



# AID-FOR-TRADE: CASE STORY

INTERNATIONAL CENTRE FOR TRADE AND SUSTAINABLE DEVELOPMENT



## Trade Diversification after the Global Financial Crisis: Cambodian Rice Export Policy Case Story



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## EXECUTIVE SUMMARY

1. The aim of this Rice Export Policy case story is to share Cambodia's recent successful experiences in trade diversification following the 2008–10 global financial crisis and the ensuing collapse of demand for garments. This Aid-for-Trade (AfT) case story covers a period post-dating the launch of the Aid-for-Trade Initiative in December 2005, which coincides with Cambodia's accession to the World Trade Organisation (WTO).

2. The rice sector holds great potential compared to that of the garment sector in terms of gross export value and value added generated throughout the supply chain, including employment for around 2.9 million people. The Royal Government of Cambodia has chosen milled rice as a priority export item and wishes to turn Cambodia into a major “rice — white gold” exporting country in the

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international market. Paddy rice production could reach 7.3 million tons in 2010–11, after a remarkable rebound over the past decade. With an estimated domestic consumption of approximately 3.14 million tons of paddy rice and a provision for seeds and harvest loss, statistical data shows a surplus of 3.32 million tons, which can be processed into milled rice for export. When rice exports reach 3 million tons, the total export value would amount to USD 2.1 billion (approximately 20 percent of gross domestic product, or GDP) or equivalent to about USD 600 million (approximately 5 percent of GDP) in value-added contribution to the national economy.

3. The case story tries to probe deeper into two main issues: firstly, the challenges of delivering on aid effectiveness, in line with the principles spelled out in the 2005 Paris Declaration: ownership, alignment, harmonization, management for results and mutual accountability; and, secondly, the challenges of delivering on AfT, i.e. the question of what is (or is not) working at the national and regional levels, why it is (or is not) working and what improvements are needed.

4. The first challenge is that irrespective of any system for improving the delivery of AfT, whether localized or not, and however sophisticated it may be, its success or failure is heavily based on the extent of ownership or commitment by the government institution in charge. Success breeds success as a virtuous cycle, while failure breeds failure.

5. Enhancing aid effectiveness cannot be achieved by simply setting up a system to manage for results and to ensure the mutual accountability of the government and development partners (DPs), if the process and procedures to implement it are so rigid and stifling as to compromise any possible successful outcome. Flexibility, agility and the ability to grasp opportunities are defining factors, rather than an obsession with perfection. The Rice Export Policy case story reveals a light leadership structure (SNEC); a clear vision; and a focus on a framework to monitor the achievement of targeted development results, but primarily a focus on the empowerment of coordinated actors, be they government agencies, civil society organizations or the private sector.

6. The case story advocates strong cooperation and coordination among all rice stakeholders as a way to tackle the problems related to systemic institutional weaknesses and scarcity of resources, involving the improvement of inter-ministerial coordination and gentle reminders on respective institutional responsibilities, engaging in forceful dialogue with the private sector and allowing it to lead activities throughout the entire value and supply chain.

7. Flexibility is a defining element throughout the rice case story where the Cambodian leadership has seized new trade opportunities arising from the radically different global and regional contexts. The strategic focus is on utilizing the country's key natural endowment, i.e. abundant fertile land, in order to promote the production of rice, a commodity greatly in demand in the dynamic Asia-Pacific region. Timeliness is the other element, as the Rice Export Policy clearly marks a shift away from a post-global crisis mode marked by a sharp drop in the garment trade due to a breakdown in global demand, an increase in market protectionism and the drying up of trade finance.

8. The Cambodian Rice Export Policy case story, although it is sectoral in nature, encompasses a wider scope of activities identified by the Aid-for-Trade Task Force and exemplifies the second challenge highlighted above, i.e. that of delivering on AfT by assessing what is (or is not) working at the national and regional levels, why it is (or is not) working and what improvements are needed.

