

Validation Report
July 2019

Cambodia: Promoting Economic Diversification Program

Reference Number: PVR-635
Project Numbers: 38421-013, 38421-023, 38421-072
Loan Number: 2480, 2675, 2904
Grant Number: 0136, 0223, 0224

Independent
Evaluation 

Raising development impact through evaluation

ABBREVIATIONS

ADB	–	Asian Development Bank
ADO	–	Asian Development Outlook
DMF	–	design and monitoring framework
GDP	–	gross domestic product
IED	–	Independent Evaluation Department
ISO	–	International Organization for Standardization
MIH	–	Ministry of Industry and Handicrafts
MIME	–	Ministry of Industry, Mines and Energy
MOC	–	Ministry of Commerce
PCR	–	program completion report
PED	–	Promoting Economic Diversification (Program)
RIA	–	regulatory impact assessment
RRP	–	report and recommendation of the President
SMEs	–	small and medium-sized enterprises
SPS	–	sanitary and phytosanitary standards
SWAp	–	sector-wide approach
TA	–	technical assistance

NOTE

In this report, “\$” refers to United States dollars.

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PROGRAM BASIC DATA

Project Numbers	38421-013, 38421-023, 38421-072	PCR Circulation Date	25 September 2018	
Loan/Grant Numbers	2480, 2675, 2904/0136, 0223, 0224	PCR Validation Date	Jul 2019	
Program Name	Promoting Economic Diversification Program			
Sectors and subsectors	2480/0136: Public sector management 2675/0223/0224: Public sector management; industry and trade 2904: Public sector management; agriculture, natural resources and rural development	Economic affairs management Public administration Small and medium enterprise development Economic affairs management Agricultural policy, institutional and capacity development		
Strategic agenda	Inclusive economic growth, regional integration			
Safeguard categories	Environment		C	
	Involuntary Resettlement		C	
	Indigenous Peoples		C	
Country	Kingdom of Cambodia		Approved (\$ million)	Actual (\$ million)
ADB Financing (\$ million)	ADF: 71.70	Total Project Costs	71.83	72.49
	OCR: 0.00	Loan/Grant		
		L2480	20.00	21.19
		G0136	2.00	1.91
		L2675	10.00	10.18
		G0223	9.00	9.00
		G0224	5.00	4.55
	L2904	25.00	24.87	
	Borrower	G0136	0.40	0.36
		G0224	0.43	0.43
Beneficiaries				
Others				
Cofinancier		Total Cofinancing		
Approval Date		Effectiveness Date		
L2480, G0136	5 Dec 2008	L2480, G0136	8 Mar 2009	22 Dec 2008
L2675, G0223, G0224	30 Sep 2010	L2675, G0223, G0224	20 Jan 2011	11 Jan 2011
L2904	27 Sep 2012	L2904	17 Apr 2013	12 Apr 2013
Signing Date		Closing Date		
L2480, G0136	8 Dec 2008	L2480	30 Apr 2009	30 Apr 2009
L2675, G0223, G0224	22 Oct 2010	G0136	30 Sep 2012	19 Feb 2013
		L2675	30 Apr 2011	30 Apr 2011
		G0223	30 Apr 2011	30 Apr 2011
		G0224	30 Sep 2014	9 May 2017
		L2904	31 Mar 2013	2 May 2013

Project Officers	K. Bird R. Hattari M. Ismail	Location ADB headquarters ADB headquarters ADB headquarters	From Jun 2008 Jun 2010 Dec 2014	To Dec 2014 May 2013 Jun 2016
IED Review Director Team Leader	W. Kolkma, IETC M. Abro, Senior Project Officer, Pakistan Resident Mission *			

ADB = Asian Development Bank, ADF = Asian Development Fund, IED = Independent Evaluation Department, IETC = Thematic and Country Division, OCR = ordinary capital resources, PCR = program completion report.

