



Report and Recommendation of the President to the Board of Directors

Project Number: 44321
June 2013

Proposed Loans and Administration of Grants and
Loan
Kingdom of Cambodia: Climate-Resilient Rice
Commercialization Sector Development Program

CURRENCY EQUIVALENTS

(as of 22 May 2013)

Currency unit – riel (KR)

KR1.00 = \$0.00024

\$1.00 = KR4,025

ABBREVIATIONS

ADB	–	Asian Development Bank
GDP	–	gross domestic product
MAFF	–	Ministry of Agriculture, Forestry and Fishery
MEF	–	Ministry of Economy and Finance
MLMUPC	–	Ministry of Land Management, Urban Planning and Construction
MOWRAM	–	Ministry of Water Resources and Meteorology
NIO	–	national implementation office
PAM	–	program administration manual
PIO	–	provincial implementation office
PMO	–	program management office
SCF	–	Strategic Climate Fund

NOTES

- (i) The fiscal year (FY) of the Government of Cambodia and its agencies ends on 31 December.
- (ii) In this report, "\$" refers to US dollars.

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I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on (i) a proposed policy-based loan, (ii) a proposed project loan, (iii) proposed administration of a loan to be provided by the Asian Development Bank (ADB) Strategic Climate Fund,¹ (iv) proposed administration of a grant to be provided by the ADB Strategic Climate Fund, and (v) proposed administration of a grant to be provided by the Global Agriculture and Food Security Program,² all to the Kingdom of Cambodia for the Climate-Resilient Rice Commercialization Sector Development Program (program).³

2. The program supports the implementation of the Policy on the Promotion of Paddy Production and Rice Export (the Rice Policy) of the Government of Cambodia.⁴ It will help transform the predominantly subsistence rice subsector into a commercially oriented subsector by improving household and national food security and expanding rice export. Mechanisms to achieve this objective will include: (i) removing legal and regulatory constraints inhibiting rice commercialization, (ii) improving productivity of paddy crops and consistency in quality of milled rice, (iii) enhancing rice value chain support services, and (iv) addressing risks of climate change through mitigation and adaptation.⁵ The program is consistent with (i) ADB's Operational Plan for Sustainable Food Security in Asia and the Pacific,⁶ (ii) ADB's country partnership strategy for Cambodia, 2011–2013;⁷ and (iii) the agriculture sector assessment, strategy and roadmap.⁸ The program is included in ADB's country operations business plan for Cambodia, 2011–2013.⁹

II. THE PROGRAM

A. Rationale

3. **Agriculture remains the dominant sector in the Cambodian economy**, contributing 32% of gross domestic product (GDP) and employing 60% of the workforce, while 80% of the population depends on the sector for their livelihood.¹⁰ The agriculture sector has been one of the main engines of economic growth, achieving steady growth during 2002–2012.¹¹ Within agriculture, rice accounts for over 90% of the cropped area, the production from which is mostly consumed domestically. The rice subsector accounts for about 50% of the agriculture sector output. The government considers that there is an opportunity within the rice subsector for socioeconomic development, and articulated its intentions in the Rice Policy to transform Cambodia into a “rice basket” and a major rice exporting country. In this regard, the government has set three important objectives for 2015: (i) the paddy surplus will exceed 4 million tons, (ii)

¹ Under the Pilot Program for Climate Resilience financed by the Strategic Climate Fund (SCF).

² Established by International Bank for Reconstruction and Development as trustee.

³ The design and monitoring framework is in Appendix 1.

⁴ Government of Cambodia. 2010. *Policy on Promotion of Paddy Production and Rice Export*. Phnom Penh. The Rice Policy elaborated short and medium term measures stated in the 2010-2013 Strategy on Water and Agriculture (SAW), which aims to achieve enhanced agricultural productivity and sustainable economic growth in rural areas through agriculture and water sector programs.

⁵ The design was based on the feasibility study in 2012 financed by ADB. ADB. 2011. *Concept Paper – Cambodia: Climate Resilient Rice Commercialization Sector Development Program*. Manila.

⁶ ADB. 2009. *Operational Plan for Sustainable Food Security in Asia and the Pacific*. Manila.

⁷ ADB. 2010. *Country Partnership Strategy for Cambodia, 2011–2013*. Manila; and ADB. 2010. *Country Operations Business Plan for Cambodia, 2011–2013*. Manila.

⁸ ADB. 2011. *Agriculture Sector Assessment, Strategy, and Roadmap*. Manila (updated in 2013).

⁹ A sector modality is proposed for the program to support measures stated in the SAW and Rice Policy. Line ministries have the institutional capacity to implement these measures, following significant experience in a large number of previous sector development projects financed by ADB and other development partners.

¹⁰ Agriculture sector includes crop production, forestry, fisheries and animal husbandry.

¹¹ Sector Assessment (Summary) (accessible from the list of linked documents in Appendix 2).

milled rice exports will be at least 1 million tons, and (iii) Cambodia is to be recognized internationally as a rice exporting country.

4. Cambodia reported a paddy surplus estimated at 3.3 million tons in 2010. Despite the surplus, nearly one-quarter of the provinces face food deficit. Eleven percent of all households are considered food insecure, with many facing a deficit for 1–2 months each year. This figure rises during the dry season to an estimated 18%. Furthermore, 90% of all food-insecure households are found in rural areas.¹² Price fluctuations across provinces are frequently observed due largely to (i) supply and demand imbalances; and (ii) the movement of unprocessed paddy to Thailand and Viet Nam after each harvest because of the lack of in-country storage and processing capacity, limited marketing channels, and distribution infrastructure. The quality of Cambodian rice for export is variable, and this can be attributed to inappropriate production technologies, lack of post-harvest infrastructure, and varied processing technologies used by a large number of small-scale producers and processors.

5. **Given the dominant position of the rice subsector in the economy**, transforming it from a subsistence into a commercially oriented subsector is a strategic option for Cambodia as this provides the best opportunity to improve national food security and expand rice exports, resulting in reduced poverty. These twin objectives of food security and export expansion will be mutually reinforced by paddy surplus marketed increasingly within the country and in international markets.¹³ However, to achieve this outcome several critical binding constraints must be addressed.

6. **Lack of an enabling legal and regulatory foundation for rice commercialization.** First, the seed industry is seriously underdeveloped because of the absence of legislation that can protect the interests of and provide incentive for seed developers to produce quality seeds from new genetic material available elsewhere. Second, land and water productivity has been low, partly aggravated by the absence of a legal framework for land use planning and zoning and the lack of soil productivity mapping and land leveling. Third, an inadequate legal system and structure governing agriculture associations and contract farming has inhibited the opportunity for farmers to engage in cooperative action to achieve production efficiencies and improve their bargaining power. These inadequacies have also hampered efforts to link production to the quality required by domestic and international markets. Fourth, the lack of a quality grading system and regulations on phytosanitary measures, pesticides, and fertilizers reduces the credibility of Cambodian rice in international markets because buyers lack confidence in receiving the quality ordered compared with alternative supply from other rice exporting countries.

7. **Suboptimal use of land and water resources for paddy production.** Use of land and water for rice production is influenced by local natural features and precipitation patterns. Annual inundation and subsequent recession of flood waters occur over a large area of flat land surrounding the Tonle Sap Basin and the Mekong River flood plains. Increased incidence of flooding and the availability of short maturation rice varieties have given rise to four complex rice cropping systems that are continuously shifting in location.¹⁴ In response to the need to supply a growing domestic market and higher rice prices, farmers have extended the cultivated rice areas, sometimes into environmentally sensitive areas such as the inundated forest areas.

¹² World Food Program. 2008. *Comprehensive Food Security and Vulnerability Analysis—Cambodia*. Phnom Penh.

