



Project Information Document/ Integrated Safeguards Data Sheet (PID/ISDS)

Concept Stage | Date Prepared/Updated: 03-Aug-2018 | Report No: PIDISDSC21922

**BASIC INFORMATION****A. Basic Project Data**

Country Cambodia	Project ID P163264	Parent Project ID (if any)	Project Name Cambodia Agricultural Sector Diversification Project (P163264)
Region EAST ASIA AND PACIFIC	Estimated Appraisal Date Aug 15, 2018	Estimated Board Date Oct 23, 2018	Practice Area (Lead) Agriculture
Financing Instrument Investment Project Financing	Borrower(s) MINISTRY OF ECONOMY AND FINANCE (MEF)	Implementing Agency MINISTRY OF AGRICULTURE, FORESTRY AND FISHERIES (MAFF), Ministry of Rural Development (MRD), Ministry of Water Resources and Meteorology (MoWRAM)	

Proposed Development Objective(s)

The proposed Project Development Objectives are to facilitate the development of value chains in diversified agriculture sector products in selected geographical areas in Cambodia, and to provide immediate and effective response in case of an eligible crisis or emergency

PROJECT FINANCING DATA (US\$, Millions)**SUMMARY**

Total Project Cost	100.00
Total Financing	100.00
of which IBRD/IDA	90.00
Financing Gap	0.00

DETAILS**World Bank Group Financing**

International Development Association (IDA)	90.00
IDA Credit	90.00



Non-World Bank Group Financing

Counterpart Funding	10.00
Borrower	10.00

Environmental Assessment Category

B - Partial Assessment

Concept Review Decision

Track II-The review did authorize the preparation to continue

Other Decision (as needed)

B. Introduction and Context

Country Context

- Over the past two decades, Cambodia has experienced macroeconomic stability and remarkable economic growth.** Cambodia sustained an average growth rate of 7.6 percent in 1994-2015, ranking sixth in the world. GDP per capita increased fivefold, from US\$ 300 in 1994 to around US\$ 1,070 in 2015, the year in which Cambodia reached the lower middle income status. The main drivers of growth have been garment exports, agriculture, tourism and, more recently, construction and real estate. Economic growth eased in the aftermath of the global financial crisis, while remaining strong. In terms of employment, Cambodia has benefited from a large structural transformation, with around 3.6 million net jobs created in industry and services and 0.7 million in agriculture and fisheries over the past two decades.
- The sustained economic performance has lifted a large proportion of the population above the national poverty line, but Cambodia is still one of the poorest countries in Southeast Asia.** Between 2007 and 2013, the incidence of poverty as measured by the proportion of the population living below the national poverty line declined from 47.8 percent to 13.5 percent of the population, leading the country to meet its Millennium Development Goal (MDG) before the 2015 deadline. Most of the poverty reduction occurred during the commodity price boom, when the headcount rate declined by twenty percentage points, driven by a significant hike in the price of rice. Despite this progress, the vast majority of the families that rose above the poverty line did so by a small margin, leaving them at risk in the event of an adverse shock. Poverty reduction in Cambodia has been accompanied by shared prosperity: the real consumption growth of the bottom 40 percent of the distribution was larger than that of the top 60 percent. This was accompanied by a decrease in inequality.
- The overall welfare of households described by non-monetary indicators has improved significantly throughout the past two decades, but several challenges remain.** Cambodia achieved most of the MDG targets, including those related to poverty reduction, child mortality and maternal mortality. Targets in primary education have been nearly achieved, whereas areas such as gender equality and environmental sustainability have seen less progress. Moreover, the incidence of and death rate due to TB remain high. Cambodia's Human Development Index in 2015 (UNDP) was 0.56, well below the East Asia Pacific average of 0.72, and also lower than the medium income countries average of 0.63.



Sectoral and Institutional Context

4. **Cambodia has benefited from a large structural transformation—meaning the reallocation of economic activity across the three broad sectors of agriculture, manufacturing, and services**—with around 3.6 million net jobs created in industry and services and 0.7 million in agriculture and fisheries over the past two decades. Agriculture, which depends heavily on natural resources and ecosystem services, contributed to 30 percent of gross domestic product (GDP) in 2015. More than five million people still rely on agriculture and fisheries to supplement their income and support their food security, and 88 percent of the population still relies on traditional biomass for cooking.

5. **The country experienced exceptionally rapid agricultural growth during the period of 2004 – 2012.** This largely resulted in an impressive reduction of poverty in terms of Cambodia’s recent history. During this period, national paddy production more than doubled, while that for a range of feed and industrial crops grew many fold, albeit from an initially small base. Production of livestock/poultry and fisheries also grew significantly, although with a high degree of year-to-year variation. Both area expansion and improved productivity contributed to this rapid and relatively broad based growth. Between 2008 and 2012, high international commodity prices incentivized farmers and others to expand their planted area, increase their use of improved technologies and invest in the sector. An open trade and investment policy, including allowing the export of un-milled paddy and other raw materials, enabled the quick transfer of international prices to farmers (and farm laborers).

