



Progress Report on Tranche Release

Project Number: 34380
Loan Number: 2022
June 2009

Cambodia: Agriculture Sector Development Program

CURRENCY EQUIVALENTS

(as of 31 May 2009)

Currency Unit	–	riel (KR)
KR1	=	\$0.00024178
\$1.00	=	KR4,136

ABBREVIATIONS

ACIAR	–	Australian Centre for International Agricultural Research
ADB	–	Asian Development Bank
AIC	–	Agriculture Inputs Corporation
ASDP	–	Agriculture Sector Development Program
ASP	–	Agriculture Sector Program
CARDI	–	Cambodian Agricultural Research and Development Institute
COM	–	Council of Ministers
FWUC	–	farmer water user community
KAMFIMEX	–	Kampuchea Fish Import and Export Company
MAFF	–	Ministry of Agriculture, Forestry, and Fisheries
MLMUPC	–	Ministry of Land Management, Urban Planning, and Construction
MOWRAM	–	Ministry of Water Resources and Meteorology
MTEF	–	medium-term expenditure framework
NDC	–	National Divestment Committee
SDR	–	special drawing rights
SEDP	–	socioeconomic development plan
SORE	–	state-owned rubber estate
TA	–	technical assistance

NOTE

In this report, "\$" refers to US dollars.

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CONTENTS

	Page
I. INTRODUCTION	1
II. BACKGROUND	1
III. PROGRESS IN PROGRAM IMPLEMENTATION	2
A. Overall Progress	2
B. Improving Farmers' Ability to Raise Productivity and Diversify toward Higher-Value Products	4
C. Improving the Market Environment for Private, Agro-Based Enterprise Growth	6
D. Strengthening Institutional Capacity for Competitive Agricultural Commercialization	8
IV. CONCLUSION	10
V. THE PRESIDENT'S DECISION	10
 APPENDIX	
Progress of Program Implementation	11

I. INTRODUCTION

1. On 26 November 2003, the Asian Development Bank (ADB) approved loans totaling SDR20.772 million (\$31.9 million equivalent) for the Agriculture Sector Development Program (ASDP) in Cambodia (loans 2022/2033-CAM).¹ The loan agreements were signed on 10 November 2004, and the loan was declared effective on 2 December 2004. The first tranche of the program loan was released on 23 December 2004, after the Government met the conditions for its release. The status of compliance with conditions for the release of the second tranche is the subject of this report.

II. BACKGROUND

2. In 2003, agriculture accounted for 33% of the gross domestic product of Cambodia and employed about 70% of its total workforce. Rural income continues to come primarily from agriculture, which is dominated by rice production. Despite its importance and potential, however, agriculture had sluggish and widely fluctuating growth in the 1990s because of its heavy dependence on rain-fed rice cultivation. Average rice yield was about 2.1 tons per hectare in 2001, the lowest in Southeast Asia. During the First Socioeconomic Development Plan (SEDPI, 1996–2000) period, agriculture grew by less than 3.0% yearly (with high variability) on average, far below the plan target of 5.2%, and had no substantial impact on poverty reduction in the rural areas.

3. With assistance from ADB,² the Government implemented in 1996–2000 the first Agriculture Sector Program (ASP), including reforms in land legislation, agricultural inputs, rural infrastructure, rural finance, public enterprises, and decentralization. Although ASP was generally successful, the Government recognized that the reforms introduced had to be intensified to speed up growth in agriculture. Regulations for the Land Law, passed in August 2001, had to be prepared and implemented. To reorient public agencies and promote an enhanced role for the private sector, the divestment of state-owned public enterprises had to progress further. New regulations and regulatory capacity needed to be developed to maintain the quality and safety of agricultural inputs traded in the market. Further improvements also needed to be made in the policy and institutional environment, and in the Government's administrative capacity to promote private sector participation in agriculture, particularly in marketing and financial services, and in training and education. To remove the knowledge and technology constraints on agricultural productivity, the skills and resources of the national system for agricultural research and extension had to continue to improve. Under the Second Socioeconomic Development Plan (SEDPII, 2001–2005), the Government looked forward to transforming agriculture into a driving force for improved economic growth and poverty reduction within a market-oriented policy framework by promoting agricultural commercialization and diversification. In line with SEDPII and with support from ADB, the Government wished to continue its policy and institutional reform measures and expand opportunities in the sector by

¹ Loan 2022 (SDR17.485 million) was a program loan, and loan 2023 (SDR3.287 million) a project loan (ADB. 2003. *Report and Recommendation of the President to the Board of Directors on Proposed Loans and Technical Assistance Grant to the Kingdom of Cambodia for the Agriculture Sector Development Program*. Manila).

