. Individuals engaged in cassava production have limited educational attainment and relatively low literacy rates (around 55%). The value of food consumption per person in the households where cassava-producing workers live is well below average.

Sector	Overall assessment of human development impact	Partial assessments based on...			Strengths and opportunities	Weaknesses and threats
		Employment only	Other criteria			
			ITC	PERI		
Beer	Low	Low (3,000)	Low	---		Low potential for job creation. No backward- and forward linkages.
List 2:						
Tourism	High	High	High	Medium-High	<p>The tourism sector is a major sector for Cambodia's economy, and is estimated to be second largest export sector after garments.</p> <p>Earnings are above average and the sector disproportionately provides wage employment to women (about 60% of labor force.) Unlike garment, average employment age is approximately the same as for all non-agricultural employment.</p> <p>Child labor is negligible.</p> <p>Workers tend to be literate (higher than average) and hotel workers tend to enjoy better-than-average health outcomes.</p> <p>High employment opportunities in a growing sector.</p>	<p>Potential negative environmental and societal side effects.</p> <p>Employment is concentrated in urban areas. Sector may offer less opportunities in rural areas.</p> <p>Higher educational requirement means less entry opportunities for lesser skilled workers.</p>
Fruits and vegetables	Medium-High	High	Medium-High	Medium-High	<p>Nearly 20% of all agricultural households grow some fruits and/or vegetables.</p> <p>Production is spread across the country, suggesting that the benefits from trade expansion will be widespread.</p> <p>Households involved in the production tend to display better poverty outcomes (e.g. access to sanitation, electricity).</p> <p>Households which produce fruits and vegetables are more literate than average households in agriculture.</p> <p>Possible employment opportunities through processing and increased value added products.</p>	<p>Given land scarcity and irrigation requirements, there is concern about the environmental impacts of expanding production, especially with regard to the possibility of encroaching on forest lands.</p>