6. **Since 2013, however, Cambodia’s agricultural value added has experienced very little growth, raising concerns about the sector’s underlying strength and competitiveness and its ability to provide remunerative livelihoods going forward.** External shocks, including a large drop in agricultural commodity prices that started in 2012 and extreme weather events in 2013 through 2015, played an important role in slowing progress in the sector. This has led to emerging questions about the underlying sustainability and quality of the earlier growth. After all, the rapid agricultural growth, which was partly driven by the expansion of cultivated areas and practice of monoculture cropping at the early stage of agricultural development, had unfortunately also contributed to deforestation and soil degradation. Initial challenges facing the management of national resources have resulted in depletion of some important aquatic resources including overfishing.

7. **In spite of this, the growing trade of high quality, branded fragrant rice has been a remarkable achievement.** Guided by the 2010 rice export policy,¹ promoted in part by the “Everything But Arms” initiative, part of EU generalized system preference, and underpinned by rising private investments in agriculture and agricultural processing with total domestic credits alone going to the agriculture sector rising to US\$1.2 billion in 2016 from just over US\$ 200 million in 2010, milled rice exports have grown tenfold, increasing to 0.5 million metric tons (US\$ 300 million in rice exports value) in 2016 from a mere 51,000 metric tons in 2010. This rapid increase has demonstrated that investment in rice production and processing is gradually transforming the sector from subsistence to commercialization, benefitting a significant number of farmers.

8. **Going forward, it is important to not only expand the range of commodities produced in Cambodia but to diversify beyond crop production, extending agriculture processing to rubber, cassava, cashew nuts and pepper which are currently exported as raw materials to neighboring countries where the value addition and commercialization is done.** It is also crucial to promote domestic production and processing to meet a growing demand by households and by the rapidly expanding tourism sector for animal products, fruits and vegetables, and processed food that currently has been serviced primarily by imports. The sector will need to rely upon productivity gains, through intensification,

¹ The Policy on the Promotion of Paddy Rice Production and Export of Milled Rice targeted 1 million tons of milled rice exports by 2015.



diversification and value addition, and seek to differentiate itself from the region's commodity giants². That differentiation can be qualitative, with an emphasis on higher quality foods and raw materials, sustainably produced and with due credible assurances. With urbanization and income growth, significant shifts in domestic dietary, food expenditure, and food shopping/eating patterns can continue to be expected, providing new opportunities for well-organized farmers and agro-food entrepreneurs in food distribution, logistics, etc. Continued growth in the tourism sector will also increase 'local' demand for higher value foods, providing further opportunities for Cambodian farmers and firms.

9. **In an attempt to include and promote farmer groups in the development of the agriculture sector, the Ministry of Agriculture, Forestry and Fisheries (MAFF) formulated the Royal Decree on the establishment and functioning of Agricultural Cooperatives (ACs) in 2001 and formulated the ACs Law in 2013 to promote ACs in Cambodia.** The Department of Agricultural Cooperative Promotion (DACP) was established in May 2014, under the leadership of the General Directorate of Agriculture. Since then, the numbers of ACs have increased significantly to almost 1,000 ACs in 2017. Around 100,000 families are currently organized in cooperatives. However, capacities of producer groups and cooperatives are still low. Despite the promotion of ACs through MAFF and development partners i.e. JICA, ADB, FAO, IFAD, AFD and NGOs, internal management of the cooperatives remains mostly weak. Their major involvement is through credit and savings activities, with ACs having jointly accumulated a total of about US\$10millions.

10. **Cambodian SMEs, including many of those involved in agro-processing, have limited knowledge about and access to modern inputs and equipment, and limited knowledge about and/or capacity to implement modern processing techniques** that would respond to increasing market and quality demands at home and abroad. High local production costs and limited access to financing adds to the difficulties SME face.

11. **Market access remains an infrastructure challenge.** With road connectivity between Cambodia's main cities having considerably improved in the last decade, access to and from remote rural communities remain a challenge for their inhabitants. Farm to market roads ("agriculture roads") are in many places non-existent or in poor condition, not allowing access to production sites or making access and the transport of in particular bulk agricultural commodities often prohibitively expensive. This also constrains aggregation efforts by trader and middlemen, further aggravating the marketing problems for poor rural smallholders. The situation is compounded by the limited existence of well-organized rural and urban markets where products could be controlled, graded and distinctively priced according to individual qualities.

12. **On-demand irrigation and adequate water management is essential for successful crop diversification and competitiveness improvements.** Though overall Cambodia can be classed as having abundant water resources, its availability is highly variable both temporally and spatially. Even during the wet season, there can be long dry spells and supplementary irrigation will be required to avoid crop moisture deficits between rainfall events. Irrigation is essential during the dry season for crop production. Most existing irrigation schemes have been developed for rice cultivation. The crops that will be targeted under this project require much better water control and management than rice. Irrigation schemes will have to be adapted for diversified cropping and different irrigation methods will have to be introduced, depending on the cop. There are also ample opportunities to develop small schemes for a variety of irrigation methods, either using surface or groundwater that can be abstracted through solar pumping.

² Unlike in the past, Cambodia's agriculture cannot draw upon an untapped land frontier (except at the expense of protected areas). Given the volatility of international agricultural commodity prices, the sector cannot rely upon a return to exceptionally high international commodity prices to fuel agricultural growth. It is unlikely to prosper, both in the near and longer terms, as a low-cost bulk supplier of undifferentiated commodities, owing primarily to the limits of economies of scale Cambodia can offer.



