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**CAM-Proposed Climate Friendly Agribusiness Value Chains Sector Project
Loan Fact Finding Mission (16-25 Jan 2017)
Memorandum of Understanding
between the Royal Government of Cambodia (RGC) and
the Asian Development Bank (ADB)**

I. INTRODUCTION

1. A Loan Fact Finding Mission¹ (the Mission) from the Asian Development Bank (ADB) visited Cambodia from 16 to 25 January 2017 to: (i) discuss and agree with the Government on the proposed Climate Friendly Agribusiness Value Chains Sector Project (the Project) design including the scope, outputs, investment and financing plans, implementation arrangements, and processing schedule; (ii) clarify the required due-diligence, including initial project staffing, safeguards, and policy and capacity constraints; (iii) prepare draft ADB's report and recommendation to President (RRP) including linked and supplementary documents like project administration manual (PAM), contribution to the ADB's results framework, development coordination, financial and economic analysis, country economic indicators, summary poverty reduction and social strategy, gender action plan, initial environment examination, environmental assessment and review framework, land acquisition and resettlement framework, ethnic minority development plan, and risk assessment and risk management plan; and (iv) discuss the project readiness and conditions and covenants to be included in loan agreements, including advance actions. The Mission also discussed the opportunities for scaling up the project interventions by mobilizing grant funds from sources such as the Green Climate Fund.

2. A kick-off meeting, chaired by the Under Secretary of State, MAFF, took place on 16 January 2017. Thereafter, the Mission met with the officials of the Ministry of Economy and Finance (MEF), the Ministry of Agriculture, Forestry and Fisheries (MAFF), the Ministry of Water Resources and Meteorology (MOWRAM) and the Ministry of Rural Development (MRD) as well as Provincial Departments of Agriculture, Forestry and Fisheries (PDAFF), Provincial Departments of Water Resources and Meteorology (PDWRAM) and the Provincial Departments of Rural Development (PDRD). The Mission also met with representatives of target provinces, civil society organizations and development partners during the consultation meetings held from 9 to 13 January. A wrap up meeting, chaired by the Under Secretary of State, MAFF and attended by representatives of MEF, MOWRAM, and MRD, was held on 25 January 2017. List of persons met is in Appendix 1.

This memorandum of understanding (MOU) outlines the agreements reached between the Mission and the Government on the design of the project for further consideration and processing of the Loan. The agreements set out in this MOU are subject to review and approval by higher authorities of the Government and ADB. *st*

¹ The Mission comprised (i) Srinivasan Ancha, Principal Climate Change Specialist/ Mission Leader; (ii) Jogendra Ghimire, Senior Counsel, Office of the General Counsel; (iii) Leonard Leung, Agriculture and Natural Resources Economist; (iv) Thuy Trang Dang, Environment Specialist (Safeguards); (v) Mia Hyun, Social Development and Gender Specialist, Cambodia Resident Mission, CARM; (vi) Piseth Long, Senior Project Officer, CARM; and (vii) Karen Chua, Associate Operations Officer, SEER. Support from the Country Director, CARM, and other staff is gratefully acknowledged. *hq*

II. THE PROJECT

4. The proposed project² will support the implementation of Cambodia's Agriculture Sector Strategic Development Plan³ and the Industrial Development Policy⁴ by enhancing competitiveness of agricultural value chains in Kampong Cham and Tbong Khmum provinces along the Greater Mekong Sub-region (GMS) southern economic corridor, and Kampot and Takeo provinces along the GMS south-coastal economic corridor. It will improve climate resilience of critical agricultural production and post-harvest infrastructure, intensification, and commercialization of four priority crops: rice, maize, cassava and mango.

5. The four provinces and four crop commodities were selected on the basis of extensive stakeholder consultations and analysis of market potential for each commodity. The project will help increase productivity and value addition through diversification, improve storage, processing, quality and safety testing capacity, and promote the use of solar and bio-energy. It will also create an enabling policy environment for effective participation of the private sector in agribusiness and strengthen technical and institutional capacity for climate smart agriculture. This will, in turn, promote long-term environmental sustainability and enhance profitability for farmers and agribusiness enterprises.

A. Impact, Outcome and Outputs

6. The impact will be agricultural competitiveness in the project areas improved through enhanced productivity, climate resilience, quality and safety, value addition and rural household incomes. The outcome will be more productive and resource efficient agribusiness value chains in project areas developed. The project will have two outputs.

Output 1: Critical agribusiness value chain infrastructure improved and made climate resilient⁵

7. Output 1 involves rehabilitation and modernization of critical agricultural production and post-harvest infrastructure to increase production, improve resource efficiency, reduce post-harvest losses, and enhance quality and value chain linkages while reducing GHG emissions and increasing climate resilience. Key activities include (i) upgrading of 27 off-farm irrigation systems and on-farm (e.g., 800 rainwater harvesting ponds, drip irrigation and laser land levelling to enhance water use efficiency and cope with droughts) water management infrastructure to climate resilient condition; (ii) construction of drying, processing and storage facilities at about 80 agricultural cooperatives and improvement of farm roads and tracks of about 450 km within communes to link farm units and production zones to the storage units and provide better access to markets; (iii) strengthening infrastructure for agricultural product quality and safety testing and training at national (National Agricultural Laboratory) and provincial levels; and (iv) developing rural renewable energy infrastructure (e.g., installation of about 12,000 biodigesters and 6,000 compost huts in the area of target cooperatives, and harnessing the fertilization potential of bio-slurry in target provinces). The project will promote the use of solar energy with agricultural cooperatives serving as the frontline demonstration centers. The infrastructure interventions will support the value chains of not only target commodities of rice, *ect.*

² The Asian Development Bank (ADB) provided project preparatory technical assistance (TA) for the *Climate-friendly Agribusiness Value Chains Sector Project* (TA 8897-REG).