¹³ The largest market for Cambodian rice is Europe, where 90% of Cambodia's export went in 2012. Cambodia's rice market share in Europe is estimated at about 10%, which is a solid foundation for Cambodia to advance further.

¹⁴ The four rice cropping systems are upland fields, rain-fed lowland fields, deep water paddy fields, and dry season paddy fields.

8. **Inadequate capacities of post-harvest infrastructure to handle increasing volumes of paddy.** Surplus paddy has mainly been exported wet to Thailand and Viet Nam for subsequent drying and processing. Much of this trade has resulted from the lack of post-harvest infrastructure in Cambodia.¹⁵ Quality deterioration of moist paddy occurs after harvest if it is not dried to 14% moisture content. While volumes of paddy supplied to markets have increased dramatically at peak delivery times, the infrastructure to handle, dry, store, and transport the volumes is not sufficiently developed. As a result, the surplus at peak times is cleared, often at discounted prices, across the border for processing to prevent quality deterioration and, hence, in-country value retention is limited.

9. **Paddy production increasingly vulnerable to the changing climate.** Cambodia ranks 8th among the top 15 countries with highest risk of impact from climate change.¹⁶ Climate change has increased the number of extreme climate events such as floods and droughts in Cambodia. These events have driven farmers to consider alternate cropping systems, and, where water is available, dry season irrigated rice production is adopted as an alternative. Nevertheless, some of these changes are detrimental to the sustainable use of land resources. Greater focus on the early wet season crop allows farmers to avoid the most severe flooding period as crops can be harvested before its onset. Recession and late wet season crops respond well to increased fertilizer applications. However, such inappropriate practices will have a detrimental effect on the structure of certain soil types.

10. The program design was informed by lessons learned and recommendations from ADB's country and sector assistance and program evaluations.¹⁷ Cross-sectoral linkages will also be maximized with urban development, energy, finance, and public sector projects in ADB's ongoing and planned initiatives. The geographic focus of interventions will (i) enable integration with development initiatives in the Greater Mekong Subregion Southern Economic Corridor, (ii) leverage the proximity to population centers and export nodes,¹⁸ and (iii) facilitate the targeting and strengthening of value chains. Programmatic synergies and coordination with initiatives of development partners are integrated in the design and result framework and validated based on sector-wide consultations anchored through the joint government-donor Technical Working Group on Water and Agriculture and Technical Working Group on Land Management.¹⁹ Lessons learned from these consultations and recent project experience include: (i) the need to tackle constraints in agricultural value chains, including farm productivity through strategic interventions and high priority measures; (ii) enhancing use of sector development program modality to optimize sector outcomes; (iii) adopting a medium-term approach informed by a greater understanding of the complexity of reforms and the capacity of institutions to implement reforms; and (iv) ensuring continuity in capacity building support.²⁰

B. Impact and Outcome

11. The program comprises a policy-based loan and a project loan. The impact of the program will be increased net incomes of stakeholders along the rice value chain. The outcome will be enhanced production of quality rice in Cambodia while preserving the natural resource base.

¹⁵ Wet paddy is defined as grains containing 25%–30% moisture.

¹⁶ Alliance Development Works. 2012. *World Risk Report*. Berlin.

¹⁷ ADB. 2009. *Country Assistance Program Evaluation: Cambodia Growth and Sector Reform*. Manila; ADB. 2009. *Sector Assistance Program Evaluation: Agriculture and Rural Development Sector in Cambodia*. Manila.

¹⁸ It is along this corridor that much of Cambodia's rice is transported to Phnom Penh and Sihanoukville for export.

¹⁹ Development Coordination (accessible from the list of linked documents in Appendix 2).

²⁰ Lessons and Synergies (accessible from the list of linked documents in Appendix 2).

C. Outputs

12. The program has six outputs: output 1 relates to the policy-based loan and outputs 2–6 relate to the Climate-Resilient Rice Commercialization Sector Development Project (project). The provinces of Battambang, Kampong Thom, and Prey Veng were selected for project investment as these are the largest rice producers in Cambodia. In an effort to increase paddy for export, these provinces have prioritized (i) improving efficiency of land and water, (ii) increasing postharvest handling capacities, and (iii) enhancing resilience of the rice ecosystems. All three provinces are located along the GMS Southern Economic Corridor along which rice can be conveniently transported to Thailand, Viet Nam, and all provinces in Cambodia. By focusing on these provinces, there are good opportunities to enhance national food security by improving availability of milled rice for both export and potentially addressing domestic demand and supply imbalances. The project will support development priorities of the three provinces to capitalize on legal and regulatory reforms. The project will be scaled up in 2016 and hence will have significant implication for nationwide replication and consolidating impacts of the Rice Policy.

13. **Output 1: A conducive legal and regulatory environment established to facilitate climate-resilient rice commercialization.** This output will focus on legal and regulatory reforms that (i) promote local seed production and distribution, (ii) strengthen agricultural land management, (iii) strengthen farmers' organizations and promote contract farming, and (iv) facilitate domestic trading and export of milled rice. The reform initiatives are in the development policy letter (Appendix 3) and policy matrix (Appendix 4).

14. **Output 2: Agricultural land use zoning improved.** This output comprises (i) establishing land use zones; (ii) updating rice ecosystems and soil classification maps for identification of higher yielding rice growing areas; (iii) incorporating agro-ecosystem analyses into commune land use plans; and (iv) capacity building of the Ministry of Agriculture, Forestry and Fisheries (MAFF) and Ministry of Land Management, Urban Planning and Construction (MLMUPC) to jointly undertake agricultural land use planning. Activities under this output will help identify areas that are better suited to rice production for maintaining ecosystem diversity. Linked to the zoning initiative, technical procedures will be modified to accommodate guidelines for paddy production to ensure sustainable cultivation practices.

15. **Output 3: Climate-resilient rice value chain infrastructure developed.** This output includes high-priority investments in three major rice-producing provinces—Battambang, Kampong Thom, and Prey Veng and comprises (i) rehabilitating and climate proofing irrigation systems; (ii) constructing paddy drying and storage facilities; and (iii) constructing seed cleaning, drying, grading, and storage facilities. The investments have been identified and prioritized based on provincial development priorities.²¹ Irrigation rehabilitation and climate proofing will help increase productivity and cropping intensities. Establishment of paddy drying and storage facilities will accommodate paddy supplies at peak periods after harvest to ensure better quality for processing and retained added value in Cambodia. Construction of seed cleaning, drying, grading, and storage facilities will contribute to increased availability of quality rice seed—an integral component of rice quality improvement and a necessary prerequisite to supplying export markets with rice of consistent quality.

16. **Output 4: Rice value chain support services enhanced to improve quality of Cambodian rice.** This output comprises (i) improving availability and quality of commercial rice

²¹ List of Prescreened and Eligible Subprojects (accessible from the list of linked documents in Appendix 2).

seed; (ii) upgrading technical extension material to guide production in various rice ecosystems; (iii) capacity building (technical and financial) of mill managers and operators; and (iv) facilitating access to credit by farmers, traders, and millers. Activities under this output will improve the quality of milled rice and enhance Cambodia's participation in export markets.

17. Output 5: Weather-indexed crop insurance piloted. This output comprises (i) undertaking a detailed feasibility study to determine the appropriateness of a weather-indexed crop insurance scheme; (ii) designing the operational parameters, product penetration plan, and institutional arrangements; and (iii) piloting the scheme in selected areas in three project provinces. Activities under this output will reduce risks associated with paddy production and allow farmers to adopt modern production technologies and extend their longer-term planning horizon. Since paddy production for sales will become an increasingly important income component of farming households, the proposed pilot will stimulate further commercialization.