² ADB. 1996. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan and Technical Assistance to the Kingdom of Cambodia for the Agriculture Sector Program*. Manila (Loan 1445-CAM[SF]). The loan was closed on 5 September 2000. The program completion report (ADB. 2001. *Program Completion Report on the Agriculture Sector Program in Cambodia*. Manila) was circulated to the ADB Board in December 2001, while the program performance audit report (ADB. 2003. *Program Performance Audit Report on the Agriculture Sector Program in Cambodia*. Manila) was circulated in July 2003.

resolving critical issues restricting the sector's performance, including (i) regulatory weaknesses limiting access to productive resources and improved agricultural inputs, (ii) uncertainty in the market environment for private, agro-based enterprise growth, (iii) lack of resources for effective agricultural research and extension services to promote commercialized agriculture, and (iv) weak capacity and resources at agricultural institutions.

4. At the time the ASDP was formulated, ADB's strategy for Cambodia was to promote rural economic development and thereby help reduce poverty. The strategy for agriculture was to help achieve the SEDPII's objectives by increasing agricultural productivity. Greater private sector participation in agriculture was planned, as was increased awareness and knowledge among the rural poor, women, and vulnerable groups to enable them to participate in agricultural development and have better access to productive opportunities. ASDP was deemed an indispensable part of achieving these ADB strategies. Complementarity and synergy with other projects and programs of ADB and other external funding agencies were fully considered during ASDP loan processing.

5. Aimed at promoting the sustainable growth of market-based agriculture and raising agricultural productivity, ASDP was designed to be implemented within the SEDPII framework to (i) help smallholders increase their productivity and diversify into higher-value products; (ii) improve the market environment for private, agro-based enterprise growth; and (iii) strengthen institutional capacity for competitive agricultural commercialization. ASDP was also designed to draw more of the poor and the women into agricultural production, marketing, and post-production.

6. Within the ASDP framework, the program loan was intended to facilitate policy and institutional reforms and create a favorable environment for market-based agricultural growth. These objectives were to be achieved through improvements in (i) access to productive land, water, improved seeds, and other high-quality agricultural inputs; (ii) the efficiency of rubber production, with no direct state intervention in the agricultural input and output markets; and (iii) institutional efficiency and local access to effective research and extension services, to facilitate commercialization.

III. PROGRESS IN PROGRAM IMPLEMENTATION

A. Overall Progress

7. The ASDP loan entails 24 conditions in the three policy areas of (i) greater agricultural productivity and diversification toward higher-value products; (ii) improved market environment for private, agro-based enterprise growth; and (iii) strengthened capacity for competitive agricultural commercialization. Ten tranche conditions were expected to be met before the release of the first tranche, and 14 before the release of the second tranche. The release of the first tranche was expected in April 2004 but was deferred with other important decisions as the new government took more than a year to assume office after the general election of July 2003. The 10 conditions for the release of the first tranche were met by December 2004.³

³ ADB. 2004. *Loan 2022-CAM (SF): Agricultural Sector Development Program. Progress Report on the Release of the First Tranche*. Manila (8 December).

8. The release of the second tranche is contingent on the fulfillment of these 14 conditions:
- (i) Approval by the Council of Ministers (COM) of a sub-decree reducing unused or excessive economic land concessions, after appropriate consultations with stakeholders;
 - (ii) Approval by the COM of a draft Seed Law satisfactory to ADB, and its submission to the National Assembly;
 - (iii) Removal by COM of regulatory constraints on the marketing of processed and unprocessed rubber products;
 - (iv) Approval by COM of a sub-decree rationalizing the roles and responsibilities of the departments of the Ministry of Agriculture, Forestry, and Fisheries (MAFF), on the basis of the findings of an internal review by MAFF;
 - (v) Complete divestment of all seven state-owned rubber estates (SOREs)⁴ by the Government according to an agreed divestment plan satisfactory to ADB, with appropriate social safety net measures for those adversely affected by the divestment;
 - (vi) Complete divestment of the Agriculture Inputs Corporation (AIC) and the Kampuchea Fish Import and Export Company (KAMFIMEX) by the Government according to an agreed divestment plan satisfactory to ADB, with appropriate social safety net measures for those adversely affected by the divestment;
 - (vii) Complete formation of farmer water user communities (FWUCs) by the Ministry of Water Resources and Meteorology under 11 pilot irrigation schemes;
 - (viii) Establishment and implementation by MAFF of a specific mechanism for providing adequate extension support to the beneficiaries of social land concessions;
 - (ix) Establishment by MAFF, in collaboration with other government agencies, of an effective inspection system to ensure the quality of agrochemicals traded in the market;
 - (x) Approval and initial implementation by MAFF of a master plan for national agricultural research satisfactory to ADB;
 - (xi) Implementation by MAFF of an effective strategy satisfactory to ADB for its agriculture market information services;
 - (xii) Institutionalization by MAFF of revised programs for broadcasting agricultural technology to improve information dissemination;
 - (xiii) Approval and implementation by MAFF of a gender mainstreaming policy and strategy acceptable to ADB; and
 - (xiv) Establishment by MAFF of internal planning, program budgeting, and expenditure management systems for the use of the medium-term expenditure framework (MTEF).