13. Reductions in poverty and food insecurity have outpaced improvements in child undernutrition in Cambodia.

At a national level, Cambodia achieved food security in the late 1990s and is now self-sufficient in rice. Thus, the prevalence of undernourishment declined from over 30 percent in 1992 to 16 percent in 2014 (FAO 2015). The country has seen an increase in the quantity and diversity of calories available. Over time, the proportion of calories available from rice has declined from 78 percent of total calories available per person per day in 1992 to 63 percent in 2011, though rice continues to account for the dominant share of available energy. Additional calories are available from fish, sugars, oils, and pulses, but there has been a per capita decline or stagnation in supply of vegetables, fruits, and non-seafood animal source foods. The availability and affordability of a diverse, nutritious diet remains a concern despite improvements in the national food security situation. Recent analysis found insufficient availability of other nutrient-rich fruits, vegetables, and animal source proteins in Cambodia.³ Cambodia has the lowest per capita fruit and vegetable consumption⁴, with only 105.79 grams of vegetables and 70.15 grams of fruit available per capita per day in Southeast Asian countries. Also, in 2011 Cambodians relied on fish for roughly 70% of protein⁵ intake and 8% of calorie intake. In the period 1990-2011, per capita animal-source protein availability in Cambodia rose proportionately faster than total per capita protein supply. Though total protein supply exceeds neighboring Thailand (59 g/capita/day), only 28.5 percent of available protein in Cambodia is of animal origin, compared to 39 percent in Thailand.

14. Over an extended period, public support for Cambodian agriculture has, appropriately, been focused on meeting the country's food security needs, with scarce attention to commercial agriculture, or at least the commercialization of smallholder-based production systems and value chains.

While the 2014-18 Agricultural Strategic Development Plan (ASDP) lays out a vision for a more diversified and competitive agricultural sector, in practice, many of the instruments of public support, including agricultural research, extension, and bulk irrigation water delivery have been motivated by goals to increase the planted area and yields of rice, financed by a majority of public (including donor-financed) expenditure. Agricultural productivity and commercialization are affected by policy and regulatory constraints, particularly laws and regulations that shape the country's agribusiness enabling environment. A recent global study (Enabling the Business of Agriculture 2017) highlights important constraints in Cambodia's regulatory framework, as it relates to variety registration, seed quality control, fertilizer registration and import, tractor testing and standards, truck licensing, a plant protection framework and an electronic money and warehouse receipt system, limiting private sector investment and inclusiveness along the agricultural supply chain. Logistics and export costs are high compared to most countries in the region due to burdensome procedures and informal payments that many agribusinesses have to pay to speed up the process of obtaining required licenses, permits or certificates for operating, importing and exporting. In addition, there is a shortage of technical laboratories to undertake the necessary independent testing that is required to support the sector; for example, pesticide residue levels and steam sterilization of mangoes that would help facilitate exports.

15. Further improving the productivity of (labor, land, water) resources devoted to rice remains essential, and there is scope for Cambodia to continue advancing in its exports of high quality, branded rice. Yet, the aspirations which Cambodia has for its agro-food system need to extend beyond rice.

It should embrace the elements of RICE - that is, an agro-food system which is increasingly resilient (R), inclusive (I), competitive (C), and environmentally sensitive (E). It is therefore important to ensure that in many locations a more diversified cropping (or crop/fish/aquaculture) mix or a shift

³ National estimates of dietary diversity are an indicator of food security and an important underlying determinant of nutritional status. Percent dietary energy from non-staples, an indicator of dietary quality, was a potent contributor to stunting reduction in developing countries over the period 1970-2010 (Smith and Haddad 2014).

⁴ Keats S, Wiggins S. 2014. Future diets: implications for agriculture and food prices. London: Overseas Development Institute.

⁵ Dietary protein is necessary to meet physiologic requirements and maintain the structural and functional integrity of human cells and tissues. Animal proteins are particularly high quality and are an important source of iron, zinc, a number of other micronutrients.



toward other patterns of specialization could yield higher incomes for farmers, more remunerative employment, improved local nutrition, and greater opportunities for value addition.

16. **Looking ahead, it is crucial to reorient the agricultural sector to diversify, add value, externally reposition itself, and increase the competitiveness of small farms and firms.** This requires a body of knowledge, technologies, skills, infrastructure, institutions, management systems and commercial relationships which differ from those required for addressing food security needs or supplying low cost, generic raw materials. There are examples of innovation and production diversification occurring in selected government and development partner/NGO-supported projects/sub-programs where some such new knowledge, relationships, etc. are emerging. However, this is not yet being institutionalized or being applied on a scale that would lead to tangible impact at the sectoral level.

17. Important lessons are being drawn from these efforts to inform future programs, including some currently under preparation. This proposed Agricultural Diversification Project aims to complement (and add value to) - and not duplicate - these emerging initiatives.

Relationship to CPF

18. **The proposed operation directly supports relevant objectives of the World Bank Group Country Engagement Note (CEN) for the period FY16-17.** The objective of this two-year strategy is to support Cambodia in sustaining inclusive and resilient growth to reduce poverty and enhance shared prosperity. The strategy elaborated in the CEN supports Cambodia's 2014-2018 National Strategic Development Plan and aims to help the country further improve its business climate, deliver better social and infrastructure services, and generate opportunities for the poorest by investing in productive assets.