18. Output 6: Efficient program management and implementation. This output comprises (i) effective project management, (ii) capacity building of the program management office (PMO) and each national implementation office (NIO) and provincial implementation office (PIO), and (iii) coordination between policy development and investment activities. These activities will be supported by consulting services for efficient implementation.

D. Development Financing Needs

19. Implementation of the Rice Policy is estimated to cost the government about \$600 million during 2010–2020. The policy adjustment cost to the government in implementing and complying with reform measures included in the policy matrix is estimated at \$33.6 million.²² The government has requested a policy-based loan in various currencies equivalent to SDR15,955,000 from ADB's Special Funds resources to help finance the policy reforms as outlined in its development policy letter and policy matrix. The policy-based loan will have a 24-year term, including a grace period of 8 years, an interest rate of 1% per annum during the grace period and 1.5% per annum thereafter, and such other terms and conditions set forth in the draft loan agreement. The policy-based loan will be disbursed in two tranches: a first tranche of SDR7,977,000 upon full compliance with the first tranche conditions, and a second tranche of SDR7,978,000 subject to full compliance with the second tranche conditions.²³

20. The project is estimated to cost \$63.43 million equivalent (Table 1). The government has requested a loan in various currencies equivalent to SDR20,608,000 from ADB's Special Funds resources to help finance the project. The loan will have a 32-year term, including a grace period of 8 years, an interest rate of 1% per annum during the grace period and 1.5% per annum thereafter, and such other terms and conditions set forth in the draft loan agreement. The government has requested a grant not exceeding \$14.6 million from the Global Agriculture and Food Security Program, a grant of \$4.5 million and a loan of \$5.0 million from the ADB Strategic Climate Fund (SCF) to help finance the project. The SCF loan will have a 40-year term, including a grace period of 10 years, and an annual service charge of 0.1%. Principal repayments for the SCF loan will be made at a rate of 2% of the loan per annum for years 11–20 and 4% for years 20–40. ADB will administer the Global Agriculture and Food Security Program grant and ADB SCF loan and grant.²⁴ The government will contribute \$8.33 million to

²² Program Impact Assessment (accessible from the list of linked documents in Appendix 2).

²³ In accordance with provisions set out in ADB. 1998. *Simplification of Disbursement Procedures and Related Requirements for Program Loans*. Manila.

²⁴ ADB and ADB-administered funds may finance recurrent costs, financing charges during implementation, transportation, insurance, and bank charges.

cover resettlement costs, land purchase, taxes and duties, and government staff salaries. Detailed cost estimates and financing plan are in the program administration manual (PAM).²⁵

Table 1: Project Investment Plan
(\$ million)

Item	Amount ^a
A. Base Cost^b	
1. Improvement of agricultural land use zoning	4.11
2. Development of rice value chain infrastructure	40.87
3. Enhancement of rice value chain support services	4.91
4. Development of weather-indexed crop insurance	2.00
5. Efficient program management and implementation	6.15
Subtotal (A)	58.04
B. Contingencies^c	4.44
C. Financing Charges During Implementation^d	0.95
Total (A+B+C)	63.43

^a Includes taxes and duties of \$5.5 million to be financed from government resources.

^b In April 2013 prices.

^c Physical contingencies computed at 10% for all goods and services except for the subproject allocation. Price contingencies computed at 2.60% for the 6 years of implementation on foreign exchange costs and 4.25% on local currency costs. This assumes a fixed exchange rate of KR4,000 to the US dollar throughout the project.

^d Includes interest charges during implementation for ADB project loan, and service charges for ADB Strategic Climate Fund loan.

Source: Asian Development Bank estimates.

21. The financing plan is in Table 2.

Table 2: Financing Plan

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank		
ADF (loan)	31.00	48.88
GAFSP ^a (grant)	14.60	23.02
ADB SCF ^b (grant)	4.50	7.09
ADB SCF ^b (loan)	5.00	7.88
Government	8.33	13.13
Total	63.43	100.00

ADB = Asian Development Bank, ADF = Asian Development Fund, GAFSP = Global Agriculture and Food Security Program, IBRD = International Bank for Reconstruction and Development, SCF = Strategic Climate Fund.

^a Established by IBRD as trustee. Administered by ADB.

^b Under the Pilot Program for Climate Resilience financed by the SCF, administered by ADB.

Source: Asian Development Bank estimates.

E. Implementation Arrangements

22. The Committee for Economic and Financial Policies, chaired by the minister of economy and finance, will be the program's steering committee. The Ministry of Economy and Finance (MEF) will be the executing agency, supported by the PMO. For the policy-based loan, one policy working group for each policy theme will be established by the ministries concerned. For the project, the PMO will be responsible for the project's overall implementation. One NIO will be established in each of the MAFF, MLMUPC, and the Ministry of Water Resources and Meteorology (MOWRAM). A provincial steering committee and a PIO will be established in each

²⁵ Program Administration Manual (accessible from the list of linked documents in Appendix 2).

of the provincial governor's offices in three project provinces. Implementation arrangements are summarized in Table 3 and described in detail in the PAM.

Table 3: Implementation Arrangements

Aspects	Arrangements		
Implementation period	Policy-based loan: January 2010–December 2016 Project: October 2013–September 2019		
Estimated completion date	Policy-based loan: 31 December 2016 Project: 30 September 2019		
Management			
(i) Oversight body	CEFP Minister of Economy and Finance (chair) MEF, MAFF, MIME, MOWRAM, MLMUPC, MOWA (members)		
(ii) Executing agency	MEF		
(iii) Key implementing agencies	MAFF, MIME, MOWRAM, MLMUPC, three provincial governor's offices		
(iv) Implementation Unit	PMO in Phnom Penh (15 staff); three NIOs in Phnom Penh (10 staff in each NIO), one PIO in each of the three project provinces (10 staff in each PIO).		
Procurement ^a	International competitive bidding	Multiple contracts	\$23.32 million
	National competitive bidding	Multiple contracts	\$6.77 million
	Shopping	Multiple contracts	\$2.23 million
Consulting services	Quality- and cost-based selection	635 person-months	\$7.18 million
	Quality- and cost-based Selection, Consultants' qualifications selection and quality-based selection for feasibility studies, design, monitoring and evaluation, gender mainstreaming, capacity building of millers, and supervision of works	Multiple contracts	\$3.45 million
	Quality-based selection for development and piloting of weather-indexed crop insurance	1 contract	\$2.00 million
Retroactive financing and/or advance contracting	Retroactive financing and/or advance contracting is not envisaged under the program.		
Disbursement	The proceeds of the loans and grants will be disbursed in accordance with ADB's <i>Loan Disbursement Handbook</i> (2012, as amended from time to time) and detailed arrangements agreed upon between the government and ADB. The SDR15,955,000 policy-based loan will be disbursed in two tranches: Tranche 1: SDR7,977,000 and Tranche 2: SDR7,978,000.		

ADB = Asian Development Bank; CEFP = Committee for Economic and Financial Policies; MAFF = Ministry of Agriculture, Forestry and Fisheries; MEF = Ministry of Economy and Finance; MIME = Ministry of Industry, Mines and Energy; MLMUPC = Ministry of Land Management, Urban Planning and Construction; MOWA = Ministry of Women's Affairs; MOWRAM = Ministry of Water Resources and Meteorology; NIO = national implementation office; PIO = provincial implementation office; and PMO = program implementation office.

^a Since the program is financed with ADB-administered cofinancing resources as well as ADF resources, universal procurement will apply.²⁶

Source: Asian Development Bank.