9. The second tranche of the program loan was originally expected to be released in June 2007, about 30 months after the release of the first tranche. But delays in the Government's approval of the divestment of state-owned enterprises also set back the release. On 19 June 2007, ADB approved the Government's request to extend the program closing date from 30 June 2007 to 31 December 2007 to give the Government time to comply with the conditions for the release of the second tranche. A second extension was approved on 25 January 2008 since the Government had yet to finalize the documentation for two tranche conditions (Seed Law and master plan for agricultural research), and make progress on the two outstanding conditions relating to the divestment of the seven SOREs, AIC, and KAMFIMEX.

⁴ Boeung Ket, Chamkar Andong, Chup, Memot, Krek, Peam Cheang, and Snoul rubber estates.

On 27 June 2008, a third request for extension was approved to allow more time for the divestment of the four remaining SOREs and for compliance with the social safeguard conditions relating to the compensation and resettlement of affected persons. A fourth extension to 31 March 2009 was approved on 24 December 2008 and a fifth extension to 30 June 2009 was approved on 7 April 2009 to enable the Government to complete the divestment of the final SORE, to submit the resettlement plans and appoint the external monitor for resettlement.

10. The current status of implementation of conditions for the release of the second tranche is summarized in the Appendix.

11. The policy and institutional reforms under ASDP had technical and advisory support from ADB technical assistance (TA 4228-CAM: Supporting Policy and Institutional Reforms in the Agriculture Sector)⁵ piggybacked to the program and project loans. The TA was designed to assist the Government in achieving the program objectives in the three main areas of (i) strengthening MAFF's institutional capacity in agricultural policy planning, program budgeting, and marketing; (ii) further divesting state-owned enterprises in agriculture; and (iii) establishing and developing national agricultural research and extension systems. The TA took a multi-stakeholder approach, with counterpart departments and administrative units in MAFF for the TA activities. The participatory process involved several steps: initial stakeholder discussions; appointment of counterparts for each of the TA teams; creation of working groups for each of the main task areas (19 in all); meetings and roundtable discussions between the TA consultants and the working groups; organization of workshops, seminars, and training courses; formulation of a working group strategy, and implementation plans and associated budgets for the achievement of the program tranche conditions; and assistance in implementing the work program. Through this process,⁶ the Government has been able to comply fully with the conditions for the release of the second tranche.

B. Improving Farmers' Ability to Raise Productivity and Diversify toward Higher-Value Products

12. The first objective of the Government under ASDP was to improve farmers' ability to raise productivity and diversify toward higher-value products by providing them with better access to productive resources such as land and water, improved seeds, and high-quality inputs.

1. Providing Better Access to Productive Land

13. The revised Land Law was formulated with assistance from ADB, and passed in August 2001. But the Government required a wide range of support to implement the revised law so that the Cambodian people could benefit from access to available land and secure individual land rights. Through ASDP, the Government hoped to facilitate the implementation of the revised Land Law by transferring state land to the landless poor for social purposes and giving farmers secure rights to their land, thereby increasing their incentives and ability to raise productivity through better farming and land management. To achieve this objective, the Government undertook to formulate, through an interministerial working group under the Council for Land Policy, a sub-decree reducing economic land concessions.

⁵ ADB. 2003. *Technical Assistance to the Kingdom of Cambodia for Supporting Policy and Institutional Reforms in the Agriculture Sector*. Manila (TA 4228-CAM, approved on 26 November, for \$1,000,000).

⁶ GRM International Pty Ltd. (in association with Agrisystems and Camconsult). 2007. *TA 4228-CAM: Supporting Policy and Institutional Reforms in the Agricultural Sector*. Queensland (final report, August).

14. In March 2003, fulfilling a condition for the release of the first tranche, the Government issued a sub-decree stating the procedures for the distribution of unused state land to eligible poor households for productive purposes. The Government also agreed to establish before the release of the second tranche a mechanism for implementing this sub-decree and to provide the beneficiaries with adequate agricultural extension services to support their productive and income-generating activities (condition 8). On 12 December 2006 MAFF released and approved a manual on extension services for social land concessions.⁷ A draft joint declaration of MAFF and the Ministry of Land Management, Urban Planning, and Construction (MLMUPC) was also prepared for interministerial collaboration to implement the measures provided in the manual, and signed by MAFF on 26 December 2006.

15. To complement the social land concessions, the Government on 27 December 2005 approved a sub-decree reducing unused or excessive economic land concessions according to the Land Law of 2001 (condition 1). In collaboration with MLMUPC, MAFF set up a technical unit to draft the necessary circulars and decisions implementing the sub-decree. On 27 November 2006, the Government approved a sub-decree specifying the responsibility and procedures for state land management.