³ Royal Government of Cambodia, 2015. *Agriculture Sector Strategic Development Plan* (2014-2018), Phnom Penh.

⁴ Royal Government of Cambodia, 2015. *Industrial Development Policy* (2015-2025), Phnom Penh.

⁵ The targets noted in paragraphs 6-8 will be revised upwards, upon securing funds from the Green Climate Fund.

maize, cassava and mango but also other crops.

8. The proposed interventions will encourage the private sector to work more closely with the raw material suppliers and cooperatives and take ownership of the value chain through public-private partnership arrangements. The project will finance four farm mechanization workshops and four agribusiness training facilities and train farmers' water user communities (FWUC), women farmer networks and agricultural cooperatives in operations and maintenance of infrastructure in four target provinces. Selection criteria for infrastructure investments and envisioned procedures for their development, implementation and monitoring are listed in the project administration manual (PAM). Women and other vulnerable groups will be proactively involved in the identification, selection, and implementation of agribusiness investments.

Output 2: Agribusiness policy and capacity support services strengthened

9. To achieve this output, the Project will support creating an enabling policy and regulatory environment for agribusinesses, and mainstreaming climate change concerns into agribusiness at both policy and operational levels. Key activities include (i) climate smart agribusiness policy development, standards and climate resilient varieties, (ii) capacity strengthening for climate smart agriculture, agribusiness and farm mechanization and (iii) green finance for climate smart agriculture and agribusiness. Under this output, the project will assist MAFF and the Ministry of Commerce in formulating policies and regulations to attract foreign direct investment and domestic investment into agribusiness value chain operations. It will provide agricultural product certification support, including CAMGAP (Cambodia Good Agricultural Practice) and organic fertilizer standards. The project will support Cambodian Agricultural Research and Development Institute (CARDI) to develop and distribute climate resilient varieties and seeds of rice and maize in collaboration with the International Rice Research Institute, and improve its infrastructure related to weaning and acclimatizing germplasm of mango and cassava. As part of capacity strengthening, 40,000 farmers and 50 provincial inputs suppliers will be trained in climate smart agriculture. Likewise, 27 FWUCs/FWUGs will be made operational, with 500 members trained to operate and manage irrigation schemes. Support will be provided to at least 50 cooperatives to enter into profitable agribusiness ventures. The capacity of financial institutions on green lending to agribusiness operations will be strengthened. Under green finance, the project will hold joint forums for dialogue and information exchange with a view to forge effective public private partnerships for each value chain (rice, cassava, maize and mango). Using information and communication technologies, the project will provide market and weather information and create an enabling environment for climate risk sharing instruments such as crop insurance.

10. In addition to the above two outputs, the project will strengthen project management activities through (i) provision of Project Implementation Consultants (PIC) to support the executing and implementing agencies (EA and IAs) and provide on-the-job capacity building for the project management unit (PMU) and other personnel, and (ii) establishment of a project performance monitoring system (PPMS) and update on six monthly basis.

B. Cost Estimate and Financing Plan

11. The Project cost is estimated at \$100.62 million with ADB financing of \$88.10 million equivalent and about \$11.92 million by the Government and the beneficiaries, as given in Tables 3-5. Further details of the cost and financing plan are given in draft PAM. The MEF advised the Mission that ADB funds should cover taxes and duties for civil works and training activities to ensure smooth project implementation. The MEF agreed to cover

taxes and duties for equipment, goods and services through exemption. The Mission informed the Government that ADB had agreed for allocation of \$40 million under national share and \$50 million under regional set aside funds (for promoting regional cooperation, integration and trade).

Table 1: Investment Plan (amounts are subject to change)

Item	Amount ^a (\$ million)
A. Base Cost^b	
1. Output 1: Agribusiness Value Chain Infrastructure Improved	72.86
2. Output 2: Agribusiness Policy and Capacity Support Services Strengthened	11.10
3. Project Management	4.26
Subtotal (A)	88.10
B. Contingencies^c	10.12
C. Financing Charges During Implementation^d	2.40
Total (A+B+C)	100.76

^a Includes taxes and duties of \$1.96 million to be financed through exemption from government resources. ADB contribution includes taxes and duties for civil works and training, while the government contribution includes taxes and duties for goods, equipment and services.

^b In 3rd quarter 2016 prices.

^c Physical contingencies computed at 5% for all expenditure categories except vehicles and consultancy. Price contingencies computed at 1.5% on foreign exchange costs up to loan negotiations, at 1.4% for 2017 and at 1.5% for remaining project years and at 2.5% on local currency costs up to loan negotiations then at 3% for the first year and 3.5% for remaining years; includes provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

^d Interest during construction for ADB loan has been computed at 1% per year.

Source: ADB estimates

Table 2: Financing Plan (amounts are subject to change)

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank	91.08	90.4
Beneficiaries	6.04	6.0
Government	3.64	3.6
Total	100.76	100.0

Source: ADB estimates.

Table 3: Cost Estimates by Expenditure Category

	Amount (\$ million)	Share of Total (%)
A. Base Costs		
1. Civil Works	61.55	61.2%
2. Laboratory Equipment	3.22	3.2%
3. Office Equipment/Vehicles/Furniture	3.51	3.5%
4. Consulting Services	5.81	5.8%
5. Incremental Operating Costs	3.75	3.7%
6. Capacity Building and Project Management	10.37	10.3%
Subtotal (A)	88.22	87.6%
B. Contingencies ^c		
1. Physical	4.05	4.0%
2. Price	6.09	6.0%
Subtotal B	10.13	10.1%
C. Financial Charges During Implementation		
1. Interest during construction	2.11	2.1%
2. Commitment charges	0.29	0.3%
Subtotal C	2.40	2.4%
Total Project Cost	100.76	100.0%

Notes: Numbers may not sum precisely because of rounding.