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I. PROGRAM DESCRIPTION

A. Rationale

1. The Government of Cambodia's development strategy targeted sustaining high economic growth and poverty reduction by diversifying the sources of growth from its narrow base of construction, garment making, and tourism. Achieving further poverty reduction was linked with sustaining an economic growth rate of 7.5% per year over the medium-term and sustaining high economic growth over the longer term required export diversification and building links between agriculture and the modern sector. The government's sector-wide approach (SWAp) to trade aimed to diversify the economy by facilitating private sector development. Reforms to enhance competitiveness required macroeconomic stability, institutional reforms to investment climate, competition policy, and enhanced trade facilitation measures. It was in this context that the Promoting Economic Diversification Program (PED Program) was developed.¹

2. The PED Program utilized a cluster approach consisting of three subprograms and reforms in macroeconomic stability, investment climate, and trade policy and facilitation. It was designed to maintain macroeconomic stability necessary for private sector development and growth by continuing to make progress toward price stability through prudent fiscal policy, improving the investment climate, enhancing the environment for competition and innovation, and institutionalizing a regulatory impact assessment within the government. The program included policy reforms aimed at reducing transaction costs and risks in Cambodia. It also targeted improving trade policy and facilitation by renewing trade policy reforms and by strengthening sanitary and phytosanitary standard (SPS) management systems and customs reforms.

3. The first report and recommendation of the president (RRP) noted that the cluster modality would provide for a series of single-tranche operations with a well-defined, medium-term framework specified at the outset, including completed high impact reforms (footnote 1). The modality also included triggers for subsequent subprograms to ensure continued dialogue among the government, the Asian Development Bank (ADB), and stakeholders. An innovative feature of the cluster approach was the linking of a set of technical assistance (TA) projects to prior policy triggers to facilitate government ownership and a policy environment necessary for successful project implementation.

¹ ADB. 2008. *Report and Recommendation of the President to the Board of Directors: Proposed Program Cluster, Loan for Subprogram 1 and Grant to the Kingdom of Cambodia for the Promoting Economic Diversification Program*. Manila.

B. Expected Impacts, Outcomes, and Outputs

4. The expected impact of the PED Program was an expanded and diversified private sector; its outcome was an improved business environment where the private sector operates efficiently and effectively. The planned outputs included (i) increased competition in the domestic market and improved regulatory efficiency;² (ii) improved investment climate; and (iii) strengthened trade policy and facilitation.

C. Provision of Inputs

5. Subprogram 1 was approved by the Board in December 2008, declared effective in the same month; though the planned date was in March 2009. The loan component was closed as planned in April 2009 as well as the grant component in September 2012.

6. As envisaged, Subprogram 2 loan and grants were approved in September 2010, and declared effective in January 2011—within 2 years of the effectiveness of Subprogram 1. One grant under Subprogram 2 was closed in June 2016 after three extensions and its financial closing was done in May 2017.³ The PED Program was extended for 10 months—from 30 September 2014 to 31 July 2015—to shorten the gap between the regulatory impact assessment (RIA) subproject and the proposed TA project on the national rollout of the RIA program in government. After the SPS subproject was transferred to the Ministry of Industry and Handicrafts (MIH), additional time was needed to complete the implementation of the small and medium-sized enterprises (SMEs) grants scheme. A second request was processed to extend the project completion date for 5 months until 31 December 2015. The third extension was for an additional 6 months (21 months cumulative) until 30 June 2016 to accommodate the issuance of the Royal Decree on RIA in early 2016, and the regional workshop on RIA was held in the first half of 2016. The financial closing of the grant was delayed for almost a year as the MIH had to go through long government processes to settle the unused advances in the imprest account.

7. Subprogram 3 was approved in September 2012 and declared effective in April 2013 as planned; and was closed in May 2013 (2 months later than planned). As envisaged, it was approved within 2 years of the effectiveness of Subprogram 2.

8. At the time of approval of Subprogram 1, the total estimated financing for the cluster was \$52.0 million. Subprogram 1 comprised a \$20.0 million program loan, a supporting \$2.0 million project grant and a TA project grant of \$0.8 million.⁴ Subprogram 2 comprised a \$10.0 million program loan, a supporting \$9.0 million program grant, and a project grant of \$5.0 million, which was split into two subprojects that supported (i) the introduction and conduct of RIA, and (ii) the development of an SPS matching grant fund for small businesses. Subprogram 3 delivered a program loan of \$25.0 million. The three program loans (all of which were single tranche releases), the project grants, and the TA grant were financed under Asian Development Fund. Actual financing of the cluster was about 38% higher than estimated, with Subprograms 2 and 3 were provided with significantly more resources than planned. Subprogram 2 consisted of a program and two substantial project grants, worth a total of \$9.0 million more than the original estimate. Subprogram 3 was a \$25.0 million program loan, which was \$10.0 million higher than estimated.