2. Improving the Legal and Policy Framework for Better Access to Irrigation Water

16. At the time ASDP was formulated, the Government had submitted a draft Water Law to the National Assembly for approval, and drafted a National Water Policy in line with the draft Water Law. This legal and administrative framework, once in place, would improve water resource planning and management. In parallel, the Government looked forward to promoting the formation of FWUCs in the priority irrigation schemes during the ASDP period. It was agreed that the Ministry of Water Resources and Meteorology (MOWRAM) would form FWUCs in the 11 pilot irrigation schemes included in the MAFF work program (condition 7). In the ASDP period, MOWRAM completed the formation of FWUCs involving a total of 29,300 farmers in 13 pilot areas of 11 provinces (Kampong Cham, Kampong Chhnang, Pursat, Svay Rieng, Takeo, Prey Veng, Kampong Speu, Banteay Meanchey, Battambang, Kandal, and Siem Reap). The Government finally passed the Water Law in June 2007 and is preparing a sub-decree to formalize the creation of the FWUCs. With this legislative framework in place, MOWRAM plans to further expand the irrigated areas under FWUC management through ongoing and future development projects with external assistance.⁸

3. Establishing the Legal and Institutional Framework for Better Access to Improved Seeds

17. In 2003, despite growth in the production of higher-value crops, farmers still had limited access to better seeds. An appropriate legal and institutional framework for the seed sector was

⁷ The agro-ecosystems analysis manual produced under the second Cambodia-Australia Agricultural Extension Project funded by the Australian Agency for International Development (AusAID) was modified for use under ASDP.

⁸ Including the ongoing: ADB. 2000. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Kingdom of Cambodia for the Stung Chinit Irrigation and Rural Infrastructure Project*. Manila (Loan 1753-CAM, approved 5 September, for \$16.0 million); ADB. 2003. *Report and Recommendation of the President to the Board of Directors on Proposed Loan to the Kingdom of Cambodia for the Northwest Irrigation Sector*. Manila (Loan 2035-CAM, approved 9 December, for \$18.0 million).

needed to increase the delivery of certified-quality seeds to farmers (condition 2). The Law on Managing Seed and Hybrid Plant Authorization⁹ was submitted to the National Assembly in February 2008, during the ASDP period, and approved on 8 April 2008.

4. Improving the Regulatory System to Ensure the Quality of Agrochemicals Traded in the Market

18. Together with improvements in the availability of seeds, the Government also wanted to improve the regulatory system to ensure the quality of agrochemicals traded in the market by training provincial staff and private traders, and strengthening the quality inspection system in the country (condition 9). In October 1998, the Government issued Sub-decree No. 69 on Standards and Management of Agricultural Materials, the first legal instrument in Cambodia that specifically mentioned agrochemicals and provided the regulatory framework for the sale and use of agricultural and agrochemical materials. Then it issued implementing guidelines (Circular No. 345) specifying administrative procedures for the registration, sale, import, labeling, packaging, storage, disposal, etc., of such materials. To strengthen the inspection and control of agrochemicals, MAFF's Bureau of Agricultural Materials did a study on the agrochemical inspection system, which was approved by MAFF on 20 December 2006. On the basis of this study, the bureau drafted a government circular establishing and implementing specific measures to improve coordination between key government agencies in the monitoring and control of agricultural materials, and strengthening the inspection system for those materials. The circular was approved on 15 January 2007. The bureau also developed a database of agrochemicals traded in Cambodia, with fields for the trade name, active product name, manufacturing company, country of origin, provinces and districts where inspectors have found the materials for sale, etc. To raise awareness nationwide, the bureau produced the first set of media packages in December 2006.

C. Improving the Market Environment for Private, Agro-Based Enterprise Growth

19. A second objective of the Government under ASDP was to improve the market environment for private, agro-based enterprise growth and thereby promote private investment in agriculture. The Government had begun divesting state-owned enterprises in agriculture under ASP by making the enterprises financially autonomous, and wished to continue this process. It was committed to divestment to promote the development of market-based agriculture and the participation of the private sector in the agricultural input and output markets.

1. Completing the Divestment of the State-Owned Rubber Estates

20. Over the last decade, the Government has sought to modernize Cambodia's rubber industry, which is dominated by the SOREs, to improve the market environment for private, agro-based enterprise growth and to promote private investment in agriculture. The SOREs were converted into autonomous public enterprises in March 1999. In parallel, the Government has been promoting smallholder rubber plantations with financing from the Government of France. But the rubber sector in Cambodia has significantly underperformed despite these actions and the sector's high potential for contributing to the national economy. Although a rapid increase in the price of natural rubber (by about 22% from 2005 to 2006) has recently pushed up revenue from the sale of rubber, industry productivity needs to be improved through

⁹ *Law on Managing Seed and Hybrid Plant Authorization* (unofficial translation) (*Law No. 04 Sor Chhor Nor Kor Bor Chor*).

structural reform and market improvements. The SOREs' inefficient management and weak marketing have conspired to prevent international recognition and keep the prices of Cambodian rubber products low. The Government wished to complete the divestment during the ASDP period to benefit the entire rubber sector, including smallholders, and to increase the sector's overall value added.