19. **Moreover, the project responds directly to the pathways for development identified in the Systematic Country Diagnostics (SCD).** The World Bank Group has prepared a Systematic Country Diagnostic (SCD) to help identify opportunities and challenges, as well as priority development areas for ensuring strong, inclusive and sustainable growth and shared prosperity in Cambodia going forward. The two pillars to which the proposed project will directly respond are: i) enhancing export competitiveness and economic diversification to sustain strong growth and create jobs; and ii) ensuring a more sustainable growth pattern by investing in natural capital, climate resilience, and sustainable urban development. However, the project will also respond to the third pillar: building human assets to facilitate economic mobility and shared prosperity, by improving household food and nutrition security and the availability, accessibility (affordability) of nutritious diets and improved knowledge and skills.

20. **Finally, the proposed project directly promotes the Bank's Twin Goals and contributes to key longer-term objectives.** The project will contribute to the overall goal of decreasing rural poverty, enhancing rural employment, increasing the resilience of smallholder farmers and enhance the competitive of small-scale farmers and small businesses. In this way, the Project would directly respond to the Bank's overarching Twin Goals of eradicating extreme poverty and promoting shared prosperity.

C. Proposed Development Objective(s)

21. The proposed Project Development Objective (PDO) is to enhance productivity and market access of smallholder farmers and agribusinesses in selected geographical areas in Cambodia.

Key Results (From PCN)



22. The key results the proposed project expects to achieve are:

- Farmers adopting improved agricultural technology / value chain
- Increase in the average gross margin and value of gross sales of benefiting producer groups and SMEs based on implementation of business plans
- Roads (repaired, upgraded, constructed) in good and fair condition as share of total classified tertiary roads in project area
- Participating smallholders (and their agriculture production area) benefitting from new/improved irrigation or drainage services

23. The key beneficiaries of the project would be: (i) small farmers in selected project regions, both rural and peri-urban; (ii) agribusinesses (entrepreneurs and workers) participating in identified value chain development; (iii) general population in rural project areas; and (iv) project implementing agencies (IAs) at national and sub-national level.

D. Concept Description

24. The proposed project, with an initially estimated overall investment requirement of US\$100 million, will feature support in the following complementary areas under four components. Each of these components will be modular, and scalable and/or adaptable to geographical areas and commodity/value chains.

25. The proposed project's four main components are:

- **Component 1: Competitive and Inclusive Value Chains**
- **Component 2: Supportive Key Public Infrastructure**
- **Component 3: Cross-cutting Institutional Strengthening**
- **Component 4: Project Management, Monitoring & Evaluation**

26. Activities under the four components will be adapted and detailed for implementation in different geographical areas and for the requirements of different value chains in local, rural and urban environments and/or export markets. A key implementation feature will be the exploitation of synergies between the technical components and/or with existing interventions on the ground. No component or activity will be implemented independently. Infrastructure investments will be linked to other activities in support of diversification.

Project Components:

Component 1: Competitive and Inclusive Value Chains (US\$36 million)

27. The objective of Component 1 is to: (a) support organized small-scale producers⁶ to diversify into higher value commodities and increase their productivity and quality in accordance to market demand, and strengthen their producer groups to aggregate, process and market their products to domestic and external markets; and (b) support agribusiness SMEs that are or would like to become part of supported value chains to fill their investment and knowledge gap and improve their partnerships with supplying producers, financial lenders and buyers. Through *Component 1*, it is expected

⁶ Government/MAFF focus is on supporting the establishment and functioning of cooperatives. However, the project will be open to support other types of groups or cooperation, e.g. contract farmers. Selection will be done based on their business plan/prospects, not according to organization form. Details will be elaborated during preparation.



to reposition Cambodian fresh and processed agricultural products to meet growing domestic household and tourist consumption demand (import substitution and domestic competitiveness); and facilitate market entry and penetration abroad (export competitiveness). *Component 1* will facilitate the attraction of the financial sector to lend to the agricultural sector by co-financing profitable business plans. The focus of value chain development will be on tree crops (possibly cashews, fruit, beverage crops, oranges, mangoes, avocados, longan, passion fruit), spices (pepper, and others), vegetables and small livestock⁷ production and aquaculture by smallholders. *Component 1* will directly contribute to the Government's National Strategy for Food Security and Nutrition (2014-2018) by increasing the availability and access to safe and nutritious food through intensified and diversified smallholder farming systems and improved linkages to markets.

28. In addition, *Component 1* is expected to provide climate change co-benefits derived from: (a) adaptation, by promoting innovative resource management practices to increase resilience, expanding the use of crops and crop mixes/rotations less vulnerable to climate variability, and expanding the use of protected agriculture and drought/heat resistant varieties; and (b) mitigation, by promoting agricultural intensification using higher yielding varieties, carbon sequestration species and cropping patterns, by promoting marketing and trade for products that reduce GHG emissions per unit of output and that use integrated organic and inorganic nutrient management, as well as by replacing traditional sources of energy.