² Output 1 in the RRP of Subprogram 1 was “maintained macroeconomic stability through prudent fiscal policy in support of private sector development.” Footnote 1.

³ The project grant for the Competition Regulation, and Small and Medium-sized Enterprises Technology (CREST) Project was under Subprogram 2.

⁴ ADB. 2008. *Technical Assistance to the Kingdom of Cambodia for Enhancing Private Sector Competitiveness*. Manila

9. Under the SPS program of Subprogram 1, 48 international and 10 national person-months of consulting services were planned. The policy and advisory TA project grant for enhancing private sector competitiveness planned for 26 international and 37 national person-months. During implementation, a total of seven consultants were engaged: six international (21 person-months) and one national (7 person-months). One consulting firm was engaged under Subprogram 1 and two firms were engaged under Subprogram 2.

10. All three policy-based loans were rated category C for environment, involuntary resettlement, and indigenous peoples. Subprogram 3 was categorized as effective gender mainstreaming. It accomplished five policy actions with gender elements. The Office of RIA mainstreamed gender in its activities under Output 1 by considering gender issues in RIA assessments and consulting female entrepreneurs when assessing new regulations. Under Output 2, selected private participants in the food processing industry set up an informal private sector consultative group to promote innovation and technology of their industry with food processing companies owned by women representing almost 40% of the group's members. Under Output 3, 19 government food safety auditors (including 4 women) were trained as International Organization for Standardization (ISO) 22000 lead auditors. Of these auditors, 11, 3 of them women, passed the ISO qualification examinations. Staff of the Industrial Laboratory Center of Cambodia; the Institute of Standards of Cambodia; and the Ministry of Industry, Mines, and Energy (MIME), including 12 women, completed intermediate and pre-intermediate technical English classes, which were a critical requirement for ISO accreditation.

D. Implementation Arrangements

11. The Ministry of Commerce (MOC) was the executing agency responsible for the overall implementation of Subprogram 1, including carrying out all policy actions, program administration, and maintenance of program records. The MOC used the Private Sector Development Sub steering Committee on Trade Development and Trade-related Investments, to be responsible for coordinating the implementation and sustaining the PED Program policy actions, with the MOC, Ministry of Economy and Finance, MIME, and relevant line agencies involved in supporting the program. The implementation arrangements were satisfactory. The use of an existing coordination mechanism avoided duplication. The MOC was responsible for coordinating, implementing, and sustaining the PED Program. The implementing agencies included the MIME and the Ministry of Economy and Finance. The MOC administered the program through its Private Sector Development Sub steering Committee on Trade Development and Trade-Related Investments. However, there was a change in the executing agency under the SPS subproject following the national elections in 2013. The MIME was split into two-line ministries; the Ministry of Mines and Energy and the MIH. Most of the technical team who were administering the SPS subproject moved to the Ministry of Mines and Energy while the MIH assumed responsibility for the PED Program even though this agency's staff was not well conversant with the project and ADB's procedures.

12. Consulting services played a significant role in the achievement of the program's objectives. The TA project attached to Subprogram 1 helped implement key policy measures under the cluster; provided economic policy analysis and advice on trade policy formulation, trade facilitation, competition policy, and technology policy; and helped strengthen the government's institutional capacity to deepen the private sector reform agenda. Consulting services also played an important role in implementing the RIA and SPS subprojects.

13. Compliance with the policy reforms of the three subprograms is discussed in paras. 17–20. The program completion report (PCR) documents that most of the 91 covenants were fully

complied with.⁵ Areas of partial compliance involved submission of audited financial statements, updating the project administration manual, general project administration, and progress reporting to ADB. There was noncompliance with the covenant relating to the administration of the SME Improved Access to SPS Technologies grant scheme.

14. The mitigating measures incorporated in the program design helped to address the risks identified by the original RRP (footnote 1), in particular, the provision of consulting services through the attached TA project and the project grants assisted in addressing the capacity constraints.