21. As a first step, the Government wished to remove the regulatory constraints on the marketing of unprocessed and processed rubber products (condition 3). In tandem with its efforts to divest the SOREs, the Government began assessing the rules and regulations for the marketing of rubber products. In June 2005, MAFF announced its new rubber marketing policy giving rubber smallholders better access to private collection sites for their unprocessed latex rubber. A rubber certification project financed by the Government of France also helped improve the marketing of Cambodian rubber. A report prepared by MAFF's working group on rubber marketing and approved by MAFF on 21 August 2007 described the market liberalization, identifying the regulatory constraints removed by government policies concluding that the identified constraints were not binding constraints on rubber marketing in Cambodia.

22. A key condition of ASDP was the divestment of the seven SOREs (condition 5). Despite initial delays in the valuation of the estates and the acceptance of the auditors' reports, the divestment started in earnest in May 2007 when the National Divestment Committee (NDC) approved the invitation of expressions of interest for three estates (Chamkar Andong, Boeung Ket, and Memot). All seven were offered for sale through international bidding managed by NDC, and sold to domestic investors between 28 September 2007 and 12 February 2009.¹⁰ The Government considered various options for the divestment of the estates, such as joint ventures, but eventually sold all the estates to the private sector. Some delays were encountered: a decision was made to rebid one estate (Chamkar Andong), and government elections in mid-2008 led to the deferral of key decisions on the divestment of the final three estates until the new government took office.

23. As part of the divestment, the Government has paid compensation to laid-off workers of the SOREs from the proceeds of the sales, and has prepared resettlement plans to provide compensation to affected persons according to the resettlement framework agreed on under the ASDP. An external monitor has been appointed to monitor the progress of the divestment, and to report regularly on the resettlement to NDC and ADB.

2. Keeping the State Out of the Agricultural Input and Output Markets

24. Although the Government had begun divesting the state-owned enterprises in agriculture by making them financially autonomous, two enterprises—AIC and KAMFIMEX—could not adapt to the market conditions, generating uncertainty in the agricultural input and output markets, and requiring the use of scarce public resources for redundant activities. In this context, the Government decided to complete the divestment of these enterprises under ASDP (condition 6). Despite delays, KAMFIMEX was liquidated through a sub-decree that was issued on 25 July 2007 and took effect on 1 August 2007. The Government first sought a joint-venture operation for AIC but, for lack of any response, the Government issued on 29 June 2007 a sub-decree liquidating AIC effective 2 January 2008. Some workers were reabsorbed into

¹⁰ The estates were transferred as follows: (i) contracts were signed for Boueung Ket (on 12 December 2007; the contract took effect on 10 January 2008), Memot (on 21 March 2008), Chamkar Andong (on 3 April 2008), and Snoul (on 10 June 2008); and (ii) ownership was transferred for Peam Chhiang (on 22 September 2008), Krek (on 23 September 2008), and Chup (on 12 February 2009).

MAFF, and those laid off were paid compensation. All assets have been disposed of according to government procedures.

D. Strengthening Institutional Capacity for Competitive Agricultural Commercialization

25. The Government's third policy objective under ASDP was to strengthen the capacity of public institutions for competitive agricultural commercialization. Five activities in this regard were supported under the second tranche of ASDP: (i) rationalizing the roles and responsibilities of MAFF departments; (ii) formulating an operating strategy for gender mainstreaming in agriculture; (iii) improving MAFF's agricultural market information services; (iv) ensuring proper coordination of national agricultural research activities; and (v) improving the quality and coverage of the agricultural extension services of the Government.

1. Rationalizing the Roles and Responsibilities of MAFF Departments

26. The Government saw the need to strengthen the departmental functions of MAFF by rationalizing the roles and responsibilities and the organizational setup of the departments, particularly in agricultural policy planning, monitoring, and marketing information services. The Government agreed to implement a new sub-decree for this purpose during the ASDP period (condition 4), and to have MAFF institute a programming and budget planning mechanism for the use of the MTEF for the sector (condition 14).

27. With the help of TA 4228-CAM (footnote 5), the MAFF working group on organizational restructuring finalized in January 2007 its report on the strengthening of MAFF's planning functions. Two options were proposed: (i) creating a new general directorate of administration with planning functions, or (ii) setting up a permanent planning and budget formulation unit in the existing general directorate. The Government decided to go with option (ii), and MAFF issued a ministerial declaration (*prakas*) on 8 January 2008 creating the new planning and budget formulation unit in the general directorate of administration, even as it considered further restructuring. In June 2007, MAFF also completed the drafting of a human resource development strategy under TA 4228-CAM. MAFF was further restructured and streamlined in November 2008, with the creation of a department of administration, planning, finance, and international cooperation, and the realignment of technical departments within the general directorate of agriculture, and within the general directorates of forestry and rubber, and fisheries administration.