29. **Producer organizations and farmer agro-enterprises (PO).** The project will support POs to prepare business plans, which when selected and implemented would support their members to diversify their production systems into more profitable value chains, improve their productivity and resilience, and start their production according to market demand. At producer organizations, it will strengthen their management, adoption of technologies and certification, facilitate access to market, finance and TA, and in some cases, it could also build or strengthen the PO's agro-processing facilities and logistics. The business plans should include a solid assessment of market/marketing opportunities, e.g. an existing or planned alliance with a buyer, such as an agro-processor, wholesaler, exporter or other commercial partner, and with one financial lender to co-finance the investments under the business plan.

30. The project will finance training and TA to both the farmers of the PO (such as good agricultural practices, climate smart agriculture, modern and improved technologies, on-farm water management, post-harvest handling, and financial literacy), as well as at the PO level to strengthen their management and technicians (such as in logistics, storage, marketing, agronomy, accounting, financial literacy, food processing, packaging, etc.). The TA will be accompanied by matching grants to co-finance on-farm investments (such as equipment for land preparation and harvesting, protected agriculture, and irrigation infrastructure using cost-effective and water saving technologies) and investments at the PO level in collective infrastructure and aggregation and processing models (i.e. small collection/storage/drying/packing facilities), and the introduction and application of quality management/traceability systems.

31. **Agribusiness SMEs.** The project will support agribusiness SMEs to prepare business plans, which when selected and implemented will improve the aggregation and processing of higher value agricultural products, comply with food quality and safety, labeling, traceability and packaging standards, as well as improve backwards linkages with farmers and forward linkages with national and international buyers. The business plans should include at least one alliance with a buyer, such a wholesaler, retailer, exporter or other commercial partner, and with one financial lender to co-finance the

⁷ The proposed focus on tree crops and spices is meant to complement a range of on-going/planned initiatives, focusing primarily on staple food and feed crops, vegetables and small livestock, and to help fulfill the potential for Cambodia to reposition its exports from raw commodities to branded or otherwise value added products. If there remains a need for additional support to high quality branded rice value chains, then this could also be accommodated.



investments under the business plan. The SMEs will have to co-finance their business plans with a larger percentage than the POs.

32. The project will finance training and TA to the SMEs (such as in logistics, cold storage, marketing, agronomy, accounting, financial literacy, food processing, good manufacturing practices, packaging, labeling, traceability, quality control, food safety and hygiene, legal and environmental aspects), as well as equipment (transport, office, ICT tools/mobile applications, cold storage, product processing, and so on), and infrastructure (such as storage/warehouse and cold chain facilities) and other related inputs. If the SME decides to enter into strategic alliances with small-scale producers, then these producers can be part of the business plan and can also benefit from TA and on-farm investments needed to achieve the quantity, quality and timelines of the produce that the SME will require (similar to on-farm TA and investments for members of POs).

33. The project will also support identifying and financing activities in the business plans that will facilitate translation of diversified production and farming systems and the associated increase in income into an improved food security and nutrition status amongst beneficiaries and in project regions in general. This will include incorporating nutrition sensitive choices in value chain identification, and accompanying awareness raising and training activities to improve nutrition outcomes in particular for children in project regions, and the cooperation with other nutrition-related projects within the same geographical project region.⁸

34. Training, technical assistance and extension services under this Component 1 will be provided by MAFF as well as by private companies and NGOs. MAFF will provide training, TA and extension services in areas, where it has shown effective in the past. Regarding TA for selection of more nutrition sensitive crops and improving nutrition outcomes, existing local delivery systems will be utilized. Additionally, social and behavioral change communication for improving nutrition will be harmonized with the other operations supporting the outcomes of the Cambodia Nutrition Results Framework.

35. Other areas, such as TA for the preparation of business plans and TA on financial literacy, good manufacturing practices, etc. will be provide by private actors and NGOs. The exact division of labor and operation procedures will be further analyzed during preparation.

Component 2: Supportive Key Public Infrastructure (US\$50 million)

36. The objective of Component 2 is to finance key public infrastructure in the project area to increase the impact on productivity and market access of investments undertaken in Component 1 and to contribute to the overall competitiveness of the agriculture sector. The project will finance farm to market roads, rural markets, and necessary rehabilitation or upgrading of irrigation water delivery structures. Investment will be targeted in areas with small-scale farmers benefitting from Component 1. There will not be any large-scale irrigation investments or new road constructions. In addition to the investments, the component will provide TA and training to water user communities and municipalities to strengthen their capacity to operate and maintain the financed infrastructure. Infrastructure investment support will be provided only in combination and coordination with other value chain diversification measures. No stand-alone infrastructure investments will be financed. In addition, Component 2 is expected to provide climate change co-benefits derived from: (a) adaptation, by improving irrigation management systems and practices to reduce vulnerability to climate change, by reducing water in land preparation and loss in crop growth stages, and by promoting technologies that improve

⁸ Cooperation with relevant projects such as the Bank supported Nutrition Project would not only include information exchange and mutual learning but also an overlap of geographical project areas, making use of the same or adapted social and behavioral change communication and existing service delivery platform for nutrition related technical assistance.



water management efficiency, as well as by upgrading existing roads to climate resilient design standards; and (b) mitigation, by promoting sustainable water management practices that promote water use efficiency, by improving traffic flows and reducing GHG emissions per unit transported.