III. DUE DILIGENCE

A. Technical

23. The program will adopt the sector modality, whereby subprojects will be evaluated during the implementation stage. However, candidate subprojects were screened to ensure an

²⁶ ADB. 2013. *Blanket Waiver of Member Country Procurement Eligibility Restrictions in Cases of Cofinancing for Operations Financed from Asian Development Fund Resources*. Manila.

initial technical acceptability. All candidate subprojects will be evaluated against a set of eligibility criteria prior to funding approval.²⁷

B. Economic and Financial

24. The program will address domestic distribution issues by minimizing price fluctuations across provinces to ensure domestic food security and improved nutrition through improved availability of and access to rice. It will tackle these issues by (i) expanding capacity for drying paddy in target provinces by 2,000 tons per day by 2018, thereby improving quality and quantity of domestically milled rice; (ii) increasing the capacity for paddy storage in target provinces by 40,000 tons by 2018; and (iii) facilitating access of millers to finance through diversified collateral arrangements to increase in-country milling and storage.

25. The program will increase the availability of quality seed, improve on-farm land water management technologies, improve drying and storage capacities, and improve resilience of rice cultivation systems. These initiatives are expected to increase crop yields by 25% by 2019. As a result, the program facilitates increased paddy production from 8.0 million tons in 2012 to 9.5 million tons by 2018, and increased milled rice exports to 1.2 million tons in 2017 from 200,000 tons in 2011. By 2017 and beyond, annual rice export revenue is expected to be \$600 million (4.3% of GDP) or value added to the national economy of \$120 million (0.9% of GDP).²⁸ Increased export revenue will help the government reduce its budget deficit (which was 6% in 2012), replenish official foreign exchange reserves, and increase capacity for servicing external debts. Moreover, the inflow of foreign exchange will enable importation of production inputs, which will have a significant multiplier impact on production, income generation, and nutrition.²⁹ Economic internal rate of returns of three representative subprojects are estimated in the range of 29%–31.2%, suggesting that investments under the program are economically viable.

C. Governance

26. The program is aligned with the government's public financial management reform and its decentralization and deconcentration initiatives that promote good governance and reduce corruption. A governance risk assessment and risk management plan was prepared to ensure checks and balances are in place.³⁰ ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the MEF, MAFF, MIME, MLMUPC, and MOWRAM.

D. Poverty and Social

27. The program will promote inclusive economic growth.³¹ An improved rice value chain and increased productivity will induce price transmission gains from rice trade. These gains will trickle down to about 1 million rice farming households, the majority of which are categorized as low-income and food insecure. Since women comprise the majority working on farms, they will also benefit the most from these gains. It is estimated that, by 2020, an individual household will gain an additional \$300 annually; nationally this gain will be \$300 million per annum.

28. **Gender and development.** The program is categorized as effective gender mainstreaming. It will enhance access of women farmers to decision making, resources, and

²⁷ Subproject eligibility criteria are in the PAM (accessible from the list of linked documents in Appendix 2).

²⁸ National GDP for 2012 was estimated at \$14 billion in current prices.

²⁹ Economic and Financial Analysis (accessible from the list of linked documents in Appendix 2).

³⁰ The governance risk assessment and risk management plan (accessible from the list of linked documents in Appendix 2).

³¹ Summary Poverty Reduction and Social Strategy (accessible from the list of linked documents in Appendix 2).

services. Gender issues were incorporated into appropriate tranche conditions as stated in the policy matrix (Appendix 4) and gender indicators included in all program outputs.³²

E. Safeguards

29. **Resettlement (category B).** Limited involuntary resettlement is envisaged under the program because the screening process for subprojects prioritized those with insignificant resettlement impacts. Rehabilitation of irrigation systems will not cause significant resettlement impacts since works will be along existing rights of way. Development of paddy drying and storage facilities will be located based on the availability of land for purchase on the open market. A resettlement framework and resettlement plans for two representative subprojects prepared by the executing agency were endorsed by the government and approved by ADB.³³ The resettlement framework and plans included a well-defined consultation mechanism, an entitlement matrix, and a rigorous monitoring mechanism.³⁴

30. **Indigenous peoples (category C).** Socioeconomic surveys conducted in the project provinces indicate that there were no indigenous peoples living around subprojects locations.

31. **Environmental safeguards (category B).** Policy reforms will enhance sustainable use and management of land and water in a changing climate. Initial environmental examinations, prepared for three representative subprojects, confirm that the three subprojects will not cause any adverse environmental impacts. All subprojects financed by the program will follow the environmental assessment and review framework, as disclosed on ADB website.³⁵

F. Risks and Mitigating Measures

32. Major risks and mitigating measures are summarized in Table 4 and described in detail in the risk assessment and management plan.³⁶

Table 4: Summary of Risks and Mitigating Measures

Risks	Mitigating Measures
Lack of political commitment in program implementation	The program's design was aligned to the institutional structure of the Rice Policy. Strong commitment has been shown at the highest political level to enhancing food security and expanding rice export. Policy dialogue will be conducted during review missions to assess potential risks and mitigation plans.
Inherently complex nature of sector development program modality and limited technical skills and resources to implement legal and regulatory reforms	Support was given to related ministries in preparation for compliance with first tranche conditions. Policy specialists in the program implementation consulting services will assist the government in implementing legal and regulatory reforms. Subprojects were screened to prioritize low-risk investments.
Climate change may undo intended gains, and improper natural resources management may exacerbate climate change impacts.	Program design, subproject investments, and monitoring arrangements have a significant focus on climate proofing and natural resource management.

Source: Asian Development Bank.

³² Gender Action Plan (accessible from the list of linked documents in Appendix 2).

³³ Of three representative subprojects, only two have minor resettlement impacts.

³⁴ Resettlement Framework (accessible from the list of linked documents in Appendix 2). The resettlement framework and resettlement plans were disclosed on ADB website.

³⁵ Environmental Assessment and Review Framework (accessible from the list of linked documents in Appendix 2).

³⁶ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

IV. ASSURANCES AND CONDITIONS

33. The government and MEF have assured ADB that implementation of the program shall conform to all applicable ADB policies including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in the PAM and loan and grant documents.

34. The government and MEF have agreed with ADB on certain covenants for the program, which are set forth in the loan and grant agreements.

35. **Conditions for effectiveness.** For program effectiveness, (i) the MEF will establish the PMO and appoint key staff; (ii) the government will comply with the policy actions set forth in the policy matrix for the release of the first tranche; (iii) the MEF will submit to ADB for approval the initial list of candidate subprojects containing all candidate subprojects prescreened in accordance with the criteria set forth in the PAM; (iv) the MAFF, MOWRAM, and MLMUPC will each establish a NIO and appoint key staff; (v) each project province will establish a provincial steering committee; and (vi) each project province will establish a PIO and appoint key staff.

V. RECOMMENDATION

36. I am satisfied that the proposed loans would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve

- (i) the policy-based loan in various currencies equivalent to SDR15,955,000 to the Kingdom of Cambodia for the Climate-Resilient Rice Commercialization Sector Development Program from ADB's Special Funds resources, with an interest charge at the rate of 1.0% per annum during the grace period and 1.5% per annum thereafter; for a term of 24 years, including a grace period of 8 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement presented to the Board;
- (ii) the loan in various currencies equivalent to SDR20,608,000 to the Kingdom of Cambodia for the Climate-Resilient Rice Commercialization Sector Development Project from ADB's Special Funds resources, with an interest charge at the rate of 1.0% per annum during the grace period and 1.5% per annum thereafter; for a term of 32 years, including a grace period of 8 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement presented to the Board;
- (iii) the administration by ADB of a grant not exceeding the equivalent of \$14,600,000 to the Kingdom of Cambodia for the Climate-Resilient Rice Commercialization Sector Development Project, to be provided by the Global Agriculture and Food Security Program;
- (iv) the administration by ADB of a loan not exceeding the equivalent of \$5,000,000 to the Kingdom of Cambodia for the Climate-Resilient Rice Commercialization Sector Development Project, to be provided by the ADB Strategic Climate Fund; and
- (v) the administration by ADB of a grant not exceeding the equivalent of \$4,500,000 to the Kingdom of Cambodia for the Climate-Resilient Rice Commercialization Sector Development Project, to be provided by the ADB Strategic Climate Fund.