9. It contains discussion of issues that fall under the WTO's AfT category 1 (*trade policy and regulations*), including the design, development and adoption of the Rice Export Policy; the improvement and simplification of trade facilitation procedures; tackling the intractable issues related to non-tariff barriers to trade (NTBTs) and sanitary and phytosanitary measures (SPS); supporting rice producers and rice exporters to meet standards and other requirements of import markets; and harnessing official development assistance (ODA) to play a complementary role in supporting the

development of an appropriate investment climate.

10. The case story also covers issues that fall under the WTO's AfT category 2 (*trade development*), i.e. the development of an entire export rice sector to take advantage of trade preferences such as the Everything But Arms (EBA) system; negotiating for bilateral and regional market access; linking investment and aid in the context of trade-led development; the alignment of the national development strategy with a regional approach; maximizing and improving existing trade-related infrastructure (i.e. economic corridors, including infrastructure, trade facilitation, logistics, transport and storage, energy supply and generation); and attracting foreign direct investment (FDI) to jointly develop the export capacity of Cambodian rice millers.

11. It covers cross-cutting issues related to building the capacity of the government and other economic stakeholders to design and implement national trade policies and strategies, and building the productive capacity of private sector actors (i.e. expanding the base and capacity of rice exporters, upgrading the trade financing skills of traditional bankers and borrowers, developing a public-private sector approach to tackle SPS and NTBT issues, enhancing the knowledge base of contract farming, and upgrading the milling and packaging capacity of the industry).

12. The Rice case story is a story of hope where for the first time in recent years of receiving technical assistance, the government has surprised many DPs and impressed the private sector and civil society organizations with its capacity to articulate *on its own* and implement its Paddy Production and Rice Export Policy in consultation with all national stakeholders and with its ability to capture trade opportunities and enforce trade regulations aimed at strengthening competitiveness in the rice production and export sector and at promoting export diversification.

13. Moreover, the Rice Export Policy story, which is currently in full swing, provides Cambodia with an awareness of the ongoing issues and challenges to be tackled and offers a fresh window of opportunity to attract attention from all relevant stakeholders (ministries, stakeholders, partners and donors) to engage in constructive dialogue and joint initiatives to solve any problems that may arise.

## 1. COUNTRY BACKGROUND

14. ***Prolonged growth period:*** Cambodia has been a star growth performer in the East Asian region for the past decade and has recently succeeded in generating high economic growth. Nearly a decade of rapid growth has had a significant impact on income per capita, which has more than trebled from USD 288 in 2000 to USD 900 in 2009.

15. ***Cambodia ranks sixth out of 194 countries:*** Cambodia is one of the few countries that have achieved sustained rapid growth: of 194 countries with data, 46 have achieved 7 percent annual growth on average for 14 consecutive years. Over the period 1998–2007, Cambodia's growth performance ranked sixth of all countries in the world (World Bank 2009).

16. ***Benefits from peace and global trade:*** Cambodia has been through a unique window of opportunity in its recent history with the end of a multi-decade long period of conflict and the establishment of peace and political stability coinciding with a favourable external environment characterized by the rapid growth of global trade.

17. ***Aggressive pace of economic integration:*** A profound structural transformation has taken place with aggressive economic integration into the global economy, including clear policies to encourage Cambodia's fast-track accession to the WTO; a shift of jobs from agriculture to manufacturing; a booming tourism sector; and migration from rural to urban areas. Growth was fueled to some extent by drawing on some of the country's natural and agricultural assets (forests, fisheries, land) and its cultural assets, such as Angkor Wat.

18. **Geography-driven regional integration:** Geography has played an influential part in Cambodia's growth, since it is a coastal country in a dynamic and rapidly evolving regionally integrated South-East Asia and East Asia.

19. **Unfortunately, a narrowly based form of growth:** This remarkable economic growth of the past decade is unfortunately narrowly based, driven by only four leading sectors, i.e. garments, tourism, construction and agriculture. Very little diversification has occurred beyond the garment industry, which accounted for almost 90 percent of all recorded exports and around 17 percent of GDP in 2008. By 2008 it was clear, given Cambodia's dependence on the US market for its garment exports, that the country exhibited a high degree of vulnerability to a collapse in demand, which indeed happened in 2008 and which continued in 2009–10. The deteriorating outlook for Cambodia's major export — garments — becomes painfully apparent if we look at recent developments in terms of trade.