28. In 2000, the Government decided to introduce the MTEF approach to fiscal planning and management, but progress was slow. MAFF was one of four ministries that piloted the adoption of the MTEF, to increase the effectiveness of public expenditures in the pursuit of development objectives in agriculture. MAFF's working group on program budgeting, with support from TA 4428-CAM,¹¹ prepared manuals on (i) accounting and financial management; (ii) monitoring and evaluation; and (iii) training in accounting, finance, planning, and monitoring and evaluation. The final TA report was submitted on 30 September 2006. For a sustainable program budgeting system, MAFF needs further support in (i) strengthening planning and budgeting capacity, particularly in the provinces; (ii) streamlining accounting and finance procedures; and

¹¹ ADB. 2004. *Technical Assistance to the Kingdom of Cambodia for Strengthening National Program Budgeting for the Agriculture Sector*. Manila (TA 4428-CAM, approved 8 November, for \$250,000).

(iii) implementing a computerized accounting system. ADB approved in November 2008 grants¹² for the rollout of the MTEF program in MAFF, MOWRAM, and the Ministry of Rural Development, and assistance to the Government in the aforementioned areas.

2. Formulating an Operating Strategy for Gender Mainstreaming in Agriculture

29. The Government recognized that gender issues had to be incorporated into the agriculture mainstream to give women greater roles in increasing agricultural productivity and to make agricultural support services more effective. But here, too, progress was slow, and efforts were made project by project and not well coordinated. MAFF, which had started promoting gender mainstreaming in collaboration with the Ministry of Women's and Veterans' Affairs, sought support under ASDP to establish a sector-wide gender policy and strategy with specific action plans (condition 13). To address this issue, MAFF drafted a policy and strategy document, which was approved on 28 March 2006. Implementation took place with funding support from ADB TA 4459¹³ and was completed on 31 March 2007.

3. Improving the MAFF's Agricultural Market Information Services

30. Under ASDP, MAFF wanted to strengthen the capacity of its agricultural marketing office in market analysis, surveys, and data and information management. To do this, MAFF agreed to implement an effective strategy for its agricultural market information services (condition 11). MAFF's working group on agricultural market information services drafted a strategy for improving the system through consistent and uniform data collection, management, and dissemination, and staff capacity strengthening. The strategy document was approved by MAFF on 26 September 2006, and is being implemented partly with support from the Government of Canada.¹⁴ This condition for the release of the second tranche has thus been met.

4. Ensuring Proper Coordination of National Agricultural Research Activities

31. The Government also hoped to strengthen the coordination of national agricultural research, with the help of a master plan to be drafted and initially implemented during the ASDP period. The national agricultural research strategy drafted in October 1998 with assistance from the Government of Australia is now being implemented. The Cambodian Agricultural Research and Development Institute (CARDI) has been established, and appropriate operating procedures have been introduced to improve the local service delivery. It was agreed that MAFF would approve and start implementing a master plan for agricultural research satisfactory to ADB (condition 10). The master plan that was first drafted under ADB TA 4228-CAM (footnote 5) was further developed under TA 4310-CAM¹⁵ and approved by MAFF on 22 May 2006. CARDI and other agencies are implementing many research projects in the priority areas identified in the master plan. In particular, the Australian Centre for International Agricultural

¹² ADB. 2008. *Public Financial Management for Rural Development Program (Subprogram I)*. Manila (Grant 0132-CAM, approved 4 November, for \$6.71 million); and ADB. 2008. *Public Financial Management for Rural Development Project*. Manila (Grant 0133-CAM, approved 4 November, for \$4.1 million).

¹³ ADB. 2004. *Technical Assistance to the Kingdom of Cambodia for the Implementation of the Action Plan for Gender Mainstreaming in the Agriculture Sector*. Manila (TA 4459-CAM, approved 2 December, for \$300,000).

¹⁴ Canadian International Development Agency. 2006. *Cambodia Agricultural Market Information Project 2006–2009*. Phnom Penh.

¹⁵ ADB. 2003. *Technical Assistance to the Kingdom of Cambodia for Formulating a Master Plan for National Agriculture Research*. Manila (TA 4310-CAM, approved 22 December, for \$300,000).

Research (ACIAR) has implemented 80 Cambodian Agricultural Research Fund (CARF) projects since 2002. A workshop hosted by ACIAR and AusAID in Phnom Penh on 5–6 February 2008 gave an overview of agricultural research programs now being undertaken by CARDI and MAFF's department of agronomy and agricultural land improvement and proposed new research in priority areas identified in the master plan.

5. Improving the Quality and Coverage of the Agricultural Extension Services of the Government

32. Given the limited coverage of extension services offered by private and civil society organizations, MAFF has made substantial efforts over the years to strengthen and expand public agricultural extension services, necessitating higher budgetary allocations in the MTEF. The Government allocated more budgetary resources for this purpose before the release of tranche 1 of ASDP. It agreed to institutionalize agricultural technology broadcasting programs to disseminate the information cost-effectively by improving the weekly information services, which started in 1997, in fulfillment of a condition for the release of the second tranche (condition 12). MAFF's working group at the agricultural extension education office proposed an improved framework for the preparation of broadcasting programs through institutional changes and revisions in extension materials. The proposals of the working group have subsequently been implemented by MAFF's agricultural extension education office. The report of the working group was approved by MAFF on 22 February 2007, and official copies were disseminated on 11 April 2007.