II. EVALUATION OF PERFORMANCE AND RATINGS

A. Relevance of Design and Formulation

15. The PCR rated the PED Program relevant. The government's development strategy was aimed at sustaining a high economic growth rate, accelerating the creation of productive jobs, and continuing poverty reduction. The Rectangular Strategy focused on the five priority areas of infrastructure, better governance and institution-building, enhancing agriculture, private sector development, and capacity development.⁶ The National Strategic Development Plan aimed to operationalize the Rectangular Strategy, and was supported by several sector strategies, including one linked to trade, which helped improve the investment climate and diversify exports away from garments.⁷ The PED Program cluster was closely linked to and directly supported the government's trade SWAp, the SMEs strategy, and the Regulatory Reform Strategy. The program was consistent with ADB's Country Strategy Program 2005–2009,⁸ and the Country Partnership Strategy 2011–2013,⁹ which identified private sector-led growth as a priority through policy, institutional, and regulatory reforms. The program design featured the phasing of the reforms and capacity building into three subprograms with appropriate incentives for the government to continue the reform program, and a TA project to support the reform agenda and build capacity.

16. Given the timing of the board approval of the first subprogram when the global financial crisis was unfolding, a more robust component for supporting macroeconomic stability might have been more helpful. Despite this missed opportunity, this validation rates the program relevant, as the large majority of reforms and capacity building efforts were well-directed toward achieving the stated outcomes and impact, which were in turn closely linked to Cambodia's development objective of diversifying the economy and sustaining growth. A strength of the program was the balance achieved between policy-based lending and capacity building through project grants and the TA project.

B. Effectiveness in Achieving Program Outcomes and Outputs

17. The PCR rated the PED Program effective. It reported that the program achieved both of its outcome indicators. The number of registered enterprises increased to 25,580 in 2011 (latest available data), representing a 55% increase as compared to the performance target of 15% (50% in the original RRP). Cambodia's competitiveness rank as reported in the World Economic Forum's Global Competitiveness Report improved to 85 (out of 140) from the baseline of 110, while Cambodia's competitiveness score, as assigned by this same publication, improved to 4.0

⁵ ADB. 2018. *Completion Report: Promoting Economic Diversification Program*. Manila.

⁶ Government of Cambodia. 2004. *The Rectangular Strategy, 2004–2008*. Phnom Penh.

⁷ Government of Cambodia. 2006. *National Strategic Development Plan, 2006–2010*. Phnom Penh.

⁸ ADB. 2005. *Country Strategy and Program: Cambodia, 2005–2009*. Manila.

⁹ ADB. 2011. *Country Partnership and Strategy: Cambodia, 2011–2013*. Manila.

from 3.5.¹⁰ A review of performance against output indicators is broadly consistent with the outcomes. Overall, the program's outputs contained 13 performance targets: 8 were achieved, 4 were partially achieved, and 1 performance target was not achieved.

18. An evaluation of the performance of the program is not straightforward as the impact, outcome, and output indicators and targets were revised and refined in the design and monitoring frameworks (DMFs) attached to the RRP for Subprograms 2 and 3 due to the changes in Output 1 (footnote 2). For example, the intended increase in registered enterprises was revised down from 50% to 15% in the DMF for Subprogram 2.¹¹ The outcome indicator for investment, originally targeting a 10% increase per year, was revised in the DMF for Subprogram 2 where the target is an increase in investment to gross domestic product (GDP). In the DMF for Subprogram 3,¹² the investment indicator is elevated (appropriately in the view of this validation) to be an impact indicator and changed from investment to private investment. The inflation outcome indicator was dropped in the DMF for the second subprogram. However, new indicators were added to correspond to the new program outputs formulated under Subprograms 2 and 3. For example, the competitiveness outcome indicator was introduced in the DMF for Subprogram 3. In addition, the evaluation of progress must consider the global financial crisis, which could not have been anticipated at the time the cluster concept was formulated. This validation rates the program effective based on the achievement of the reforms in the policy matrix, the progress achieved under the investment grants, the achievement of the more relevant of the outcome indicators in the DMF (enterprise formation and competitiveness), and the likelihood, given the large TA project efforts made, that the TA project and loans were indeed an important factor in the achievement of the outcomes.

19. Since the PED Program was intended to promote economic diversification for supporting sustainable economic development, policy reforms, and institutional capacity development in Cambodia, none of the policy actions had triggered involuntary resettlement or adversely affected environment and indigenous peoples' safeguards. Therefore, the program was classified as category C for environment, involuntary resettlement, and indigenous peoples' safeguards and this categorization remained valid over the program period.¹³

20. Subprogram 3 was categorized effective gender mainstreaming. The gender dimension of the program's progress against its outcome indicator could not be assessed because while newly registered enterprises exceeded the target, the data was not disaggregated by gender. The PCR rated the PED Program less than satisfactory when measured against its gender-related performance targets and documented the progress achieved.¹⁴ This validation notes that while the program generally did not achieve targets for women's participation, inclusion of effective gender mainstreaming in Subprogram 3 and a gender action plan were important steps forward and provide a baseline for further support. Although targets were not achieved as envisaged, except for enterprise target, disaggregated data was at least collected.