^a Includes taxes and duties of \$1.96 million to be financed from government resources.

^b In 3rd quarter 2016 prices.

^c Physical contingencies computed at 5% for all expenditure categories except vehicles and consultancy. Price contingencies computed at 1.5% on foreign exchange costs up to loan negotiations, at 1.4% for 2017 and at 1.5% for remaining project years and at 2.5% on local currency costs up to loan negotiations then at 3% for the first year and 3.5% for remaining years; includes provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

^d Interest during construction for ADB loan has been computed at 1% per year.

^e Includes social and environmental monitoring.

Source: ADB estimates

C. Implementation Arrangements

12. The Ministry of Agriculture, Forestry and Fisheries (MAFF) will be the executing agency (EA), in close coordination with MOWRAM and MRD. The General Directorate of Agriculture, Cambodian Agricultural Research and Development Institute (CARDI), General Directorate of Animal Health and Production (GDAHP), the General Department of Technical Affairs of MOWRAM and the General Department of Technical Affairs of MRD will be implementing agencies. The Project Steering committee, chaired by the Minister of MAFF and comprising representatives (at the level of Under Secretary of State or above) of the MEF, MOWRAM, MRD, Ministry of Commerce (MOC), Ministry of Industry and Handicrafts (MIH) and Ministry of Environment (MOE), will provide oversight, coordination and policy guidance in all aspects of project implementation, except land acquisition and resettlement which is the responsibility of the Inter-Ministerial Resettlement Committee (IRC). Other ministries may be invited to attend as observers when specific issues of their concern are for discussion.

13. A project management unit (PMU), chaired by the Under Secretary of State as Project Director and assisted by a Project Manager and comprising additional 4 staff each from MAFF (financial officer, procurement officer, safeguards officer and M&E officer), MOWRAM (Director, irrigation/civil engineer, financial officer, and procurement officer) and MRD (Director, civil engineer, financial officer, and procurement officer), will be responsible for overall project management, procurement and financial management. The PMU updates the project

implementation progress to the Project Steering Committee. Three consultants (team leader, financial management and procurement specialists) will support the PMU.

14. As strengthening the competitiveness of agricultural value chains will require cooperation from multiple institutions. At provincial level, the Provincial Departments of Agriculture, Forestry and Fisheries (PDAFF), Provincial Department of Water Resources and Meteorology (PDWRAM) and Provincial Department of Rural Development (PDRD) will be key agencies working with guidance and technical support from relevant national departments. A provincial project implementation unit (PPIU) will be established in each of the four target provinces. The PPIU will be chaired by the director of PDAFF, and comprising representatives of PDWRAM and PDRD, and PDAFF staff related to Cooperatives, Agricultural Extension, and Animal Health and Production. PDWRAMs will be responsible for coordinating all field activities with FWUCs, while PDRDs will be responsible for all farm roads and connectivity to agricultural cooperatives.

15. **Procurement.** There are no foreseen large packages for goods and civil works, thus international competitive bidding will not be used. All packages can be procured by using the government's Standard Operating Procedures (SOP) and procurement manual for national competitive bidding. Master bidding documents for three representative subprojects are being prepared and will be submitted to ADB for review. The consulting services will be required for design, supervision and management support. ADB's Guidelines on the Use of Consulting Services (2013, as amended from time to time) will be used for recruitment of firms for Project Implementation Consultants (PIC) and other consulting services, including external monitoring of safeguards.

16. **Fund flow.** MEF is the official representative of the Royal Government of Cambodia as the borrower of funds. It is the responsibility of MEF to (i) fulfil government fiduciary and financial management oversight, (ii) provide sufficient counterpart funds for project activities in a timely manner, and (iii) ensure that delays are not encountered in procurement and recruitment. MEF, in close cooperation with the EA, will be responsible for fund flow.

17. MEF will operate the main imprest account, with three designated subaccounts for MAFF, MOWRAM and MRD. The imprest accounts are to be used exclusively for ADB's eligible expenditures. Three subaccounts, with a threshold of \$10,000 each in each province, will be opened by the PDAFF, PDWRAM and PDRD to cover the project's day to day operations. The Directors of PDAFF, PDWRAM and PDRD in each province will be accountable for proper use of advances and reconciliation of the subaccounts. The EA has committed to submit the audited annual project financial statement to comply with ADB requirements in terms of timeliness, completeness and acceptable quality.

Project Readiness Activities and Processing Schedule

18. The Mission assessed the project readiness as per key project preparation elements identified in MEF's Cambodia Project Readiness Filter June 2011 (Annex 1). The Mission noted that most of the preparation activities are on track. The Mission recommended the project team to address the pending issues (e.g., back-up staff arrangements for project implementation, preparation of draft master bidding documents, submission of resettlement framework for endorsement by the Inter-Ministerial Resettlement Committee, agreement of work plans with field staff, and assignment of a project staff to collect baselines for monitoring and evaluation) soon. The draft PAM, which was shared with the Government team during the fact finding mission will be revised and updated based on the inputs received during the wrap-up meeting.

19. The tentative project processing schedule is in table 4.

Table 4: Project Processing Schedule (tentative)

Milestones	Expected Completion Date
Staff review meeting	April 2017
Loan negotiations	June 2017
Board consideration	September 2017
Loan signing	October 2017
Loan effectiveness	December 2017

Due diligence

Technical

20. Project preparation considered: (i) economic viability of different technical options and their compatibility with local conditions; (ii) ways to maximize the agribusiness value chain benefits to farmers; (iii) support mechanisms to strengthen linkages, enhance and consolidate the production base for selected value chains; and (iv) measures to minimize adverse environmental, climate change and social impacts. Sector lending will be followed for this project, as it will enable improving agribusiness policies and supporting reforms while financing investments in multiple subprojects, which will be assessed during the implementation stage. Sector modality also permits to scale up interventions if more resources become available.