IV. CONCLUSION

33. Despite an initial delay of about a year in the formation of the new government in 2004, substantial progress was made in implementing the first-tranche conditions and the first tranche was released in December 2004. Since then, and despite further delays in program implementation, the Government has continued to pursue important policy and institutional reforms agreed on under the ASDP and has made significant progress in meeting the conditions for the release of the second tranche. Major reforms have been carried out to improve farmers' ability to raise productivity and diversify toward higher-value products, improve the market environment for private, agro-based enterprise growth, and strengthen institutional capacity for competitive agricultural commercialization. All 14 of the second-tranche policy conditions have been fully met. The Government is firmly committed to continuing its program of sector development and reform as outlined in its Rectangular Strategy, the National Strategic Development Plan (2006–2010), and the recently adopted Strategy on Agriculture and Water (2006–2010). ADB's country strategy and program and its Country Operations and Business Plan (2009–2011) continue to support the Government in this important area of development.

V. THE PRESIDENT'S DECISION

34. In view of the overall progress made in implementing the Agriculture Sector Development Program in accordance with the Government's development policy letter dated 24 October 2003, including full compliance with the 14 conditions for the release of the second tranche, the President will authorize the release of the second and final tranche of the program loan, amounting to SDR7,708,618.43, from Special Funds resources, to take effect not less than 10 working days after the circulation of this progress report to ADB's Board of Directors.

PROGRESS OF PROGRAM IMPLEMENTATION

Measures Preceding the Release of the Second Tranche	Status of Compliance
<p>Condition 1: The Council of Ministers (COM) shall have approved a sub-decree reducing unused or excessive economic land concessions, after appropriate consultations with stakeholders.</p>	<p>Complied with. On 27 December 2005, the Government approved a sub-decree reducing unused or excessive economic land concessions in accordance with the Land Law passed in 2001. In collaboration with the Ministry of Land Management, Urban Planning, and Construction (MLMUPC), the Ministry of Agriculture, Forestry, and Fisheries (MAFF) formed a technical unit to draft the necessary circulars and decisions to implement the sub-decree. On 27 November 2006, the Government approved a sub-decree specifying the responsibility and procedures for state land management.</p>
<p>Condition 2: The COM shall have approved and submitted to the National Assembly a draft Seed Law satisfactory to ADB.</p>	<p>Complied with. COM has approved the Seed Law (Law on Managing Seed and Hybrid Plant Authorization). It was submitted to the National Assembly in February 2008, and approved on 8 April 2008.</p>
<p>Condition 3: The COM shall have removed regulatory constraints on the marketing of processed and unprocessed rubber products.</p>	<p>Complied with. In June 2005, MAFF announced its new rubber marketing policy to improve the access of rubber smallholders to private collection sites for their unprocessed rubber latex. The rubber certification project financed by the Government of France also contributed to various improvements in the marketing of Cambodian rubber. MAFF's working group on rubber marketing prepared a report describing the recent liberalization in the marketing of rubber products in Cambodia. The report, which identified the regulatory constraints and their removal by government policies, was approved by MAFF on 21 August 2007.</p>
<p>Condition 4: COM shall have approved a sub-decree rationalizing the roles and responsibilities of MAFF's departments on the basis of the findings of MAFF's internal review.</p>	<p>Complied with. With the assistance of TA 4228-CAM, the working group of MAFF on organizational restructuring finalized in January 2007 its report on the strengthening of MAFF's planning functions. The Government decided to proceed with the establishment of a permanent plan and budget formulation unit within the existing general directorate. MAFF issued a ministerial declaration (<i>prakas</i>) on 8 January 2008 establishing the unit while considering further restructuring. In June 2007, MAFF also completed the preparation of a human resource development strategy with technical assistance under the Agriculture Sector Development Program (ASDP).</p>
<p>Divestment</p>	
<p>Condition 5: The Borrower shall have completed the divestment of all seven state-owned rubber estates (SOREs) according to an agreed divestment plan satisfactory to ADB, with appropriate social safety net measures for those adversely affected by the divestment.</p>	<p>Complied with. The seven SOREs were offered for sale through international bidding managed by the National Divestment Committee (NDC), and sold to domestic investors between 28 September 2007 and 12 February 2009. Decrees were issued by the COM authorizing the divestment of the SOREs as follows: (i) Boueng Ket on 12 December 2007, (ii) Memot on 21 March 2008, (iii) Chamkar Andong on 3 April 2008, (iv) Snoul on 10 June 2008, (v) Peam Chhiang on 22 September 2008, (vi) Krek on 23 September 2008, and (vii) Chup on 12 February 2009. As part of the divestment, the Government paid compensation to laid-off workers and has prepared resettlement plans according the resettlement framework agreed on under the ASDP.</p>
<p>Condition 6: The Borrower shall have completed the divestment of Agriculture Inputs Company (AIC)</p>	<p>Complied with. KAMFIMEX was liquidated on 25 July 2007 through the issuance of a subdecree which took effect from 1 August 2007. AIC was liquidated on 29 June 2007 through the</p>