¹⁰ World Economic Forum. 2012. *Global Competitiveness Report 2012/2013*. Switzerland.

¹¹ ADB. 2010. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Grants for Subprogram 2 to the Kingdom of Cambodia for the Promoting Economic Diversification Program*. Manila.

¹² ADB. 2012. *Report and Recommendation of the President to the Board of Directors: Proposed Loan for Subprogram 3 to the Kingdom of Cambodia for the Promoting Economic Diversification Program*. Manila.

¹³ ADB (Independent Evaluation Department). 2019. Safeguard Assessment: Promoting Economic Diversification Program in Cambodia. 23 January (internal).

¹⁴ Footnote 5, Appendix 8.

C. Efficiency of Resource Use

21. The PCR rated the PED Program efficient in achieving a majority of its outcome and outputs. It noted that Subprograms 2 and 3 were presented to ADB's Board in the timeframe planned and without significant modification. There were no delays in the program's disbursement as all subprograms were funded within 2 weeks of being declared effective. Two of the grants were implemented as proposed with no time delays. Slowed disbursements were associated with one project and were due primarily to the national elections in 2013 which triggered a change in the executing agency, necessitating a cumulative 21-month extension in the project life. The validation rates the program efficient. The increase in program cost above the original estimate reflected an increase in the program's scope rather than cost overruns or other inefficiencies. The implementation delay was confined to one grant project.

D. Preliminary Assessment of Sustainability

22. The PCR rated the program less than likely sustainable. The PCR noted that regulatory reforms covering trade, customs, and the business environment are permanent in nature. Cambodia joined and remains a member of the World Trade Organization. The Economic, Social and Cultural Council, which is now a central agency within the government, retains its core functions. The Prime Minister's decision mandating the creation of RIA working groups in all line ministries and government institutions has institutionalized RIA and has produced a far-reaching impact including increased transparency in the formulation of laws and regulations. However, the PCR also noted that the number of days needed to start a business has increased to 99 days, the passage of the draft Law on Food Safety has remained static since the end of the program in 2013, and budget constraints have prevented the necessary upgrades to SPS-related inspection agencies. The World Economic Forum ranked Cambodia 94th out of 137 countries in 2018 with a score of 3.9,¹⁵ and there has been a slight improvement in the overall business environment (ranked 135th in 2018 compared to 138th at program completion according to World Bank's *Doing Business 2018* report).¹⁶ Based on the above, this validation rates the outcome of the program less than likely sustainable. Continued ADB support (including policy dialogue) both directly and through the Greater Mekong Subregion Program, offers a pathway to consolidate the gains made in RIA and SPS.

III. OTHER PERFORMANCE ASSESSMENTS

A. Preliminary Assessment of Development Impact

23. The PCR rated the PED Program satisfactory for development impact. It found that the program supported and directly contributed to the development of a trade regime that helped to achieve a lasting diversification of Cambodia's economy. All three impact indicators were achieved. The share of GDP arising from non-agricultural sectors, relative to total GDP, increased to 70% in 2014 and 72% in 2015, exceeding the baseline of 59%. Non-garment exports increased from 12% to 80% annually from 2007 to 2013, reaching \$1.4 billion, and exceeding the target of 5% to 10% per year. Private investment increased to 21.4% of GDP in 2015 from 14.8% in 2006. The share of GDP arising from non-agricultural sectors has increased substantially, and business formation has accelerated.

¹⁵ World Economic Forum. 2017. *Global Competitiveness Report 2017/2018*. Switzerland.

¹⁶ World Bank. 2017. *Doing Business 2018: Reforming to Create Jobs*. Washington, DC.