Takehiko Nakao
President

4 June 2013

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
Impact Increased net incomes of stakeholders along the rice value chain	Average farming household incomes increased from \$400 in 2010 to \$700 by 2020 Revenue of rice exporters increased from \$100 million in 2012 to \$600 million in 2020 Net profit of rice exporters increased from \$30 million in 2012 to \$180 million by 2020	National Institute of Statistics' Yearbook Ministry of Commerce annual trade statistics	Assumption Medium-term macro-economic stability Risks Lack of political commitment in Rice-SDP implementation Climate change impacts may undo the intended gains and reduce anticipated benefits
Outcome Enhanced production of quality rice in Cambodia while preserving the natural resource base	Paddy production increased from 8.0 million tons in 2012 to 9.5 million tons by 2018 Milled rice exports increased from 200,000 tons in 2011 to 1.2 million tons in 2017 Wet paddy exports to Viet Nam and Thailand reduced to 0.2 million tons by 2018 (2011 baseline: 2.2 million tons per annum) ^a	MAFF annual crop production statistics Ministry of Commerce annual trade statistics	Risks Institutional and implementation risks from lack of technical skills and resources Improper natural resources management may exacerbate the impacts of climate change
Outputs Conducive legal and regulatory environment established to facilitate climate-resilient rice commercialization	By 2015, (i) policy and regulatory framework for local seed production are in place, (ii) guidelines for establishing agricultural land use zones are completed, (iii) legislation on sustainable management and use of agricultural land are operational, (iv) regulatory systems for farmers' organizations and contract farming are functional, and (v) milled rice standards and trade facilitation measures in place	Tranche compliance reports prepared by the executing agency	Assumption Political parties and beneficiaries are cooperative in the reform process Risk Policy coordination and enforcement are not strong
Agricultural land-use zoning improved	90 rice growing communes in target provinces complete AEAs and incorporate into CLUPs by 2017 90 groups of farmers consulted (with at least 40% female representation) during the preparation of CLUPs by 2015	Progress reports produced quarterly by the executing agency	Assumption MLMUPC can accommodate AEAs as an input to CLUPs
Climate-resilient rice value chain infrastructure	23,000 hectares (ha) of command area served by climate-resilient rehabilitated irrigation structures by 2017 (40% unskilled laborers employed in the rehabilitation are	Progress reports produced quarterly by the executing agency	Assumptions Climate-resilient infrastructure is economically viable

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
developed	<p>women; 50% of construction subcommittee members are women; two FWUCs established in each irrigation scheme, with women occupying 30% of the management positions)</p> <p>Four seed drying and storage facilities constructed by 2017 with a combined storage capacity of 8,000 tons (30% unskilled laborers and 50% administrative staff are women)</p> <p>Capacity for drying paddy in target provinces extended by 2,000 tons per day and capacity for paddy storage in target provinces extended by 40,000 tons by 2018</p>		<p>and politically acceptable</p> <p>Efficient operation of control structures to deliver water to canals</p> <p>Private entities are interested and capable of managing facilities</p> <p>Risk River basin studies do not take climate change impact into account</p>
Rice value chain support services enhanced to improve quality of Cambodian rice	<p>2,400 tons of fragrant rice seed produced per annum in target provinces by 2018</p> <p>70% of farmers (disaggregated by sex) in target provinces using commercial seed every 2 years by 2018 (2012 baseline: 10%)</p> <p>30% of farmers (disaggregated by sex) have leveled their paddy fields by 2018 (2012 baseline: 5%); 50% of farmers in target provinces (disaggregated by sex) obtain technical advice through trained input suppliers by 2016 (2012 baseline: 10%)</p> <p>10 rice millers in target provinces use independent financial management advisory services by 2016 (2012 baseline: 0)</p>	<p>Progress reports produced quarterly by the executing agency</p> <p>Progress reports produced quarterly by the executing agency</p>	<p>Assumptions Growers accept the higher price needed to purchase quality seed</p> <p>Farmers have resources to part finance the land leveling</p> <p>Risk Drying and storage facilities are not operated at full capacity</p>
WICI piloted	<p>100,000 ha of rice producing areas covered by WICI by 2017 (50% of the policy holders are women, of which 10% are from households headed by women) (2012 baseline: 0)</p> <p>15 local input suppliers, 3 local financial institutions, and 3 local marketing agencies participating in the pilot tests in three provinces by 2015 (2012 baseline: 0)</p>	<p>Feasibility study report</p> <p>Design of WICI and evaluation report</p> <p>Quarterly reports by the insurance firm</p>	<p>Assumption Feasibility study recommends design and piloting</p> <p>Risk Piloting WICI shows no feasibility in Cambodia</p>
Efficient program management and implementation	<p>Rice-SDP performance monitoring system, disaggregated by sex, designed and operational within 6 months of effectiveness</p> <p>Baseline surveys completed within 12 months of loans and grants effectiveness and end-line impact evaluation undertaken 6 months</p>	<p>Progress reports produced quarterly by the executing agency</p> <p>Base-line and end-line impact evaluation by the</p>	<p>Assumption Qualified staff are appointed for implementation</p> <p>Risks Provincial capacity is insufficient</p>

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
	before Rice-SDP completion date For PMO and PIOs, 30% of administrative and technical positions are filled by women by Q3 2013; progress of gender actions included as part of Rice-SDP progress reports	executing agency Progress reports produced quarterly by the executing agency	The availability of qualified staff is limited