21. Technical due diligence included the screening of representative subprojects: (i) Trapaing Run reservoir and climate resilient irrigation and modernization in Kampot province; (ii) Cooperative cassava chip drying, processing and storage agribusiness in Tbong Khmum province; and (iii) Tram Kak district on-farm water management for improved mango production in Takeo province. All representative subprojects were evaluated against a set of eligibility criteria, which are detailed in the PAM. Topographic and geotechnical surveys were conducted to complete the feasibility study and detailed design of the representative subprojects. The Project is designed on participatory development approach wherein the beneficiary farmers will be organized in the form of FWUCs and agricultural cooperatives will participate in the design and implementation of subprojects. FWUCs and cooperatives will also take responsibility for operation and maintenance of infrastructure.

Economic and Financial:

22. The cost-benefit analysis showed that the project is economically viable. The economic internal rates of returns (EIRRs) for the three representative subprojects varied between 14.0% and 25.4%. In addition, an economic assessment for the domestic bio-digester program revealed an indicative EIRR of 26%. The viability of the representative irrigation subproject may be vulnerable to the average long term cropping intensity that farmers are able to achieve, but the most important risk for all subprojects would be the lack of necessary skills to operate, maintain and manage the infrastructure and facilities properly. The project will mitigate this risk through provincial level training programs. The government has assured to provide necessary budget for operation and maintenance of infrastructure. The sensitivity analysis confirmed that the economic viability of the subprojects is highly robust. Overall EIRR of the Project is

about 20%.

23. A financial and sustainability analysis was conducted from the perspectives of the government and farmers. For the government, the financial sustainability of the project was assessed by comparing incremental recurrent costs with the budget allocation available to cover these costs. Since the MAFF has substantial capacity to cover these recurrent costs, the project is considered financially viable. In addition, sustainability is assured through regulations, which secure payments for laboratory testing services to partially cover the recurrent costs of laboratory equipment and associated infrastructure. Agricultural cooperatives may raise additional revenues to be channeled for operations and maintenance of infrastructure.

24. The financial analyses of the representative subprojects show that the project will have significant benefits for rural households in the project areas. For the representative irrigation subproject, estimated net incremental income for households with an average holding of 0.54 ha in the command area is expected to be \$550 per year. Members of cooperatives with drying and storage facilities will benefit from the improved quality of their production, both directly from the cooperative activities and through incentives to improve on-farm practices. At current prices, members who process all or part of their crop into chips will receive \$62 per ton for chips instead of about \$17 for fresh cassava, as well as increased dividends from the trading operations of the storage unit. For average households with a new bio-digester, annual cash benefits are about \$230 from savings on fuel and fertilizers and the impact of bio-slurry on crop yields. Owners of mango orchards in the project areas who adopt drip irrigation after seeing one of the project's demonstration orchards can expect an annual benefit, once full production is reached, of around \$2,000 per ha. The project yields other benefits that could not be monetized, including (i) sound cooperative models for agribusiness operations, (ii) strengthened institutional and human capacity for climate smart agribusiness, and (iii) increased ownership and involvement of farmer groups in operations and maintenance of agribusiness infrastructure.

Governance

25. All procurement financed by ADB will be carried out in accordance with ADB's Procurement Guidelines (2015, as amended from time to time). Project implementation, procurement, and financial management will be aligned with the government's standard operating procedures (SOPs) for externally financed projects. The overall procurement classification for the project is assessed as medium risk. A financial management assessment concluded that the pre-mitigation financial management risk level for the project was moderate. The existing organizational structures of the executing and implementing agencies are generally suitable for implementing the project. The EA and IAs have sufficient experience of implementing ADB financed projects. The experience gained from implementing those projects would be helpful in smooth implementation of the Project.

26. ADB's Anticorruption Policy (1998, as amended to date) and ADB's Integrity Principles and Guidelines (2015, as amended to date) were explained to and discussed with the Government and MAFF. The specific policy requirements and supplementary measures are described in the PAM, which is subject to approval by MEF.

Poverty and Social

27. The project will reduce overall costs of production and thereby increase household savings. It will promote inclusive economic growth, reduce poverty among beneficiaries, provide rural employment opportunities and improved services, including development of supply

arrangements between farmers, cooperatives, FWUCs, processors, distributors, and traders. Cooperative farmers will produce quality climate smart products, on-time and with continuity of supply. Landless and poor households will be included in agribusiness, mechanization, and operation and maintenance training. Identified ID-Poor households in subproject areas will be targeted for job opportunities related to civil works. Landless and poor farmers will have the opportunity to access off-farm and on-farm employment related to post-harvest support services such as mechanization, drying, milling, grading and storage of produce.

Gender

28. The project is categorized as effective gender mainstreaming. A Gender Action Plan (GAP) has been prepared, which includes gender actions, performance indicators and targets to promote women's voice and active participation in all project activities. The project will promote gender equality and women's empowerment through enhancing women's capacity in climate smart agriculture production and processing, management and business, agricultural machinery use and maintenance, accessing and using financing and crop insurance, and through strengthening linkages between women-led enterprises and the agribusiness industry. Other actions include a detailed gender analysis of the 4 selected value chains and the development of a gender-responsive agribusiness policy. Women will be targeted for employment and training in infrastructure related construction/rehabilitation and operation and maintenance, for uptake of bio-digesters, and as decision makers in selection of climate resilient crops varieties.