24. While a range of other reforms and investments have contributed to achieving the diversification of the economy described above, this validation notes that the reforms and investments made under the program have made contributions and the preliminary assessment of development impact satisfactory. The *Asian Development Outlook (ADO) 2018* reported that Cambodia is maintaining GDP growth in excess of 6 %.¹⁷ Diversification of the economy has been continuing with a slowdown in garments and footwear, which is offset by stronger growth in emerging industries: electrical parts, automobile components, bicycles, milled rice, and rubber. The ADO identified rapidly rising wage costs, a skills shortage, and high other costs of doing business as challenges that could impact future economic growth and the diversification of the economy. The World Bank's *Doing Business 2018* report ranked Cambodia 135th out of 190 countries surveyed, far behind many of its neighbors (footnote 16). The country is near the bottom of the ranking in three areas: starting a business, getting construction permits, and enforcing contracts. The World Economic Forum's Global Competitiveness Index ranking for 2018 was 110th out of 140, the same ranking as at the commencement of the program.¹⁸

B. Performance of the Borrower and Executing Agency

25. The PCR rated the performance of the borrower and the executing agency as satisfactory despite weaknesses in the implementation of Subprogram 2. It considered the government's commitment to the program to be strong and noted that subprograms were approved largely as planned and within expected timeframes. Other project grants and TA were implemented in a satisfactory manner. This validation rates the performance of the borrower and the executing agency as satisfactory. The government generally achieved the agreed reforms within the envisaged time frame and succeeded in diversifying the economy during a period when the external trading environment was less than favorable.

C. Performance of the Asian Development Bank

26. The PCR found the performance of ADB less than satisfactory. This rating was based on the slow implementation of Subprogram 2 and because ADB did not ensure a dedicated expert to monitor and evaluate the program's impact on gender. This validation places more weight on the positive elements of ADB's performance, as noted by the PCR. Performance targets were largely met, and a post-program completion survey confirmed that the executing and implementing agencies felt that policy dialogue was delivered in a timely manner. The government also considered ADB to be highly efficient in responding to its priorities, especially in the areas of the SPS framework and management systems to improve food safety. Given that ADB provided a well-designed program relevant to the diversification challenge facing Cambodia and that the program achieved the intended impacts, this validation rates ADB's performance satisfactory.

D. Others

27. A notable feature of the program was that ADB selected and engaged the consulting firms under the project grants at the request of the government. ADB administration was justified as it would overcome the governance problems of agency duplication in the SPS sector and ensure that both SPS and RIA priorities and reforms are synchronized across the line ministries. The consulting firms were selected using quality- and cost-based selection.

¹⁷ ADB. 2018. *Asian Development Outlook 2018: How Technology Affects Jobs*. Manila

¹⁸ World Economic Forum. 2018. *The Global Competitiveness Report 2018*. Switzerland.

IV. OVERALL ASSESSMENT, LESSONS, AND RECOMMENDATIONS

A. Overall Assessment and Ratings

28. The PCR rated the program successful. It was relevant, being fully aligned and consistent with the government's development strategy and able to address key development challenges. The program was rated effective as it achieved all three of its impact targets, both of its outcome targets, and fully or partially achieved 12 of its 13 total output targets. Despite the delays and limited implementation in a component in Subprogram 2, the PED Program was rated efficient as all subprograms were processed within the original timeframes. The PCR found the PED Program less than likely sustainable. The regulatory reforms were considered permanent in nature and produced a measurable development impact through improvements in trade and reductions in business costs. However, increases in competitiveness have regressed, indicating that the reform momentum has not been sustained.

29. This validation rates the program successful. It finds the program relevant as the reforms and capacity building efforts were closely linked to Cambodia's development objective of diversifying the economy and sustaining growth. It rates the program effective, based on the achievement of the reforms in the policy matrix, the progress achieved under the investment grants, and the achievement of the more relevant outcome indicators in the DMF. The program was efficient, although the increase in program cost above the original estimate reflected an increase in the program's scope rather than cost overruns or other inefficiencies. The implementation delay was confined to one grant project. This validation rates the program less than likely sustainable given the lack of desired improvement in the business climate. The table summarizes these ratings.

Table: Overall Ratings

Validation Criteria	PCR	IED Review	Reason for Disagreement and/or Comments
Relevance	Relevant	Relevant	
Effectiveness	Effective	Effective	
Efficiency	Efficient	Efficient	
Sustainability	Less than likely sustainable	Less than likely sustainable	
Overall assessment	Successful	Successful	
Preliminary assessment of impact	Satisfactory	Satisfactory	
Borrower and executing agency	Satisfactory	Satisfactory	
Performance of ADB	Less than Satisfactory	Satisfactory	The rating is based not on the implementation delay but on the well-designed program relevant to the diversification challenge facing Cambodia and because the program achieved the intended impact.
Quality of PCR		Satisfactory	Para. 35.