37. **Rural infrastructure/agriculture roads.** The project will support expanding the farm-to-market road networks in project areas. Planning/design will ensure measures identified to reduce disaster (flooding) risks with a target of creating access to fields and markets for farmers year-round. Investments will be made where transportation is identified as a bottleneck for introduction and/or expansion of high value chains.

38. **Markets and marketing infrastructure.** Activities will support the establishment of local market infrastructure to expand marketing opportunities, improve postharvest management, and improve food quality and hygiene. Expanding alternatives to farm gate sales will offer supported smallholders better opportunities for marketing at better prices.

39. **Irrigation investments and water management.** The crops that are targeted under this project generally would benefit from regular irrigation and a high level of water management, both during the wet and dry season. Existing irrigation systems will have to be adapted to on-demand water availability and different irrigation methods. Activities will mainly focus on improving access to and distribution and management of water in existing irrigation schemes. Support will be provided for modernization of especially tertiary and quaternary infrastructure in areas where bottlenecks and needs exist for the crops under consideration in a particular area. This will also take into account the required investments in climate-resilient irrigation systems and, as needed, improved drainage. Although the focus of the project will be on improvements of the lower-order irrigation systems, main infrastructure will have to be inspected as well and, where needed, limited investments may have to be made to ensure that the infrastructure is able to deliver the water for optimum irrigation.

40. Different crops may require different methods of irrigation. The project will support the introduction of the right irrigation method for a certain crop, including sprinkler and drip irrigation. Not all irrigation schemes may be suitable for adaptation to higher value crops or potential areas may not have irrigation developments, in which case the use of surface or groundwater will be considered, using solar pumping. Finally, the project will support the effective and efficient use of irrigation hardware by smallholder water user groups, as well as the proper management, operation, and maintenance (MOM) of the irrigation in a technically and financially sustainable manner. It will support the development of Farmer Water User Communities (FWUC), including the review and update, as needed, of available training and support material and the support to the required training program.

41. The expected outcomes of Component 2 will include (i) increased access of smallholders to on-demand irrigation; (ii) all-weather access to fields and markets; and (iii) availability and access to expanded local market outlets.

Component 3: Cross-cutting institutional strengthening (US4 million)

42. The objective of Component 3 is to strengthening foundational knowledge, data analysis capacities, and regulatory delivery systems within the public sector and their implementation and enforcement. These will contribute to broad and transparent knowledge and decision-making of public sector and private actors.

43. **Agricultural Information Systems.** Funding will be provided for investments in the further development and improved use of soil/agro-ecological maps, agricultural early warning systems, food production and agricultural statistics/census data (agricultural market intelligence and marketing information systems) and potentially others. New technologies in ICT will be promoted to ensure broadest dissemination and best use of available data and information for



public and private sector stakeholders’ planning and decisions regarding production, processing, marketing of agriculture products and services. This aspect will include elements that support private sector agribusiness investment, such as seed and fertilizer catalogs, phytosanitary reporting, water resources and user registries, and publication of regulatory requirements. Moreover, support will be given for market intelligence to identify medium and long-term opportunities for suitable products, as well as a feasibility study for the establishment of a wholesale market for quality controlled products in Phnom Penh.⁹

44. **Quality Management.** Investments to strengthen the effectiveness of plant protection, animal health and food safety surveillance, reporting and inspectorate systems, and systems to enforce agricultural input regulations will be supported. This will include support for the development of certification and other quality management services, and the development and application of regulations on good agricultural practices (GAP) and organic products, use of geographic indicators, etc. Focus of the activities will be on areas under MAFF’s responsibility and jurisdiction, including animal health, enforcement of agro-input regulations, agriculture products surveillance, MAFF’s labs, operationalization and enforcement of sanitary and phytosanitary (SPS) and animal health and hygiene laws and regulations, GAP and CamGAP, promotion of Participatory Guarantee Systems (PGS), and local labeling/branding.

Component 4: Project Management, Monitoring & Evaluation (US\$10 million)

45. MAFF will be the main executing agency for implementation and the overall coordination arrangements. MAFF will be responsible for overall project management/coordination and for the implementation of all 4 components. MAFF will closely cooperate with the technical units of the Ministry of Rural Development (MRD) and the Ministry of Water Resources and Meteorology (MOWRAM) as implementing partners that will take responsibility for the construction of rural infrastructure. Support will be provided for the establishment of a MAFF-led PIU, preferably attached to the (Secretariat of the) Technical Working Group on Agriculture and Water (TWGAW). The establishment of a high-level Steering Committee will be envisaged to advise on and deal with emerging cross-sectoral issues. The detailed project management structure will be elaborated at preparation stage.

46. Component 4 will support overall project management through: (a) providing necessary key contract staff and consultants in the Project Implementation Unit (PIU) to assist MAFF in managing project implementation in cooperation and coordination with (and through) the Technical Working Group (TWG) Agriculture and Water and with other projects; (b) monitoring and evaluation (M&E) of project implementation; and (c) hiring technical assistance (TA) to support project implementation and capacity building of MAFF and other key stakeholders.

47. Implementation will follow the Royal Government of Cambodia’s (RGC) Deconcentration and Decentralization (D&D) policy and directives, decentralizing project implementation functions to provincial, district and commune levels where advisable and possible. Strong capacity building support will accompany this approach.