Activities with Milestones	Inputs																																																										
<p>1. Improvement of legal and regulatory environment</p> <p>1.1. Establish policy working groups by Q4 2013</p> <p>1.2. Produce compliance report for second tranche by Q2 2016</p> <p>2. Improvement of agricultural land-use zoning</p> <p>2.1. Undertake commune AEAs by Q4 2017</p> <p>2.2. Incorporate the AEAs into CLUPs by Q4 2017</p> <p>2.3. Develop three provincial rice ecosystem maps by Q4 2017</p> <p>3. Development of rice value chain infrastructure</p> <p>3.1. Recruit national consultants for subproject feasibility studies by Q3 2014</p> <p>3.2. Rehabilitate identified irrigation schemes by Q4 2018</p> <p>3.3. Establish paddy drying and storage facilities by Q4 2018</p> <p>3.4. Establish seed drying and storage facilities by Q4 2018</p> <p>3.5. Implement subproject-associated initiatives by Q4 2018</p> <p>4. Enhancement of rice value chain support services</p> <p>4.1. Increase availability of quality rice seed</p> <p>4.1.1. Develop a national seed certification scheme by Q4 2015</p> <p>4.1.2. Produce foundation and certified seed by Q4 2017</p> <p>4.2. Expand and develop technical extension services</p> <p>4.2.1. Revise the six “technology information procedures” on rice production by Q4 2015</p> <p>4.2.2. Develop extension services material by Q4 2015</p> <p>4.3. Enhance business management capacities</p> <p>4.3.1. Study the adoption of bulk handling by Q2 2015</p> <p>4.3.2. Provide technical assistance to rice mill by Q4 2018</p> <p>4.3.3. Organize study tours and training for millers by Q4 2016</p> <p>4.4. Improve access to and reduce cost of finance</p> <p>4.4.1. Develop capacities of financial institutions by Q4 2016</p> <p>5. Feasibility study, design and pilot testing of WICI</p> <p>5.1. Engage consultants for feasibility study by Q1 2014</p> <p>5.2. Determine feasibility of WICI in Cambodia by Q2 2014</p> <p>5.3. Upgrade automatic weather stations by Q4 2014</p> <p>5.4. Pilot WICI in selected areas by Q2 2015</p> <p>6. Project management and implementation</p> <p>6.1. Appoint and mobilize PICs by Q1 2014</p> <p>6.2. Design and operate Rice-SDP’s gender disaggregated program performance monitoring system by Q2 2014</p>	<p>1. ADF Policy Loan: \$24.00 million</p> <hr/> <p>2. ADF Loan: \$31.00 million</p> <table border="1"> <thead> <tr> <th>Item</th> <th>Amount</th> </tr> </thead> <tbody> <tr> <td>Civil Works</td> <td>17.60</td> </tr> <tr> <td>Associated Initiatives</td> <td>0.53</td> </tr> <tr> <td>Vehicles & Equipment</td> <td>0.65</td> </tr> <tr> <td>Consulting Services</td> <td>3.75</td> </tr> <tr> <td>Implementation Support</td> <td>7.54</td> </tr> <tr> <td>Interest Charges</td> <td>0.93</td> </tr> </tbody> </table> <hr/> <p>3. GAFSP Grant: \$14.60 million</p> <table border="1"> <thead> <tr> <th>Item</th> <th>Amount</th> </tr> </thead> <tbody> <tr> <td>Civil Works</td> <td>0.62</td> </tr> <tr> <td>Equipment</td> <td>7.17</td> </tr> <tr> <td>Contract Services</td> <td>3.28</td> </tr> <tr> <td>Office Equipment</td> <td>0.10</td> </tr> <tr> <td>Consulting Services</td> <td>1.11</td> </tr> <tr> <td>Training and Studies</td> <td>1.81</td> </tr> <tr> <td>Implementation Support</td> <td>0.51</td> </tr> </tbody> </table> <hr/> <p>4. ADB SCF Loan: \$5.00 million</p> <table border="1"> <thead> <tr> <th>Item</th> <th>Amount</th> </tr> </thead> <tbody> <tr> <td>Civil Works</td> <td>3.31</td> </tr> <tr> <td>Associated Initiatives</td> <td>1.10</td> </tr> <tr> <td>Contract Services</td> <td>0.59</td> </tr> </tbody> </table> <hr/> <p>5. ADB SCF Grant: \$4.50 million</p> <table border="1"> <thead> <tr> <th>Item</th> <th>Amount</th> </tr> </thead> <tbody> <tr> <td>Civil Works</td> <td>0.42</td> </tr> <tr> <td>Crop Insurance</td> <td>2.00</td> </tr> <tr> <td>Consulting Services</td> <td>2.08</td> </tr> </tbody> </table> <hr/> <p>6. Government: \$8.33 million</p> <table border="1"> <thead> <tr> <th>Item</th> <th>Amount</th> </tr> </thead> <tbody> <tr> <td>Staff Costs</td> <td>1.46</td> </tr> <tr> <td>Resettlement Costs</td> <td>0.43</td> </tr> <tr> <td>Land Purchase</td> <td>0.88</td> </tr> <tr> <td>Taxes and Duties</td> <td>5.54</td> </tr> <tr> <td>SCF Loan Service Charge</td> <td>0.02</td> </tr> </tbody> </table>	Item	Amount	Civil Works	17.60	Associated Initiatives	0.53	Vehicles & Equipment	0.65	Consulting Services	3.75	Implementation Support	7.54	Interest Charges	0.93	Item	Amount	Civil Works	0.62	Equipment	7.17	Contract Services	3.28	Office Equipment	0.10	Consulting Services	1.11	Training and Studies	1.81	Implementation Support	0.51	Item	Amount	Civil Works	3.31	Associated Initiatives	1.10	Contract Services	0.59	Item	Amount	Civil Works	0.42	Crop Insurance	2.00	Consulting Services	2.08	Item	Amount	Staff Costs	1.46	Resettlement Costs	0.43	Land Purchase	0.88	Taxes and Duties	5.54	SCF Loan Service Charge	0.02
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ADB = Asian Development Bank; ADF = Asian Development Fund; AEA = agro-ecosystems analysis; CLUP = commune land-use plan; FWUC = farmer water user community; GAFSP = Global Agriculture and Food Security Program; MAFF = Ministry of Agriculture Fisheries and Forestry; MLMUPC = Ministry of Land Management, Urban Planning and Construction; NIO = national implementation office; PIC = program implementation consultant; PIO = provincial implementation office; PMO = program management office; Rice-SDP = Climate Resilient Rice Commercialization Sector Development Program; SCF = Strategic Climate Fund; WICI = weather-indexed crop insurance.

^a A separate survey on baseline and target indicator will be conducted during the second year of the program to validate information of informal paddy trade across the border with Thailand and Viet Nam.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=44321-013-3>

1. Loan Agreement: Asian Development Fund (program)
2. Loan Agreement: Asian Development Fund (project)
3. Loan Agreement: ADB Strategic Climate Fund
4. Grant Agreement: ADB Strategic Climate Fund
5. Grant Agreement: Externally Financed
6. Sector Assessment (Summary): Agriculture
7. Program Administration Manual
8. Contribution to the ADB Results Framework
9. Development Coordination
10. Economic and Financial Analysis
11. Country Economic Indicators
12. International Monetary Fund Assessment Letter
13. Summary Poverty Reduction and Social Strategy
14. Gender Action Plan
15. Environmental Assessment and Review Framework
16. Resettlement Plan: Prey Sangha Subproject (Battambang Province)
17. Resettlement Plan: Chhuk Ksach Subproject (Kampong Thom Province)
18. Resettlement Framework
19. Risk Assessment and Risk Management Plan
20. List of Ineligible Items

Supplementary Documents

21. List of Prescreened and Candidate Subprojects
22. Battambang Subproject Feasibility Study
23. Kampong Thom Subproject Feasibility Study
24. Prey Veng Subproject Feasibility Study
25. Program Impact Assessment
26. Lessons and Synergies
27. Governance Risk Assessment and Risk Management Plan
28. Socioeconomic Assessment and Gender Analysis
29. Procurement Capacity Assessment



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MINISTRY OF ECONOMY AND FINANCE

N^o 2800 MEF/DIC

DEVELOPMENT POLICY LETTER

Phnom Penh, *April 30*, 2013

H.E. Takehiko Nakao
President
Asian Development Bank
6 ADB Avenue, Mandaluyong City
1550 Metro Manila, the Philippines

**Subject: Development Policy Letter - Climate Resilient Rice Commercialization Sector
Development Program**

Your Excellency,

1. On behalf of the Royal Government of Cambodia (the Government), I am writing to request a policy-based loan and an investment loan from the Asian Development Bank (ADB), a loan and grant from the Strategic Climate Fund under the Pilot Program for Climate Resilience, and a grant from the Global Agriculture and Food Security Program to implement the Climate Resilient Rice Commercialization Sector Development Program (Rice-SDP). Rice-SDP is designed to operationalize the government's policy on the Promotion of Paddy Production and Rice Export (the Rice Policy) approved by the Council of Ministers on 25 July 2010. It is one of the major policy-based initiatives of the Government, stimulating growth and promoting Cambodia as a more significant participant in the international rice market while simultaneously addressing domestic rice distribution. Both policy development and subproject investments have been formulated through extensive discussions between ADB, the Government, and key sector stakeholders and are consistent with the Government's agricultural development strategies. Moreover, we note a thematic and strategic convergence of a number of recent ADB-financed projects and programs culminating in Rice-SDP such as the Emergency Food Assistance Project, the Tonle Sap Poverty Reduction and Smallholder Development Project, the Water Resources Management Sector Development Program, and the Emergency Flood Protection Project, each focusing on, amongst others, Cambodia's agricultural sector - and within it, the development of the rice sub-sector.