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and Kampuchea Fish Import and Export Company (KAMFIMEX) according to an agreed divestment plan satisfactory to ADB, with appropriate social safety net measures for those adversely affected by the divestment.	issuance of a sub-decree, which took effect on 2 January 2008. The Government has paid compensation to laid-off workers in accordance with the resettlement framework agreed on under the ASDP.
Irrigation	
Condition 7: The Ministry of Water Resources and Meteorology (MOWRAM) shall have completed the formation of farmer water user communities (FWUCs) in 11 pilot irrigation schemes.	Complied with. MOWRAM completed the formation of FWUCs involving a total of 29,300 farmers in 13 pilot areas of 11 provinces (Kampong Cham, Kampong Chhnang, Pursat, Svay Rieng, Takeo, Prey Veng, Kampong Speu, Banteay Meanchey, Battambang, Kandal, and Siem Reap).
Support for Beneficiaries	
Condition 8: MAFF shall have established and implemented a specific mechanism to provide adequate extension support for the beneficiaries of social land concessions.	Complied with. MAFF prepared a manual on extension services for social land concessions and approved it on 12 December 2006. A draft joint declaration of MAFF and MLMUPC for interministerial collaboration in implementing the provisions of the manual was also prepared, and was signed by MAFF on 26 December 2006.
Inspection Systems	
Condition 9: MAFF shall have established, in collaboration with other government agencies, an effective inspection system to ensure the quality of agrochemicals traded in the market.	Complied with. To strengthen the inspection and control system for agrochemicals, MAFF's Bureau of Agricultural Materials carried out a study on the agrochemical inspection system, which was approved by MAFF on 20 December 2006. On the basis of this study, the bureau drafted a government circular establishing and implementing specific measures to enhance collaboration between key government agencies in the monitoring and control of agricultural materials, and to strengthen the inspection system for those materials. The circular was approved on 15 January 2007. The bureau developed a database of traded agrochemicals in Cambodia, with fields for the trade name, active product name, manufacturing company, country of origin, provinces and districts where inspectors have found the materials for sale, etc. The bureau produced the first set of media packages in December 2006.
Research and Extension Services	
Condition 10: MAFF shall have approved and commenced implementation of a master plan for agricultural research, satisfactory to ADB.	Complied with. The master plan for agricultural research was first drafted under ADB TA 4228-CAM and further developed under TA 4310-CAM. It was approved by MAFF on 22 May 2006. Many research projects being implemented by the Cambodian Agricultural Research and Development Institute and other agencies fall within the priority areas identified in the master plan.
Condition 11: MAFF shall have implemented an effective strategy satisfactory to ADB for its agriculture market information services.	Complied with. MAFF's working group on agricultural market information services formulated a strategy for improving the market information system through consistent and uniform data collection, management, and dissemination, and through staff capacity strengthening. The strategy document was approved by MAFF on 26 September 2006, and is being implemented partly with support from the Government of Canada [(CIDA Cambodia Agriculture Market Information Project (CAMIP) 2006-2009 project)].

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Condition 12: MAFF shall have institutionalized revised broadcasting programs to disseminate agricultural technology information.	Complied with. MAFF's working group at the agricultural extension education office proposed an improved framework for the preparation of broadcasting programs through institutional changes and provision of revised extension materials. The report of the working group was approved by MAFF 22 February 2007, and official copies disseminated on 11 April 2007.
Gender Issues	
Condition 13: MAFF shall have approved and implemented a policy and strategy, acceptable to ADB, for mainstreaming gender issues.	Complied with. To establish a framework for gender mainstreaming in agriculture, MAFF formulated a policy and strategy document, which was approved on 28 March 2006. Implementation, with funding support from of ADB TA 4459-CAM, was completed on 31 March 2007.
Medium-Term Expenditure Framework	
Condition 14: MAFF shall have established internal planning, program budgeting, and expenditure management systems for the use of the medium-term expenditure framework.	Complied with. MAFF's working group on program budgeting, with support from ADB's TA 4428-CAM, prepared manuals on (i) accounting and financial management; (ii) monitoring and evaluation; and (iii) training in accounting, finance, planning, and monitoring and evaluation. The final report was submitted on 30 September 2006. The systems are now being implemented within MAFF.

ADB = Asian Development Bank; AIC = Agriculture Inputs Corporation; ASDP = Agriculture Sector Development Program; COM = Council of Ministers; MAFF = Ministry of Agriculture, Forestry, and Fisheries; MLMUPC = Ministry of Land Management, Urban Planning, and Construction; SORE = state-owned rubber estate; TA = technical assistance.