2. Overall Risk and Explanation

Risk Rating Summary (SORT)

Risk Category	Rating
1. Political and Governance	Substantial

⁹ Identification of funding options for an eventual new Phnom Penh wholesale market would be identified in the feasibility study.



Risk Category	Rating
2. Macroeconomic	Moderate
3. Sector Strategies and Policies	Moderate
4. Technical Design of Project or Program	Substantial
5. Institutional Capacity for Implementation and Sustainability	Substantial
6. Fiduciary	Substantial
7. Environment and Social	Moderate
8. Stakeholders	Moderate
9. Other (Political Economy)	Moderate
OVERALL	SUBSTANTIAL

Overall Risk Rating Explanation

48. The overall project risk is considered **substantial**.

49. At this stage in the preparation process, the political and governance risks remain substantial due to the uncertainties and potential delays ahead of the national elections in July 2018. This is expected to improve post-election. The required multi-stakeholder design and limited experience of the lead Implementing Agency (IA) MAFF in managing complex projects at national and decentralized levels leads to initially substantial risks with the technical design and institutional capacities. The project intends to address the risks with TA support and strong capacity building activities. There are no other major risks identified at this stage¹⁰.

50. **Procurement and Financial Management.** The fiduciary risks at this stage are considered “Substantial”. Though MAFF has implemented several Bank-funded projects, those projects were implemented through different PIUs created at MAFF. For the proposed project, a new PIU attached to the (Secretariat of the) Technical Working Group Agriculture and Water is a preferable approach, however, such PIU and the TWG Secretariat do not have enough procurement and financial management capacity, particularly no familiarity with the World Bank’s policies and procedures. It is proposed to engage MAFF’s Accounting/Finance Department and procurement unit/department to carry out the financial management and procurement activities, respectively, under the project. This will help to improve the capacity of MAFF’s procurement and finance staff and will ensure better sustainability. The detailed procurement and financial management assessments will be conducted once the institutional arrangements are further clarified and detailed. Subsequently, the ratings may change.

51. **Social Risk.** The social risk for the project is moderate. Civil works planned will mostly involve upgrading existing roads or irrigation canals, or the construction of laboratory or phytosanitary facilities on land already owned by the government. Land acquisition that might occur is likely to be minor and easily managed through voluntary donations, or eliminated through minor design alterations. The Ministry of Rural Development has experience in applying IFI (ADB) social safeguards to rural infrastructure projects, and has established an office dedicated to social and environmental management. Aside from land acquisition and resettlement, this office also manages social risks related to labor influx including the exclusion of women from employment opportunities, gender-based violence and human trafficking, HIV/AIDs awareness and community health and safety. Risks related to ethnic groups are also considered minor, and mainly

¹⁰ The key risks to achieving the PDO, and mitigation measures that the project will apply, will be further elaborated in the Systematic Operations Risk Rating tool (SORT) provided in the draft PAD at QER stage.



relate to the need to consult on civil works and to adapt training materials on issues such as pesticide use. The Ministry for Rural Development has a dedicated ethnic affairs unit that will advise on engaging with Ethnic Communities, while the training programs offered by the General Directorate of Agriculture, are designed to be adaptable to the unique needs of the intended beneficiaries. To manage these social risks a social safeguards focal person will be appointed by one of the implementing agencies for the project, and a resettlement policy framework, an ethnic engagement framework, and the social elements of an environmental and social management framework will be prepared.

52. **Environmental risk.** The project will likely induce temporary, small scale and irreversible environmental impacts as the project aims to develop Agricultural and Food information and risk management systems; diversify agricultural systems, increase productivity and develop processed and high value food product markets; provide supporting infrastructure, including tertiary road and irrigation structure rehabilitation and upgrade laboratories. The rating is mostly due to intensive supports to be provided by the task team and the legacy issues of the weak national environmental regulations. However, the adverse environmental risks can be managed with the necessary environmental safeguard instruments (e.g. ESMF for the project and ESMPs for sub-projects), and set-aside safeguards budget and continued capacity building to the environmental safeguards focal point(s), assigned by the implementing agencies.

SAFEGUARDS

A. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

Potential beneficiaries of the project will include (i) small farmers in selected regions or provinces, including local, rural and peri-urban; (ii) entrepreneurs and workers of large-scale vertically integrated agribusiness participating in small farm productivity (e.g. vegetables, crop production systems, livestock, and aquaculture); (iii) critical public goods which provide the necessary enabling and supportive regulatory environment; and (iv) provision of economic services and infrastructure (such as rehabilitation and upgrading tertiary and quaternary irrigation, drainage, and roads) to remove constraints to diversified agriculture development. More geographical and salient physical characteristics will be clarified with the clients at the early project preparation stage.

B. Borrower's Institutional Capacity for Safeguard Policies

The implementing agencies, MAFF as the main IA, as well as MOWRAM and MRD as “co-implementers” of selective infrastructure, have experience in preparing and implementing safeguards instruments as applicable in projects assisted by the World Bank and Asian Development Bank. Some staff of MAFF and the Social and Environmental Office (SEO) at MRD have attended basic environmental and social safeguard awareness and capacity development workshops. The World Bank team will assess the institutional arrangements, responsibilities and capacity-building needs for safeguards work during the preparation stage. Furthermore, safeguards lessons learned, for example through the World Bank-assisted LASED and Ketsana projects, will be integrated in this project's safeguards instruments. Moving forward, the implementing agencies will appoint their environmental safeguards focal points to take the lead on preparing the safeguards instruments (e.g. the ESMF) with the guidance and support of the World Bank Environmental and Social Specialists.