ADB = Asian Development Bank, IED = Independent Evaluation Department, PCR = program completion report.
Source: ADB (IED).

B. Lessons

30. This validation summarizes the issues and lessons identified in the PCR and adds two more. At the country level, the lessons identified by the PCR are:

- (i) **Sensitivity to institutional resistance.** It noted that efficient implementation of new concepts, like RIA, should be directly supported by the government by way of mandatory participation, which encourages short uptake times.
- (ii) **Response to changes in the political landscape.** Since changes brought about by national elections can have a significant impact on program implementation, the program needed to be discussed with key political parties at the design stage.
- (iii) **Sustained government support needs to be cultivated to ensure the long-term success of reform efforts.** While all policy actions were completed, performance fell short of targets. This may be largely due to a lack of continuing budget support for the contemplated reforms.

31. At the program level, the PCR and the validation identified the following lessons:

- (iv) **Overly complex sanitary and phytosanitary standards technology grants.** Participating SMEs faced challenges, including the length of the approval process, which required several inputs from the companies yet left the final selection to chance (lottery). The use of a lottery in this selection may also have compromised the achievement of gender targets.
- (v) **Importance of appropriate program design.** The balance achieved between policy-based lending and capacity building through project grants was a strength of the program. The use of the cluster approach provided a framework for ADB's partnership with the government over a 5-year period, giving sufficient time for the reforms to take hold and capacity building to take place. Other features of the design that contributed to the successful outcome were the manageable and tightly focused reform agenda, the use of technical assistance to support the policy reforms, the incentives provided to the government to continue the reforms, and linking the program to the trade policy SWAp.

32. At the DMF level, the validation notes the lesson:

- (vi) **Use of the design and monitoring framework for program clusters.** The program's DMF evolved over the course of implementation as the output components for Subprograms 2 and 3 were developed and relevant indicators formulated. Some of the original indicators were refined and targets were adjusted. The DMFs for Subprograms 2 and 3 both reported interim progress against the targets and indicators set. Rather than maintaining a static document that would lose relevance over time, the DMF was updated and improved as the program evolved. This may be adopted as a good practice in future cluster programs.

C. Recommendations for Follow-Up

33. The PCR rightly questioned the sustainability of the program's outcomes given the recent lack of progress in the area of SPS and the broader competitiveness issues facing the economy. ADB should continue to encourage Cambodia to actively participate in the Greater Mekong Subregion trade facilitation program, and continue its own trade policy and other competitiveness reforms. Efforts to harmonize transport and trade cooperation at the subregional level offer an important opportunity for Cambodia to reinforce the outcomes of the program and continue the path to economic diversification.

V. OTHER CONSIDERATIONS AND FOLLOW-UP

A. Monitoring and Reporting

34. Benchmarking performance in regulatory policy, competition policy, and transport and trade facilitation will continue to be important to provide the basis for future decision-making.

B. Comments on Program Completion Report Quality and Timeliness

35. The quality of the PCR was satisfactory. The PCR covered the requirements of the PCR guidelines. It adequately set out the extent to which the policy reform matrix was achieved and explained the circumstances leading to delays in the implementation of one of the project grants. The PCR provided a high level of detail on the achievement of gender-related targets and policy actions under Subprogram 3. The DMF was updated and improved as the program evolved over the course of the three subprograms. The PCR could have provided a better overview of the changes under each subprogram. The PCR provided useful and well-considered lessons and recommendations for follow-up actions by ADB. However, this validation also notes the delay in PCR circulation. It was circulated beyond the 2-year project administration instructions' prescribed period.¹⁹

C. Data Sources for Validation

36. Data sources for this validation were the PCR, technical assistance completion report, the RRP for each of the three subprograms, minutes of management review meetings and staff review meetings, back-to-office reports of project preparation and project administration missions, IED's project safeguard assessment, ADO 2018, World Bank's *Doing Business 2018* report, and the World Economic Forum's *Global Competitiveness Report 2018*.

D. Recommendation for Independent Evaluation Department Follow-Up

37. IED might wish to include the review of this program in broader evaluations of the cluster approach or support for trade facilitation. The program is also a suitable candidate for a program performance evaluation report in about 3 more years.

¹⁹ ADB. 2018. Project Completion Report for Sovereign Operations. *Project Administration Instructions*. PAI 6.07a. Manila.