20. **Context for agricultural diversification:** Despite some initial signs of recovery from the recent global financial crisis, Cambodia felt the need to enhance its competitiveness. Maintaining competitiveness is important, given the social implications of the agricultural sector, in which rice exports alone, once they reach 3 million metric tons, could make up approximately 20 percent of GDP.

21. **Poverty reduction driven by agriculture-led growth:** With more than nine out of ten of its poor people living in rural areas, Cambodia's success in reducing poverty is owed to the central role of agriculture-led growth, driven by land and productivity gains — even though yields remain low.

22. **Agriculture** accounted for 29 percent of GDP in 2007 with some 59 percent of the population relying on this sector for their livelihood. Agriculture has been growing at 4.4 percent over the past decade, driven by crops and, to a lesser extent, livestock and fisheries.

23. **Crops** accounted for 14 percent of 2007 GDP and this sector was dominated by rice. Eighty percent of farmers grow rice, 60 percent of them for subsistence. Other crops include rubber, cassava, cashew nuts, maize, tobacco and jathropha. Tobacco is produced primarily for export along the Mekong River, while fruits and vegetables are grown only on a small scale to meet local demand. **Livestock** (mainly pigs and poultry, to sell meat and eggs), accounted for 5 percent of 2007 GDP. **Fisheries** accounted for 7 percent of 2007 GDP. Inland fisheries (in particular around the Tonle Sap, an exceptionally rich freshwater environment) dominate the sector, while marine fisheries are largely for export. **Forestry** accounted for 2 percent of 2007 GDP.

## 2. THE RICE EXPORT POLICY STORY

24. **Rice is by far the most important agricultural product** of Cambodia and the sector employs around 2.9 million people. Rice is the major staple food and is cultivated by the large majority of small farmers. Estimates of rice exports — including informal exports — suggest that rice is by far the most important agricultural export product in Cambodia. Although most exports are of paddy rice, milled rice is increasingly considered to have an important potential for future exports. The diversification of Cambodia's sources of growth through increasing paddy rice production and milled rice exports could complement growth in other sectors, including garments. As the garment sector is facing stiffer competition and a collapse in demand, the rice sector could become an important pillar to sustain Cambodia's economic growth. In fact, high growth in the agricultural sector will benefit most Cambodian farmers by improved their living standards. Such growth is crucial for human development in terms of food security and poverty reduction, especially for subsistence farmers.

25. **Market access:** Cambodia is still a small player in the world rice market. It is estimated that about 1.6 million tons of paddy rice are exported informally to Viet Nam and Thailand. With regard to

varieties, Cambodian paddy exports to Viet Nam consist mainly of IRRI rice, while exports to Thailand are traditionally aromatic varieties, although in recent years increasing quantities of non-aromatic paddy have been exported too.

## 2.1 Problems and Issues Confronting the Rice Sector

26. ***Underperforming and undervalued sector:*** Although Cambodia is primarily an agrarian society with about 85 percent of its population living off the land, it has until recent times limited export of its agro-products to only about 0.3 percent of total exports. Unofficially, agricultural products, especially rice, rubber and other products, were traded across the border to neighbouring countries without proper statistical records being kept.

27. ***Poor performance in regional trade:*** Cambodia has not benefitted as it should have from regional markets (only 13 percent of its trade is intra-regional, against a regional average of 49 percent). There is tremendous potential to integrate further into the Asian region with preferential market access to DP countries like China, India, Australia, New Zealand, Japan and the Republic of Korea. The lack of or shallow understanding of preferential market access agreements is a contributory factor.

28. ***Weak cross-border trade facilitation:*** Despite some initial signs of recovery from the recent global financial crisis, Cambodia felt the need to enhance its competitiveness. In the World Bank “Doing Business” rankings for 2010, Cambodia is ranked 22nd out of 24 East Asian and Pacific nations in the overall index and 21st out of 24 in the “trading across frontiers” index.