C. Environmental and Social Safeguards Specialists on the Team

Bunlong Leng, Environmental Safeguards Specialist
Martin Henry Lenihan, Social Safeguards Specialist
Makathy Tep, Environmental Safeguards Specialist



Pheakkdey Nguon, Social Safeguards Specialist

D. Policies that might apply

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	The OP 4.01 policy is triggered due to technical assistance and potential adverse impacts under Component 1. competitive value change, Component 3. cross-cutting institutional strengthening, and Component 2. Public infrastructure investments including diversifying agricultural systems, increasing productivity and developing processed and high value food product markets; providing supporting infrastructure, including tertiary road and irrigation structure rehabilitation and upgrade laboratories. Since locations and types of investments are unknown, the project will prepare ESMF to describe the approach and implementation arrangements for the preparation of site-specific instrument (e.g. ESIA/ESMP) once sub-projects are identified.
Performance Standards for Private Sector Activities OP/BP 4.03	No	
Natural Habitats OP/BP 4.04	TBD	Rural infrastructure and civil works such as irrigation and road may affect the natural habitats. This needs to be confirmed during project preparation. More detailed information on the project locations will be provided.
Forests OP/BP 4.36	TBD	Rural infrastructure and civil works such as irrigation and road may affect the forest in project areas. This needs to be confirmed during project preparation. More detailed information on the forest in the project area will be Identified and provided if this policy would be triggered.
Pest Management OP 4.09	TBD	Potential usage or promotion of the purchase of pesticides, fertilizers, and/or chemical substances. The task team will confirm triggering this policy during the project preparation and a pesticide management plan (PMP) could be included in ESMF.
Physical Cultural Resources OP/BP 4.11	Yes	The project will fund rural infrastructure such as road and irrigation which may impact on unknown, physical cultural resources as defined by OP/BP 4.11. A chance find procedure of physical cultural resources will be integrated as part of ESMF.
Indigenous Peoples OP/BP 4.10	Yes	This project is national in scope and will mostly be operating in rural areas, where there may be a



		presence of indigenous communities, who in turn may be direct beneficiaries of project activities. To this end an Indigenous Peoples Planning framework will be developed to guide the design and execution of site specific activities during implementation. The preparation of this instrument will be informed by a preliminary social analysis of the barriers and risks (including insecure land tenure) to small producers from indigenous communities participating in agricultural value chains.
Involuntary Resettlement OP/BP 4.12	Yes	For the most part civil works planned will involve upgrading existing roads or irrigation canals, or the construction of laboratory or phytosanitary facilities on land already owned by the government. That said, land acquisition might occur due to planned irrigation works where access to the canals may be blocked due to encroachment on the right of way by private users. Because the exact locations of intervention will not be known until implementation a resettlement policy framework will be prepared.
Safety of Dams OP/BP 4.37	Yes	The project will finance rural irrigation civil works which may be classified as "small dams" as defined in the policy. This will require generic dam safety measures designed by a qualified engineer.
Projects on International Waterways OP/BP 7.50	TBD	It is unlikely that project activities will involve international waterways unless the project will finance the construction of rural irrigation systems that take water from any water bodies that are direct or indirect tributaries of the Mekong, an international waterway. It will be confirmed during the project preparation whether this policy will be triggered. In case the policy is triggered, riparian countries (China, Lao PDR, Myanmar, Thailand and the Mekong River commission) will be notified prior to appraisal.
Projects in Disputed Areas OP/BP 7.60	No	No project activities are involved in disputed areas.

E. Safeguard Preparation Plan

Tentative target date for preparing the Appraisal Stage PID/ISDS

Jun 04, 2018

Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing should be specified in the Appraisal Stage PID/ISDS

Prior to the appraisal date, the client will complete and publicly disclose the Environmental and Social Safeguards



instruments, including frameworks (e.g. ESMF, RPF, IPPF), in accordance to the World Bank and national safeguards and policy requirements. These instruments will include information on potential environmental and social risks as well as mitigation measures, procedures for screening for environmental and social impacts, and for the preparation of the necessary site specific assessments and plans (ESIA, ESMP, RAP, SA and IPP). In particular, the ESMF will describe the approach and implementation arrangements for the preparation of site-specific instrument (e.g. ESIA/ESMP) once sub-projects are identified. The ESMF will include information on chance finds procedures for physical cultural heritage. While the IPPF will include information on conducting site specific social assessments as a basis for preparing indigenous peoples plans, and on conducting a process of free, prior and informed consultation to achieve broad community support. The sub-projects that will be supported by this operation (e.g. investments in agricultural roads, irrigation, markets), are demand driven and will be prioritized through the commune development planning (CDP) process. For larger investments that may be supported, these will be identified early during preparation, and the impacts will be assessed, and appropriate safeguards plans prepared and disclosed before appraisal.

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