Safeguards

29. **Environment.** The project is categorized as B. It is expected to achieve significant environmental benefits, including substantial reduction of GHG emissions, improved resilience and increased crop diversity in the project areas. The project will undertake infrastructure and livelihood activities that may potentially have site-specific environmental impacts during construction phase, but can be easily mitigated with proper site selection, use of environment-friendly construction technology, and proper disposal of waste generated. The environmental assessment and review framework will guide the environmental screening and categorization of subprojects to identify potential impacts and prepare environmental impact assessments as required. In general, potential adverse impacts on the environment from the Project are assessed to be temporary, insignificant, and can be readily mitigated. Subprojects classified as Category A will not be financed. A sample initial environmental examination (IEE) for a subproject was prepared to provide prototype for screening and identifying typical impacts of potential interventions and will serve as a template for preparing the environmental management and monitoring plans. Adequate resources have been allocated for environmental safeguards preparation, implementation, monitoring, and reporting. All subprojects will be screened for climate risks and incorporate risk reduction measures. The EARF and the sample IEE will be disclosed on ADB's website after Government's concurrence. An Environmental Management Plan (EMP) has also been prepared as part of the IEE to mitigate the impacts during construction and shall be made part of the civil works contract. For other subprojects to be prepared during project implementation, the EARF will be followed for environmental assessment and IEE of each subproject will be prepared to ensure consistency with ADB's SPS 2009, and respective EMP's will be included in the civil works contracts. Semi-annual environmental safeguards monitoring reports will be submitted by the EA to ADB for disclosure on ADB and project web sites.

30. **Involuntary Resettlement.** The project is categorized as B for involuntary resettlement. The project will not finance any category A subprojects. During project preparation, some

Ag 84

irrigation subprojects were identified that would require acquisition of small strips of land to accommodate improvement of distribution canals. These small strips of land may be acquired through (i) voluntary donation or (ii) negotiated settlement or (iii) involuntary land acquisition and resettlement for those who are not willing to donate land voluntarily. If there is no involuntary settlement, there will be no need to prepare resettlement plans. LARF shall be used for carrying out social safeguards assessment of all subprojects, and to prepare and implement resettlement plans only where needed to ensure compliance with the Cambodian laws and regulations, and ADB's SPS 2009 relating to involuntary resettlement. The assessment findings will be confirmed by the IRC before preparation of any resettlement plan.

31. **Indigenous Peoples.** The project is categorized as B. There were no indigenous peoples or ethnic minorities in areas of the representative subprojects. However, there are some ethnic minorities living in project provinces and districts who could be impacted by subprojects identified during project implementation. An Ethnic Minority Development Framework (EMDF) has been prepared that will ensure inclusion and full consultation and participation of ethnic minority households and communities.

32. The Mission discussed arrangements for social and environmental safeguards using the draft EMDF, LARF and EARF prepared for the Project. The Project remains a Category B for all safeguards. The draft LARF is subject to review by the General Department of Resettlement (GDR). The GDR will officially submit the draft LARF to IRC for approval and thereafter for ADB's approval. ADB will disclose the LARF and any subsequent LARPs and monitoring reports on their website, the EA must disseminate the LARF contents to affected households in the form of Public Information Brochures summarizing the LARF, in Khmer, on their website. The EA will submit a public disclosure report with documentation of the PIB dissemination activities (attendance sheets, photos, PIB delivery receipts from Village Chiefs, etc.) as an annex to the LARF when officially submitted to ADB for inter-departmental review and clearance. The LARF will be implemented in line with the recent GDR sub-decree May 2016. For this project, the EMO may not be required, as impacts on resettlement will be extremely limited.

33. Prior to the fact finding mission, the Mission conducted field visits to three representative subproject sites. The Mission concluded that the proposed subprojects do not have involuntary resettlement impacts, and that there are no affected trees or structures. However, the Mission found a few farmers growing rice in the reservoir area of Trapaing Run irrigation subproject. Rehabilitation of reservoir may entail the loss of rice crop and thereby may adversely affect livelihood partially. The Mission learned that the farmers growing rice in reservoir are merely using the land available and they do not have land titles. The Project team will be strongly encouraged to closely monitor and supervise reservoir rehabilitation for the subproject to remain a Category B throughout implementation. The Mission will strongly recommend the Project team to consider alternative options to minimize, if not avoid, involuntary resettlement impacts. The Mission encourages the team to adopt resettlement avoidance and minimization in all the remaining subproject packages to be done during project implementation. If involuntary resettlement impacts will still be encountered, Resettlement Plans will be developed in accordance with the Resettlement Framework approved by IRC and ADB. The subproject also involves voluntary donation of small strips of land to construct concrete irrigation canals on the farm. All farmers in the subproject agreed to donate such small strips of land. However, GDR advised that IAs should prepare due diligence reports to monitor the process of public consultations, including free, prior and informed consent, aimed at sensitizing local stakeholders on benefits of the project, when some farmers do not agree for voluntary donation of small spaces of land. GDR suggested that the agreements on voluntary donation should be signed or thumb printed. GDR agreed to accompany the project staff if there are major issues.

34. In another subproject focusing on cassava storage and processing, the Mission found that the Seda Seanchey agricultural cooperative does not have land for advance contracting. However, the cooperative is willing to purchase land. The Mission advised the team to look for an alternate cooperative with similar settings. In the subproject focusing on drip irrigation, MEF expressed a concern on potential benefits of this subproject to small farmers. The Mission stressed that demonstration of efficient irrigation schemes is critical to cope with impending water scarcity due to climate change induced droughts.

Assurances and Conditions

35. The Government has assured ADB that implementation of the Project shall conform to all applicable ADB policies including those concerning anti-corruption measures, environmental and social safeguards, gender, procurement, consulting services, and disbursement. The agreed assurances are included in Annex 2.