29. ***Speculative land price distortions:*** Cambodia still suffers from the perverse effects of the land price distortions arising from the speculative bubble of the pre-global financial crisis years, which is diluting the country’s perceived comparative advantages of having relatively abundant land and natural assets, and inexpensive labour.

30. ***Underperforming Economic Land Concessions (ELC):*** The ELC approach has not delivered the expected results. Out of some 60 ELCs, only a small fraction have actively invested in the concessions, and many others are still entangled in numerous conflicts with local communities over land use.

31. ***Productivity issues – reversing the brain drain:*** The major challenge in the labour market is to ensure that those educated members of the labour force who have benefitted in recent years from the exposure to higher productivity jobs outside of agriculture, i.e. in industry and services, be given the incentives to return to agriculture to help boost its productivity and competitiveness.

32. ***Weak production infrastructure:***

- ***Lack of irrigation facilities:*** Approximately 7 percent of cropland is irrigated, the lowest in all of South-East Asia. The dependence of the agriculture sector on rainfall subjects the sector to weather vulnerability.
- ***Inadequate fertilizer usage:*** Fertilizer usage in Cambodia is significantly lower than in neighbouring countries at about 5–6 kg/ha, which is much lower than the average in the region. Only 27 percent of rain-fed farms use inorganic fertilizers, compared to 70 percent of dry-season farmers who have access to irrigation.
- ***Weak collective action:*** Currently no credible private sector organization for collective action exists in the agriculture sector as a whole or at the sectoral level, like the rice sector, although there are numerous rice milling associations whose membership is diffused both geographically and politically.

### 3. RESULTS ACHIEVED

33. ***Overall positive effects of the Rice Export Policy:*** The Paddy Production and Rice Export Policy has been fairly successful in terms of both outcomes and processes. In particular, it helped organize the efforts of the government and DPs in some critical areas (assessing regional and bilateral market access; the readjustment of donors' priorities, i.e. in the area of irrigation and value chain credit financing; and improving trade facilitation). The policy was also important in generating interest in and support for production and trade-related issues by the private sector, NGOs, academia, other ministries and the donor community at large. In addition, it gave impetus to SNEC to stimulate coordinated actions among trade-related institutional bodies within the government, carry out consultations with stakeholders and facilitate donor coordination.<sup>i</sup>

34. ***Improvement in the export process:*** Since the launching of the policy, many rice exporters whom we have interviewed have enthusiastically stated that there are clear efforts by the various government agencies along the institutional value chain to support the implementation of the Rice Export Policy. There are visible improvements in the reduction of government-related transaction costs related to customs, camcontrol and commerce. For some private services providers like fumigation services, some efforts have been made to reduce fees, although rice exporters still perceived them as high and not commensurate with the services provided. The Port Authority of Sihanoukville has made substantial efforts to streamline its port operation procedures, with particular focus on supporting and facilitating the export of rice and other agricultural products.

35. ***Exploiting preferential market access – EBA:*** A clear outcome of the Rice Export Policy is Cambodia's mobilization of an entire rice sector for export to take advantage of trade preferences (such as those provided by EBA) and regional market access. The European Union (EU) is a major destination for Cambodia's rice exports. Under EBA, most products from least-developed countries (LDCs), including Cambodia, get duty-free access to European markets with greater predictability. Cambodia's utilization of preferential access to the EU market has grown vigorously since the phasing of rice into the programme in September 2009. Almost 100 percent of Cambodia's exports to the EU are eligible for preferential access to the European market. Under these trade preferences, a Cambodia exporter can export a rice shipment to the European market with special tax preferential treatment of about 140 euros per ton as compared to exporters from Thailand and Viet Nam.

36. ***Alignment of the national development strategy with the regional and sub-regional approach:*** Cambodia is a member of the Association of South-East Asian Nations (ASEAN) and a number of regional free trade agreements (FTAs) between ASEAN and its development partners like China, India, Australia and New Zealand. Priority efforts have focused on connecting Cambodia's agricultural firms with the sub-regional supply chains by attracting Vietnamese, Thai and Chinese firms to locate their processing factories in Cambodia, and negotiations in this regard are currently in progress.