2. The Government has identified the rice sub-sector as a major engine for socio-economic growth through export expansion. However, a wide range of physical, climatic, agro-ecological and socio-economic factors influence rice production and export. The future is also confounded by the threat from climate change to which Cambodia and its agriculture sector, in particular is most vulnerable as evidenced by recent floods, drought, salinity intrusion, land degradation, and loss of soil fertility. We recognize there remain areas where agricultural policy should be strengthened, together with the institutional framework necessary to support such policies that should be addressed if the target of one million tons of rice exports by 2015, set by the Government, is to be achieved. The Government is fully committed to

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implement the policy and institutional development outcomes agreed under Rice-SDP as elaborated in the Policy Matrix and ensure that maximum leverage will be obtained from the implementation of associated investment subprojects.

3. This letter is intended to show Cambodia as a country eager and capable of addressing these development challenges - by increasing resilience to adversities, man-made or natural, internal or external economic shocks, and to forge ahead taking the necessary measures for accelerated broad-based growth led by the private sector. We believe that Cambodia's economy has the potential to grow at 7-8% per annum over next 20 years and beyond. The vision is to offer equal opportunity to all, whilst consolidating agriculture as a key economic sector, through the diversification of rice into a more commercially orientated sub-sector complemented by industrial development, trade and market liberalization policies. Given the limited size of the domestic market, much of the growth stimulus will come from exploiting the rising demand for Cambodian rice on export markets. The interventions outlined in Rice-SDP design will simultaneously enhance rice productivity destined for domestic markets to ensure food security, reduce poverty and malnutrition, and conserve Cambodia's natural resource base.
4. We believe that a coherent national planning and strategic framework is needed for the implementation of a major sector program initiative such as Rice-SDP. The Government has launched the Rectangular Strategy on Growth, Employment, Equity and Efficiency (Phase 2), which has agriculture development among its priorities. The four strategic "growth rectangles" are: (i) enhancement of the agricultural sector, (ii) rehabilitation and construction of physical infrastructure, (iii) private sector development and employment generation, and (iv) capacity development and human resource development.
5. The Government has adopted the Updated National Strategic Development Plan (NSDP) (2009-13) with milled rice as a major export item. It directs 62.4% of resources to rural areas, with increased attention to production activities including agriculture (which is dominated by rice) and rural development, and to health and education for human capital development. With this, Cambodia will make rapid progress towards achieving its Millennium Development Goals. The Ministry of Agriculture, Forestry and Fisheries (MAFF) has prepared the Agricultural Strategic Development Plan 2009-13 in line with the updated NSDP.
6. In the past decade, Cambodia grew rapidly, reducing poverty, largely due to macro-economic stability and public financial management reform whilst maintaining a private sector focus. Fiscal and monetary policies have been prudent. Cambodia's gross domestic product growth averaged 11% per annum during the period 2004-07 before declining with the financial crisis. The government-driven stimulus program and proactive measures supported by ADB-financed projects and those of other development partners helped the Government through the financial crisis. The resultant economic recovery has been strong with impressive growth being recorded in agriculture (through rice commercialization), tourism, garments, real estate, trade and the services sector, that are dominated by small and medium enterprises. Economic growth for 2012 is estimated at 7.3% while the medium-term projection is 7-8% per annum. During the boom period, poverty levels (as measured by the recently revised poverty line) declined from 47.8% in 2007, to 19.8% in 2011. Notwithstanding slight inflationary pressure of recent months, prices and exchange rates have been stable. Interest rates have declined due to increased competition among banks and microfinance institutions.
7. The Government's Rice Policy elaborates short, medium and longer-term measures to improve paddy production, collection and processing, logistics, marketing and institutional mechanism and is being implemented through the relevant ministries and agencies. MAFF has prepared an Action Plan to implement this Policy. Other ministries and agencies including the Ministry of Land Management, Urban Planning and Construction, the Ministry of Commerce, the Ministry of Environment, the Ministry of Industry, Mines and Energy, and the Ministry of Water Resources and Meteorology each have identified their responsibilities under the Rice Policy.
8. Rice-SDP will support the Government in addressing two areas: (i) enhancing capacities for achieving conducive policy and enabling environment for rice commercialization, and (ii) strengthening vertical linkages and horizontal clusters along, and within, the rice value chain. Strengthened vertical

linkages between rice producers, processors and marketing agents will provide a valuable means for organizing and delivering quality seed material (a necessary pre-requisite for improved quality of paddy being delivered for processing), technical support services, and aggregated marketing activities.

9. Seed quality, production capacity, prices paid and distribution channels are areas of concern for the Government. Seed quality is the initial critical input in the rice value chain that determines future quality potential with all subsequent activities being dependent upon farmers' ability to access adequate quantities of quality seed. Cambodia Agriculture Research and Development Institute (CARDI), MAFF research stations, commercial seed producers, and farmer associations have limited capacity to produce high quality, certified and commercial seed in sufficient quantities. Many seeds are retained from the previous season's crop while significant quantities are still imported. The Government is concerned with export of rice varieties based on imported seed due to intellectual property rights issues. The Government wishes to build the sub-sector on the high quality indigenous Cambodian rice varieties for export.

10. The Government will put in place the legal and regulatory framework for seed production certification and distribution. Recognizing that an umbrella seed policy will strengthen local seed production and distribution, the Government (MAFF - the responsible agency) has drafted a 'Seed Policy' prior to the release of the first tranche of the policy-based loan. The second tranche condition will be the issuance of the draft Seed Policy by MAFF.

11. Consistent with this Seed Policy, we recognize the need for MAFF to (i) draft the 'National Seed Standards,' (ii) draft the 'Prakas on Procedures for Providing Seed Quality Certification,' (iii) draft the 'General Introduction to the Examination of Distinctiveness, Uniformity and Stability of New Varieties of Plants,' and (iv) draft the 'Guidelines for the Conduct of Tests for Distinctiveness, Uniformity and Stability of Rice'. All these four documents have been drafted as pre-conditions for the release of the first tranche of the policy loan. The second tranche condition will be the approval of these draft documents by the respective authorities. We believe, in non-emergency situations, seed should be produced and distributed on a commercial basis to encourage private investment in the seed industry. The Government will also take related actions supported by Rice-SDP including strengthening capacity for quality assurance through seed testing and certification.

12. We recognize that efficient and sustainable land management is an important aspect of rice commercialization. The Government is concerned about agricultural land-use inefficiency due to the lack of adequate zoning, poor land management practices, and inadequate agricultural land-use planning. Soil productivity mapping, land classification and land-use zoning remain incomplete. The legal framework for land-use is the starting point, based on the existing 2001 Land Law which itself, is currently under review. The Government has issued a National Policy on Spatial Planning and is keen to ensure that land is used in accordance with its potential and longer-term balance between socio-economic development and protection of the environment. Within this framework, a subordinate Land Policy "White Paper", including a chapter on Land and Gender Policy has been drafted as the condition for the release of the first tranche of the policy-based loan. The "White Paper" will be issued as a condition for the release of the second tranche of the policy-based loan.

13. With the above as guiding documents, it is necessary for MAFF to prepare and submit to the Council of Ministers, a draft Law on Management and Use of Agricultural Land, focusing inter alia, on (i) women's access to information on land administration, management and distribution; (ii) women's equal participation and representation in all commissions and committees; and (iii) equal benefits for women in land related initiatives. The Government is committed to promoting sustainable land management, and will ensure that MAFF prepares and the Government adopts a national action program to combat land degradation in Cambodia. To assist in this matter, MAFF will issue guidelines for establishing agricultural land-use zones, incorporating measures and targets for involving women in planning and decision making.