Government Processing and Approvals

36. As part of advance actions, the EA and IAs will complete
- (i) the appointment of consultant selection committee, bid evaluation committee, and procurement review committee within one month of signing the MOU of fact finding mission;
 - (ii) evaluation of bids for works contract for three representative subprojects, Trapaing Run irrigation system in Kampot province, mango drip irrigation system in Takeo province, and cassava storage and processing plant in Tbong Khmum province and submit to ADB for review and approval;
 - (iii) evaluation of bids for procurement of goods, vehicles and equipment and submit to ADB for approval; and
 - (iv) evaluation of technical and financial proposals of the Project Implementation Consultants (PIC) package and submit final evaluation and draft contract for ADB's review and approval.

Subproject Eligibility and Selection Criteria

37. The Government will ensure and will cause the Project Executing Agency to ensure that all subprojects meet the screening and eligibility criteria agreed between the Government and ADB and documented in the PAM and detailed in Annex 2.

Grievance Redress Mechanism

38. Within six months of the date of loan effectiveness, the Government will ensure or cause the Project Executing Agency to ensure that a safeguards grievance redress mechanism acceptable to ADB is established in accordance with the provisions of the EARF, IEE, EMP, LARF and RP(s), within the timeframes specified in the relevant documents, to consider safeguards complaints. GDR advised the team to consider establishing complaint resolution mechanism for the project.

Co-financing and other Issues

39. The government requested the Mission to mobilize additional grant resources from the

Green Climate Fund (GCF). The Mission informed the government that the GCF application preparation is in progress but it requires project documents to be at nearly final stage and that safeguards documents should be made available in Khmer language. In view of potential delays in securing necessary endorsements from multiple sources and the approval of funds from GCF, the Mission recommended the government to proceed with processing of ADB loan. If GCF approval occurs within the current project processing schedule, the total amount can be approved by the ADB Board. If not, GCF funds will be processed as additional financing.

40. Representatives of the government raised several issues for consideration. Departments of Rice, Industrial Crops and Agri-industry noted that their role in the project should be increased, given the significant overlap of proposed project activities with their work plans. The Department of Agricultural Cooperatives asked the Mission to explore providing credit to agricultural cooperatives as seed capital, and establishing new agricultural cooperatives. The Mission noted that access to credit is important but the project will initially focus on enabling environment for increasing access to rural credit.

41. To ensure a timely flow of funds for project implementation, it was agreed to prepare and get annual work plans and budget approved in advance. MAFF representatives stressed the importance of provision of training to the provincial staff prior to the project approval, and the need to conduct reliable baseline surveys for monitoring and evaluation (M&E). MRD and MAFF also requested for intensive training on monitoring of environmental and social safeguards, including gender issues. Several staff noted that the project should support in building self-reliant capacity of agricultural cooperatives and farmer water user groups to cover at least part of the incremental recurrent costs for O&M.

III. CONCLUSIONS

42. The proposed project is fully supported by the Government. The Mission expresses its gratitude to the staff of MAFF, MOWRAM, MRD and MEF for the cooperation and hospitality extended to the mission.

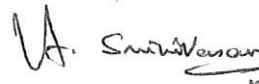
Signed in Phnom Penh

For the Royal Government of Cambodia 



H.E. San Vanty
Under Secretary of State, MAFF and
GMS National Coordinator

For the Asian Development Bank



Dr. Srinivasan Ancha
Principal Climate Change Specialist
and Mission Leader

Annex 1: Project Readiness Activities as of 25 January 2017

Project Preparation Element	Expected Status	Status as of 25 Jan 2017
1. Identification of project director, and EA/IA project management and implementation teams	1. Project related TOR, and back-up arrangements defined	1. TOR defined, but back-up arrangements to be defined
2. Risk management plans/Good governance framework	2. Defined	2. Defined
3. Financial management capacity assessment of EAs and IAs	3. Completed	3. Completed
4. Procurement capacity assessment (PCA) of EAs & IAs	4. Completed. PCA reviewed by OSFMD.	4. Completed. PCA reviewed by OSFMD.
5. Annual implementation plan and budget	5. Drafted	5. Drafted
6. Project administration manual	6. Drafted	6. Drafted
7. Auditing arrangements including TOR	7. Agreed	7. Agreed
8. Environmental safeguards and review framework	8. Agreed	8. Agreed
9. Poverty and social impact assessment	9. Agreed	9. Agreed
10. Indigenous Peoples and Ethnic Minorities Planning Framework	10. Agreed	10. Agreed
11. Land acquisition and resettlement framework	11. Agreed	11. To be Agreed with IRC
12. Budget and funding from ADB and RGC for the 1 st 18 months of project implementation	12. Needs defined	12. Needs defined
13. Advance actions (AA) for first 18-month bidding documents (BD) for goods and works	13. Items, timetable & roles for AA execution; Master BD reviewed by OSFMD	13. Specified; Master BD to be reviewed by OSFMD
14. Advance actions for project implementation consultants	14. TORs finalized. RFP reviewed by OSFMD	14. TORs finalized. RFP to be reviewed by OSFMD
15. Adequacy of government budget for compensation and income regeneration	15. Endorsement by RGC	15. To be endorsed
16. Coordination with IRC	16. IRC Endorsement	16. To be endorsed
17. Identification of staff at provincial, district and commune levels	17. Work plans agreed with field staff	17. Work plans to be agreed with field staff
18. M&E arrangements	18. Agreed	18. Agreed
19. M&E baselines	19. Collected for sub-projects (a project staff is assigned)	19. Collected (a project staff is to be assigned)
20. Establishment of the consulting selection committee and bid evaluation committee	20. Established	20. To be established

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Annex 2

Assurances and Conditions

1. The Government has assured ADB that implementation of the Project shall conform to all applicable ADB policies including those concerning anti-corruption measures, environmental and social safeguards, gender, procurement, consulting services, and disbursement as described in detail in the PAM and loan documents. Concerning social safeguards issues, the implementation shall conform to the approved resettlement framework which shall be based on Cambodia's laws and regulations and ADB's SPS 2009.