37. ***Efforts to integrate Cambodian products into the regional value chain:*** Geography is a major driver of development, and Cambodia has the opportunity to harness the dynamism of its neighbouring countries through regional integration by generating economies of scale for supply chains. As the short-term outlook is less encouraging, given the global trade environment and the impasse in the current WTO development round, the slowdown of global trade gives an added sense of the urgency of the need to deepen Cambodia's integration into the East Asia region, in particular China. Opportunities exist to increase sub-regional trade within the Greater Mekong Sub-region (GMS), making Cambodia the bridge between two of the largest cities in South-East Asia, Ho Chi Minh City and Bangkok. Implementing existing cross-border transport agreements with neighbouring countries would further stimulate cross-border trade flows.

38. ***Mobilization of support from DPs:*** Various multilateral and bilateral DPs have in recent years provided support in the agricultural sector, although in ad hoc manner and more driven by their

respective country development strategies. Sector coordination was still perceived as superficial with much overlapping of upstream activities and compartmentalized outcomes. Nonetheless, it has given a big kick start to the sector in terms of building initial production capacity, creating awareness of trade-related issues, tackling SPS and NTBT issues, and mobilizing private sector involvement.

- The World Bank has started off a new Trust Fund in collaboration with AusAID (WB-IFAP) worth USD 35 million targeting the agricultural sector in general.
- IFC intends to implement in 2011 a Guarantee Fund of about USD 30 million to partnering bank(s) to facilitate access to finance for rice millers.
- USAID has initiated a five-year, USD 56 million dollar programme to improve Cambodia's food security through enhanced agricultural development and better management of natural resources.<sup>ii</sup>
- AusAID has initiated an ambitious AUD 45 million agricultural value chain project<sup>iii</sup> that will run from 2009 to 2013 aimed at promoting market-oriented agricultural development and product diversification, with an initial focus on rice, vegetables and fruit.
- The EU has awarded a package of EUR 6.9 million to three NGOs (Gret, ZOA and Helen Keller International) and GTZ to implement a food security project from 2010, which includes the building of ten rice seed stores.
- JICA has collaborated with the Ministry of Agriculture on agricultural productivity and in 2009 it targeted the capacity development of Cambodian engineers to improve agricultural river basin management. Japanese assistance was also focused on trade facilitation and investment, including JBIC's support for Special Economic Zones (Sihanoukville Port SEZ) and JICA's support for the Cambodia Investment Board and customs' risk management.
- The Asian Development Bank (ADB) has supported the small and medium enterprise (SME) sector through programme loans. It is now developing a new phase of support for private sector development, including trade-related elements (such as SPS).
- AFD intends to make one or several credit lines available to local banks as a partial guarantee mechanism to facilitate the financing of long-term investment needs and to allow the modernization of medium-sized businesses.
- ITC and the Association of Development Financing Institutions in Asia and the Pacific are consolidating their existing partnership by developing an SME finance programme with financing from AFD.
- ESCAP has supported the rice sector in the form of a business process analysis to streamline export procedures.

39. However, there is a clear storyline of ownership where the government has taken the leader to bring about a bold trilateral public–donor–private sector partnership to tackle the most critical issue of providing financing to the rice sector. The Rice Policy Paper recommended specifically that the Ministry of Economy and Finance and the National Bank of Cambodia should prepare and introduce the necessary financial mechanisms to make it easier for rice millers and exporters to access loans, including from commercial banks, and to provide credit facilities guaranteed by the government. Among many other measures, the Policy Paper specifically called for the development of a risk-sharing facility scheme to guarantee loans from commercial banks to companies and paddy collectors by at the latest 2011. Work on this has begun in earnest, with the government allocating USD 25 million from a World Bank grant of USD 5 million and an grant of IFC USD 20 million, and a number of commercial banks have matched this with another USD 25 million.<sup>iv</sup> Already, the initiative has produced a ripple effect, with China now considering providing a much larger amount to enlarge such a scheme driven by the government.