14. The Government believes farmer organizations will play a vital role in the implementation of rice commercialization strategies, policies and investments. The Government is therefore committed to strengthen agricultural cooperatives. MAFF, through its extension staff, will assist in the formation of

farmer cooperatives. The Law on Agricultural Cooperatives has been drafted by MAFF (a first tranche condition) to assist in registration of existing cooperatives and in the establishment of new ones, training cooperatives to become well managed business entities. Rice-SDP support is available to broaden the base of farmer organizations and strengthen their capacities. The second tranche condition requires the submission of the draft Law to the National Assembly.

15. We recognize contract farming arrangements offer potential to achieve quality and dependable supplies if it is established over a period of time building long-term relationships. The Government has issued a Sub-decree on Contract Farming. Under Rice-SDP, paddy producers and associations (especially female headed households) will receive assistance to enter into contracts with interested parties on favorable terms, regularize (register) the contract and enforce compliance with its provisions.

16. The Government will take measures to establish Cambodian milled rice standards and facilitate domestic trading and export of rice. The Ministry of Industry, Mines and Energy, in consultation with relevant ministries and the private sector, has issued the general standard specifications for milled rice (a first tranche condition). This will be extended to 10 varieties of Cambodian rice as a second tranche condition. The capacities of MAFF and the Institute of Standards of Cambodia will be enhanced to certify rice standards.

17. We recognize the importance of maintaining and improving competitiveness of Cambodian rice in the international market. To this end, the Government will address sanitary and phyto-sanitary concerns by having drafted (a first tranche condition) the Law on Plant Protection and Phyto-sanitary Measures and submitting the draft Law to the National Assembly (a second tranche condition). On a related matter, chemical residues from the application of agricultural chemicals to growing crops can seriously affect the acceptance of produce from such crops on international markets. In order to maintain competitiveness and guard against such threats, the Law on the Management of Pesticides and Fertilizers was recently adopted (a first tranche condition).

18. We believe implementation of the reform package and investment subprojects under Rice-SDP will go a long way to realize objectives of the Government's Rice Policy.

Please, Your Excellency, accept the assurance of our highest consideration.

Sincerely yours,


Keat Chhon
Deputy Prime Minister
Minister of Economy and Finance



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POLICY MATRIX

Policy initiative/objective	Policy Actions for the Release of the First Tranche	Policy Actions for the Release of the Second Tranche
Output: A Conducive Legal and Regulatory Environment Established to Facilitate Rice Commercialization		
1.1. Promote Local Seed Production and Distribution		
1.1.1. Develop Rice Seed Sector	Ministry of Agriculture, Forestry and Fisheries (MAFF) will have drafted the Cambodian Seed Policy. (Copy of the draft Cambodian Seed Policy).	MAFF will have issued the Cambodian Seed Policy. (Copy of the issued Cambodian Seed Policy).
1.1.2. Implement the Law on Seed Management and Plant Breeders' Rights (2008)	<p>(i) MAFF will have drafted the National Seed Standards. (Copy of the draft National Seed Standards).</p> <p>(ii) MAFF will have drafted the Prakas on Procedures for Providing Seed Quality Certification. (Copy of the draft Prakas on Procedures for Providing Seed Quality Certification).</p> <p>(iii) MAFF will have drafted the General Introduction to the Examination of Distinctiveness, Uniformity and Stability of New Varieties of Plants. (Copy of the draft General Introduction to the Examination of Distinctiveness, Uniformity and Stability of New Varieties of Plants).</p> <p>(iv) MAFF will have drafted the Guidelines for the Conduct of Tests for Distinctiveness, Uniformity and Stability of Rice. (Copy of the draft Guidelines for the Conduct of Tests for Distinctiveness, Uniformity and Stability of Rice).</p>	<p>(i) MAFF will have issued the National Seed Standards. (Copy of the issued National Seed Standards).</p> <p>(ii) MAFF will have issued the Prakas on Procedures for Providing Seed Quality Certification. (Copy of the issued Prakas on Procedures for Providing Seed Quality Certification).</p> <p>(iii) MAFF will have issued the General Introduction to the Examination of Distinctiveness, Uniformity and Stability of New Varieties of Plants. (Copy of the issued General Introduction to the Examination of Distinctiveness, Uniformity and Stability of New Varieties of Plants).</p> <p>(iv) MAFF will have issued the Guidelines for the Conduct of Tests for Distinctiveness, Uniformity and Stability of Rice. (Copy of the issued Guidelines for the Conduct of Tests for Distinctiveness, Uniformity and Stability of Rice).</p>
1.2. Strengthen Agricultural Land Management		
1.2.1. Strengthen the	(i) The Government of Cambodia (the Government)	(i) The Government will have issued the Land

Policy initiative/objective	Policy Actions for the Release of the First Tranche	Policy Actions for the Release of the Second Tranche
Legal Framework for Agricultural Land Management	<p>will have issued the National Policy on Spatial Planning. (Copy of the issued national policy on spatial planning).</p> <p>(ii) The Council for Land Policy (CLP) will have drafted the Land Policy “White Paper”, including a chapter on Land and Gender Policy. (Copy of the draft Land Policy “White Paper”).</p>	<p>Policy “White Paper”, including a chapter on Land and Gender Policy. (Copy of the issued Land Policy “White Paper”).</p> <p>(ii) MAFF will have drafted the Law on Management and Use of Agricultural Land, focusing inter alia, on (a) women’s access to information on land administration, management and distribution; (b) women’s equal participation and representation in all commissions and committees; and (c) equal benefits for women in land related initiatives. (Copy of the draft Law on Management and Use of Agricultural Land).</p>
1.2.2. Promote Sustainable Land Management		MAFF will have prepared and the Government will have adopted the national action program to combat land degradation in Cambodia. (Copy of the national action program to combat land degradation in Cambodia).
1.2.3. Develop Land-use Zoning		MAFF will have issued guidelines for establishing agricultural land-use zones, incorporating measures and targets for involving women in planning and decision making. (Copy of the issued guideline for establishing agricultural land-use zones).
1.3. Strengthen Farmers’ Organizations and Promote Contract Farming		
1.3.1. Regulate Farmers’ Organizations	MAFF will have drafted the Law on Agricultural Cooperatives. (Copy of the draft Law on Agricultural Cooperatives).	MAFF will have submitted the draft Law on Agricultural Cooperatives to the National Assembly. (Copy of the submitted Law on Agricultural Cooperatives).

Policy initiative/objective	Policy Actions for the Release of the First Tranche	Policy Actions for the Release of the Second Tranche
1.3.2. Promote Contract Farming in Rice Production	The Government will have issued the Sub-decree on Contract Farming. (Copy of the sub-decree on contract farming).	
1.4. Facilitate Domestic Trading and Export of Milled Rice		
1.4.1. Establish Standard Specifications for Cambodian Milled Rice	Ministry of Industry, Mines and Energy (MIME) will have issued the Cambodian standards on milled rice. (Copy of the issued the Cambodian standards on milled rice).	MIME will have issued the standards for various varieties of Cambodian milled rice. (Copies of the issued standards for various varieties of Cambodian milled rice).
1.4.2. Establish Phyto-sanitary Regulations	MAFF will have drafted the Law on Plant Protection and Phyto-sanitary Measures. (Copy of the draft Law on Plant Protection and Phyto-sanitary Measures).	MAFF will have submitted the draft Law on Plant Protection and Phyto-sanitary Measures to the National Assembly. (Copy of the submitted Law on Plant Protection and Phyto-sanitary Measures).
1.4.3. Regulate Distribution and Use of Pesticides and Fertilizers	The Government will have issued the Law on the Management of Pesticides and Fertilizers. (Copy of the issued Law on the Management of Pesticides and Fertilizers).	