Implementation Arrangements

2. The Government, through the Project Executing Agency and the Project Implementation Agencies, will ensure that the Project is implemented in accordance with the detailed arrangements set forth in the PAM. Any subsequent changes to the PAM will become effective only after approval of such change by the Government and ADB. In the event of any discrepancy between the PAM and the loan agreement, the provisions of the loan agreement will prevail.

Counterpart Support and Operation and Maintenance

3. MEF will ensure that counterpart funds for the Project are provided on a timely basis, including funds to finance (i) taxes and duties for goods, equipment and services through tax exemption procedures, and (iii) incremental operating cost for PMU staff's supplementary salary.

4. For completed subproject, the MAFF, MOWRAM and MRD will ensure that adequate counterpart funds are allocated each year and provided on a timely basis including for the operation and maintenance of infrastructure. The Government will also ensure that farmer water user communities (FWUCs) and farmer water user groups (FWUGs) will collect adequate irrigation service fees to sustain the operation and maintenance of distribution canals. After completion of the irrigation system, PDWRAMs will sign MOUs with the respective FWUCs outlining role and responsibilities in accordance with the recently approved sub-decree on FWUCs.⁶

Subproject Eligibility and Selection Criteria

5. The Government will ensure and will cause the Project Executing Agency to ensure that all subprojects meet the screening and eligibility criteria agreed between the Government and ADB and documented in the PAM prepared for the Project, in order to be eligible to receive financing under the Project. Subprojects' selection procedures are explained in PAM. The EA will submit feasibility report of each subproject for ADB's concurrence prior to inviting bids for award of contract. Specifically, the Government will ensure or cause the Project Executing Agency to ensure that each subproject meets the following criteria:

- (i) Category B or less in terms of environmental impact as defined in the ADB's Safeguards Policy Statement 2009 [do not have any significant environmental impact];

⁶ Royal Government of Cambodia, 12 March 2015. *Sub-Decree on the Procedures for Establishment, Dissolution, Role and Duties of FWUC*. Phnom Penh.

- (ii) Category B or less in terms of involuntary resettlement impact as defined in the SPS [do not cause involuntary resettlement and land, if required, will be within the permissible limits for category B];
- (iii) Category B in terms of indigenous peoples impact as defined in the SPS [do not cause impact on indigenous peoples, if required, will be within the permissible limits for category B];
- (iv) Subproject has low resource efficiency, and would have scope for substantial enhancement of resource efficiency;
- (v) Subproject should involve only rehabilitation of existing systems or related schemes and should not involve construction of new systems except cooperatives;
- (vi) Subproject should show clear linkages to reduce GHG emissions and/or increase climate resilience of the targeted value chains and agribusiness development;
- (vii) Subproject should be located in target provinces;
- (viii) Subproject should not be covered by other ongoing or proposed projects financed by ADB or any other Development Partner;
- (ix) Beneficiaries should include sharecroppers, poor farmers, and women farmers and all agree to participate in the activities which include the capacity building interventions; and be willing to contribute human and community resources and/or capital to the infrastructure subprojects; and
- (x) Subproject should be economically viable; and technically, socially and environmentally feasible. The EIRR of each subproject should be greater than 12%.

Safeguards

Environment

6. The Government will ensure or cause the Project executing agency to ensure that the preparation, design, construction, implementation, operation and decommissioning of the Project, each Subproject and all Project facilities comply with (a) all applicable laws and regulations of Cambodia relating to environment, health and safety; (b) the applicable principles and requirements set forth in ADB's Safeguards Policy Statement, 2009 ("SPS") relating to the environment; and (c) all measures and requirements set forth in the Environment Assessment and Review Framework ("EARF"), each Initial Environmental Examination ("IEE"), Environment Management Plan ("EMP"), and any corrective or preventative actions set forth in the semi-annual environmental safeguards monitoring reports to be provided to ADB.

7. The Government will ensure or cause the Project executing agency to ensure that no subproject with Category A environment as defined in the SPS is financed under the Project.

Involuntary Resettlement

8. The Government will ensure or cause the Project Executing Agency to ensure that all land and all rights-of-way required for the Project, each Subproject and all Project facilities are made available to the civil works contractor in accordance with the schedule agreed under the related civil works contract and that all land acquisition and resettlement activities are implemented in compliance with (a) all applicable laws and regulations of Cambodia relating to land acquisition and involuntary resettlement; (b) the applicable principles and requirements set forth in ADB's SPS 2009 relating to involuntary resettlement ("Involuntary Resettlement Safeguards"); and (c) all measures and requirements set forth in the Resettlement Framework ("RF"), and any corrective or preventative actions set forth in a Safeguards Monitoring Report.

9. Without limiting the application of the Involuntary Resettlement Safeguards or the RF, the Government will ensure or cause the Project Executing Agency to ensure that no physical or economic displacement takes place in connection with the Project until:

- a) compensation and other entitlements, as relevant, have been provided to affected people in accordance with the approved RF and any RP(s) to be prepared for project components or sections that are ready to be constructed; and
- b) a comprehensive income and livelihood restoration program has been established in accordance with the approved RF and any RP(s) to be prepared for project components or sections that are ready to be constructed.

10. The Government will ensure that no Subproject categorized as Category A involuntary resettlement as defined in the SPS is financed under the Project.