#### **4. DELIVERING ON AID-FOR-TRADE: LESSONS LEARNED**

40. *Lesson 1 – AfT needs clear and strong policy direction, i.e. diversification into new markets and new products:* Cambodia needs to build on its existing capabilities and develop new ones as a step towards diversifying its economy. The remarkable economic growth of the past decade can be



sustained only if Cambodia increases its competitiveness and diversifies away from its current narrowly based form of growth. However, the management of complex agricultural resources necessary for capturing this opportunity for growth needs to be stimulated by good policies, strategies and governance. Positive externalities in the form of new preferential market access and foreign capital inflows are helpful: “In realizing the vision of agriculture development, the Government has adopted a three-pronged strategy — *productivity enhancement, diversification and agricultural commercialization* (from subsistence to commercial agriculture)” (Cambodia 2010).

41. ***Lesson 2 – the need for complementarities with new sectors:*** For an agrarian-based economy, agriculture will continue to be important for GDP growth, but it needs to be complemented by development in other sectors:

- Agro-industries in rural areas, i.e. non-farm activities (e.g. rice milling, trading) should be major sources of growth.
- Foreign investors — who can bring access to global value chains, technology and finance — willing to invest in contract farming should be encouraged and attracted.
- Market linkages for rice-milling byproducts should be created, i.e. rice bran for animal feed and husk for energy generation.
- Public–private sector partnership in processing and packaging technology and investment, and the ability to secure independent accreditation for SPS and NTBT requirements should be encouraged.
- Additional sources of financing for production and export should be secured. Cambodia’s financing, which comes primarily from foreign savings, highlights the adverse impact on growth in Cambodia as a result of tighter conditions in international financial markets.

42. ***Lesson 3 – the big “upstream” stumbling block of the success of AfT remains the intractable SPS issues and other NTBTs:*** Cambodia does not have a compliant basic SPS management system in place at the moment, which prevents its exports of rice to new major markets like China, for example. Generally, concrete market analyses are missing and when they do exist they generally focus extensively on tariff barriers, but barely on anything related to NTBTs. SPS and NTBT issues are generally referred to, but rarely is anything concrete given in term of specific products, e.g. rice, cashew nuts or rubber. In terms of market access, little is known of the real actors involved, whether they are the respective government agencies mandated to transact or the private sector. Sometimes, the intricacy and complexity, if not the opacity, of the quota system of the new market is another challenge.

43. ***Lesson 4 – access to finance to the private sector actors is the “downstream” stumbling block of any AfT initiative: no finance, no expansion, no critical mass, no impact:*** Harnessing the potential of Cambodian rice millers by providing access to adequate finance will improve the rice millers’ production, competitiveness and delivery to export markets. Past ad hoc and piecemeal initiatives by small UN agencies and large financial international institutions alike in the sector are only a teaser and have led to much frustration and many broken promises.

44. Somewhat differently, PROPARCO and AFD provided USD 10 million in finance to establish rice-processing capacity of 240,000 tons for the Golden Rice investment company in 2009, which is a model of success. AFD was emboldened by this success and is embarking on a partial guarantee mechanism of USD 30 million to extend credit lines to local banks in 2011. This initiative takes into account both the need to increase shelling capacity and the additional equipment and material required in the production chain, and increases the possibilities for reducing processing costs.

45. ***Lesson 5 – AfT’s “mid-stream” stumbling block is still capacity building.***

46. **Capacity building for exporting firms in terms of export procedures:** Human resources remain the main constraint for the majority of Cambodia's medium-sized exporting firms. In the area of capacity building, there is a clear need for training medium-sized provincial rice millers in terms of the actual process of international trade, in particular in terms of specific export procedures. With the exception of the top ten rice millers, most of the three hundred rice millers have only a vague idea of the export process. The myth remains that export is such a complicated process that only large and sophisticated rice millers can successfully engage in it. This myth reinforces the existing marketing practices of paddy buyers from neighbouring countries, who constantly reaffirm the message that it is too complicated to mill the paddy and then have to go through the hassle of exporting the milled rice.

47. **Capacity building on market access conditions:** The experiences on the Cambodian agriculture diversification strategy, in particular the Rice Export Policy, point to two challenges, the first of which appeared suddenly and confronted policymakers unexpectedly, i.e. as Cambodia looked for promising markets like the Philippines and China, it became apparent that both policymakers and the private sector actors knew so little of these markets. One would think that all these frequent and regular high-profile ASEAN and GMS summits, ministerial and technical meetings, and other regional and sub-regional meetings, which cost enormous amounts in terms of budget and human resources for LDCs like Cambodia and Lao PDR, would bring more than just high-powered declarations. The regional institutions such as ESCAP, IFC and ADB should further engage and implement more trade projects to support promising Cambodian exporting firms by helping them, firstly, to understand concrete export opportunities arising from numerous regional and sub-regional trade agreements<sup>v</sup> and, secondly, to understand the export rules and regulations and other procedural aspects of international trade. Another challenge for policymakers and their staff is related to their lack of access to regular product-specific market trends. And when they do have such access, it becomes an issue of market data interpretation. In the rice export market, for example, very few Cambodian policymakers appreciate the complexity of the international rice trade and the competition involved, let alone the tricks of the trade.

## 5. DELIVERING ON AID EFFECTIVENESS: LESSONS LEARNED

48. **Lesson 1 – superficial coordination and harmonization of donors activities:** Cambodia has been able to rely on a large number of DPs to support its trade development agenda, although in the rice sector, efforts are far from being coordinated and transparent. Turf mentality still prevails among most DPs. Project information and data still remain jealously guarded by each DP, leading to a multitude of repeated and overlapping wasteful fact-finding missions and reports. The upshot is that nonetheless they have produced a pool of technical analysis, which the government has built upon to develop its Rice Export Policy.<sup>vi</sup>

49. **Lesson 2 – there is clear fatigue related to large multi-donor trust funds with complicated implementing procedures:** The perception from the government is that such trust funds do not necessarily bring results except by generating regular voluminous reports written by external consultants and for donors' bureaucratic agenda. Many reports provide little or no value for the government. Sometimes it has the perverse effect of giving the government a false sense of security that something is being done. DPs should be restricted to delivering technical inputs for policy decisions, but should refrain from substituting for the work of their government counterparts. Results and outcomes are perceived as not commensurate with the amount of ODA spent. In the past two years the European Commission, DANIDA and UNIDO have pooled resources to support the implementation of the Trade SWAp through a basket fund administered by the World Bank. Weak leadership combined with benign neglect by both the government and donors have left the programme in disarray, even negatively affecting Cambodia's access to the EIF fund.

50. **Lesson 3 – AfT will not succeed without clear country ownership:** The lesson is that successful aid effectiveness still boils down to country ownership. The good progress in the promotion of rice exports has already had a catalytic and encouraging effect on the export of other

agricultural products such as cashew nuts, rubber and other crops. Some DPs have approached SNEC for leadership to initiate and pave the way for sectoral policy development and the promotion of other agricultural crops. Already, IFC plans to help the rice millers associations produce a national rice standard, develop rice export guidelines and improve mill management.

51. With the Rice Export Policy in place, there is a strong expectation from the government that many DP programmes will become more aligned with national priorities, in particular with new projects in the pipeline.

52. **Lesson 4 – AfT stands a better chance of success when private sector actors are involved and empowered:** In the rice sector, there is a clear sense of reinforced confidence in the role of the private sector. Serious and credible foreign involvement in production and export in the form of FDI or foreign equity partners has begun to emerge. The adoption of the Rice Export Policy provides an added incentive to strengthen a close partnership between the government and the rice industry, where private sector-led initiatives have received warm encouragement and support from the public sector. Collective action arrangements under the Government–Private Sector Forum has given the private sector a sense of security for its investments in infrastructure such as modern rice-milling plants, new grain silos and warehouses, and paddy dryers. The clear and visible effects of these investments are highly psychological because for the first time in the recent history of Cambodia, the country’s rice actors have felt confident that they can absorb the paddy surplus and extract and retain the value in-country in the form of available husk for generating energy for milling and bran for animal feed. Tangible results can be felt also in the area of trade facilitation, with rice millers and exporters reporting a substantial improvement in export procedures and informal costs.