Ethnic Minorities

11. The Government will ensure or cause the Project Executing Agency to ensure that the Project does not have any impact on indigenous Peoples or ethnic minorities, all within the meaning of ADB's SPS 2009. In the event that the Project does have any such impact, the Government and the Project Executing Agency will take all steps required to ensure that the Project complies with the applicable laws and regulations of the Government and with ADB's SPS 2009. The Government will ensure preparation, design, construction, implementation and operation of the Project, each Subproject and all Project facilities comply with (a) all applicable laws and regulations of Cambodia relating to indigenous people and ethnic minorities; (b) the provisions of SPS relating to indigenous people ("Indigenous Peoples Safeguards"); (c) all measures and requirements set forth in the Ethnic Minority Development Framework and any indigenous peoples' and Ethnic Minorities' development plan, which will be prepared in case of any unanticipated impacts observed during implementation, and any corrective or preventative actions set forth in a Safeguards Monitoring Report. The Government will ensure that no Subproject categorized as Category A under the SPS is financed under the Project.

Human and Financial Resources to Implement Safeguards Requirements

12. The Government will make available necessary budgetary and human resources to fully implement the EARF, LARF, ethnic minority development framework and any EMP, resettlement plan, and indigenous peoples plan.

Safeguards-related Provisions in Bidding Documents and Works Contracts

13. The Government will ensure or cause the Project Executing Agency to ensure that all bidding documents and contracts for Works contain provisions that require contractors to:

- a. comply with the measures relevant to the contractor set forth in the IEE, the EMP, the resettlement plan and any indigenous people's plan (to the extent they concern impacts on affected people during construction), and any corrective or preventative actions set forth in a Safeguards Monitoring Report;
- b. make available a budget for all such environmental and social measures;
- c. provide the Government, the Project Executing Agency with a written notice of any unanticipated environmental, resettlement or indigenous peoples risks or impacts that arise during construction, implementation or operation of the Project that were not considered in the IEE, the EMP, any resettlement plan and any indigenous

- peoples' plan;
- d. adequately record the condition of roads, agricultural land and other infrastructure prior to starting to transport materials and construction; and
- e. fully reinstate pathways, other local infrastructure, and agricultural land to at least their pre-project condition upon the completion of construction.

Safeguards Monitoring and Reporting

14. The Government, Project executing agency and Project implementation agencies shall:
- a. submit social safeguards monitoring reports to ADB as part of the quarterly and annual progress reports, and environmental safeguards monitoring reports semiannually in January and July each year and disclose relevant information from such reports to affected persons promptly upon submission;
 - b. if any unanticipated environmental and/or social risks and impacts arise during construction, implementation or operation of the Project that were not considered in the IEE, the EMP, any resettlement plan and any indigenous peoples' plan, promptly inform ADB of the occurrence of such risks or impacts, with detailed description of the event and proposed corrective action plan in accordance with the SPS; and
 - c. report any actual or potential breach of compliance with the measures and requirements set forth in the EMP, any resettlement plan or any indigenous peoples' plan promptly after becoming aware of the breach.

Prohibited List of Investments

15. The Government will ensure that no proceeds of the Loan are used to finance any activity included in the list of prohibited investment activities provided in Appendix 5 of the SPS.

Governance and Anticorruption

16. The Government, Project executing agency and Project implementation agencies shall:
- a. comply with ADB's Anticorruption Policy (1998, as amended to date) and acknowledge that ADB reserves the right to investigate directly, or through its agents, any alleged corrupt, fraudulent, collusive or coercive practice relating to the Project; and
 - b. cooperate with any such investigation and extend all necessary assistance for satisfactory completion of such investigation.
17. The Government, Project executing agency and Project implementation agencies shall ensure that the anticorruption provisions acceptable to ADB are included in all bidding documents and contracts, including provisions specifying the right of ADB to audit and examine the records and accounts of the executing agency and all contractors, suppliers, consultants, and other service providers as they relate to the Project.
18. The Government, Project executing agency and Project implementation agencies shall disclose, through its website, accessible by general public, information about various matters concerning the Project, including general Project information, procurement, Project progress, and contact details in the English and Cambodian languages, as applicable. The website will also provide a link to ADB's integrity office for reporting to ADB any grievances or allegations of corrupt practices arising out of the Project and Project activities. With regard to

procurement, the website will include: (a) the list of participating bidders, (b) the name of the winning bidder, (c) the amount of the contracts awarded, (d) basic details on bidding procedures adopted, and (e) the list of goods, works and services procured.

Labor Standards, Health and Safety

19. The Government will ensure or cause the Project executing and implementing agencies to ensure that the core labor standards and the Government's applicable laws and regulations are complied with during Project implementation. The Project executing and implementing agencies will include specific provisions in the bidding documents and contracts financed by ADB under the Project requiring that the contractors, among others, (a) comply with all applicable labor laws and regulations of Cambodia and incorporate applicable workplace occupational safety norms; (b) do not use child labor; (c) do not discriminate workers in respect of employment and occupation; (d) do not use forced labor; (e) do not restrict the workers from developing a legally permissible means of expressing their grievances and protecting their rights regarding working conditions and terms of employment; and (f) disseminate, or engage appropriate service providers to disseminate, information on the risks of sexually transmitted diseases, including HIV/AIDS, to the employees of contractors engaged under the Project and to members of the local communities surrounding the Project areas, particularly women. The Government will strictly monitor compliance with the requirements set forth in this paragraph and provide ADB with regular reports.

Gender Action Plan

20. The Government will ensure or cause the Project executing and implementing agencies to ensure that the (a) GAP is implemented in accordance with its terms; (b) the bidding documents and contracts include relevant provisions for contractors to comply with the measures set forth in the GAP; (c) adequate resources are allocated for implementation of the GAP; (d) progress on implementation of the GAP, including progress toward achieving key gender outcome and output targets are regularly monitored and reported to ADB; and (e) key gender targets include, but not limited to: i) at least 30% women led or owned enterprises of the total are trained on green finance; ii) at least 40% women of the total trained in all capacity building events; iii) at least 30% female staff from financial institutions of total trained in agricultural credit facilities, including green financing and crop insurance. *ef*