53. **Lesson 5 – ad hoc AfT activities have little or no impact on poverty, gender and sustainable development:** The government of Cambodia and its development partners chose to respond to the 2008–10 financial crisis by promoting the agricultural sector, which is the largest labour market in a country in which 80 percent of the population live in rural areas. Creating favourable conditions for a flourishing rice trade can generate multiplier effects on production capacity and poverty reduction, as well as accelerating progress towards Cambodia achieving its Millennium Development Goals.

54. Back in 2006, JICA pioneered the “Open Paddy Market” project with the Ministry of Commerce (MoC), renting a warehouse facility from MoC in Prey Veng with the objective of turning it into a place and tool to create a systematic rice-marketing environment and strategy in Cambodia, as well as to serve as a facilitator and insurer for its commercial transactions. However, once JICA funding decreased, the private sector operator left to manage the centre did not have the financial ability to pursue the activities and the project was shut down in 2008.

55. **Lesson 6 – political attention facilitates constructive AfT dialogue:** The rice story, which is currently in full swing, provides Cambodia with powerful awareness of the ongoing issues and the challenges to be tackled and offers a fresh window of opportunity to attract attention from all relevant stakeholders (ministries, stakeholders, partners and donors) to engage in constructive dialogue and joint initiatives to solve the related problems:

- The Rice Export Policy expressly considers milled rice exports as a top priority and as such provides clear instructions regarding measures to reduce to a minimum informal payments and the time required to export by extending “special treatment” similar to the garment sector.
- There is a general appreciation of the urgent need to invest in and upgrade the necessary infrastructure to reduce the costs of export. Concerned ministries/agencies are expected to prepare plans of action to reduce the infrastructure-related costs of exports, including costs related to transportation, port handling, storage, port operations and other service charges, by assessing the possibility of investing in infrastructure, transportation and port-handling facilities.

## 6. CONCLUSION

56. In the current context of food shortages, rising population and regular natural disasters, agricultural commercialization has become more dynamic in light of these global economic changes, which have driven and will certainly continue to drive food demand and prices higher. Clearly, this trend has important implications for Cambodia's post-crisis strategy, and this explains the rethinking of the country's development paradigm and the effect of rice and other crop production.

57. The Rice Export Policy case story is a story of hope where for the first time in many years of receiving technical assistance, the government has surprised many DPs and impressed the private sector and civil society organizations with its capacity to articulate *on its own* and implement its Paddy Production and Rice Export Policy in consultation with all national stakeholders, and with its ability to capture trade opportunities and enforce trade regulations aimed at strengthening competitiveness in the rice production and export sector and promoting export diversification. In fact, the real winners of the success of the Rice Export Policy would be the eight million or so poor people living in rural Cambodia who have been uplifted from poverty.

## REFERENCES

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<sup>i</sup> The Rice Export Policy has benefitted from an initial round of value chain analysis undertaken by the present author. SNEC subsequently took the lead and began assembling a task force in early 2010. After a few months of intense dialogue, the policy was presented to the Council of Ministers and was publicly launched in August 2010.

<sup>ii</sup> Helping Address Rural Vulnerabilities and Ecosystems Stability (HARVEST).

<sup>iii</sup> Cambodia Agricultural Value Chain Project (CAVAC).

<sup>iv</sup> The credit situation in Cambodia is rather particular. While many economic agents cannot access affordable credit for their operations, there is substantial excess liquidity in the commercial banking system (reported to be about USD 2–3 billion in an economy with a GDP of USD 10 billion in 2009).

<sup>v</sup> Like ASEAN, the ASEAN FTA with China and Australia/New Zealand, the ASEAN–Japan Comprehensive Economic Partnership, the ASEAN–Korea Comprehensive Economic Cooperation and the ASEAN–India Comprehensive Economic Cooperation.

<sup>vi</sup> UNDP and ITC in the updated DTIS have identified 19 products with good export potential, the majority of which are agricultural (rice, cashew nuts, cassava, maize, fish, livestock, rubber, silk, soybeans, fruit and vegetables – including organic mango, palm and pepper – and wood products).