

Appendix N Response to RGC Comments to Aide-Memoire

The following is a summary of the comments delivered by MAFF participants at the Debriefing meeting of 5th April 2005.

1. Rural credit is very important for farmers and is required as working capital to pay for fertilizer and pesticides. Currently farmers are forced to go to traders and entrepreneurs for credit who charge them inflated prices for fertilizer and pesticides and require them to deliver the crop to them at harvest time for a price often below that of the open market. The project should have a facility for the provision of credit to farmers at reduced interest rates. This could be a revolving fund for farmer groups and associations with interest rates at 2-3 percent, which would be enough to fund the operations of the scheme.

The issue of rural credit and revolving funds is addressed in Section 13.5. The Consultant Team does not recommend project involvement in rural credit and or revolving funds.

2. It is important to form farmer associations in order to manage farmers and to provide technical support to them through these associations. These farmer associations could also be used to channel credit through a revolving fund mechanism

There are two issues; farmer associations and revolving funds. In terms of the former, the Consultant team agrees and has indicated several mechanisms in the strategic options by which farmer associations can be promoted. In terms of revolving funds, please see the comment above.

3. Milling factories are now reducing the amount of rice milling they are doing and moving into trading in paddy. This is because the paddy trading operations are more profitable than the milling operations. A fundamental reason for this is that for the vast majority of mills, the machinery is obsolete and broken. This leads to lower recovery rates of milled rice and the resultant reduction in quality of rice means that the millers can only sell the rice at a reduced price, which makes paddy trading more profitable. The costs of upgrading are significant, and most millers cannot afford this. The government is now considering how to upgrade selected mills so they can produce high quality rice for exporting. It is important that the project also consider this issue of upgrading milling technology.

This issue is an important issue and one that the Consultant team also identified in the field work. The team has considered various mechanisms by which milling technology constraints can be addressed as well as the quality issues associated with it. These will be further elaborated during the design phase of the study.

4. The AM and presentation mention that marketing is a big problem for traders and entrepreneurs. This is not true. We have access to the WTO and AFTA and countries in the region, e.g. Malaysia are reducing the amount of agricultural production and concentrating on manufacturing and service industries – which means that there are increased opportunities for Cambodian agricultural exports. The main problem for marketing is that there are no certification laboratories for agricultural products in Cambodia and so we cannot meet international standards.

The cost of building and equipping the certification laboratories is very high and the project needs to consider how it will invest in Certification laboratories.

While the issue of certification for international markets is a problem for Cambodian products, this has usually been bound together with the issue of standards, quality control, as well as certification. The consultant team notes that when talking about the international market it does not make much sense for Cambodia to develop its own standards since international standards prevail in the international market. The real issue is adoption and enforcement of standards. This is really a matter between buyer and seller, as is the case of quality control. There is a very limited role for government involvement in the inspection and certification process as adherence to quality standards and certification is a matter of trust between buyer and seller. If there is no trust, then an independent certification body is required – one that has an impeccable reputation. As such, there is an inherent conflict of interest in a government agency providing such certification – even more so in a business climate with weak governance. If certification procedures are required, then independent third party laboratories should provide such certification on a user pays basis. The only role for a government laboratory is to provide quality assurance services of that third party certifying body through auditing of their activities. The consultant team feels that it is outside the scope of the project to provide support to the setting up of a government certification laboratory.

5. The project needs to focus on the entire cycle of production – from farming to marketing and also certification of products for export.

Agree

6. Farmers are mainly producing for self-sufficiency reasons. The question is, how can we change this system to make the farmers have a more business orientated outlook? Farmers are only growing 1 crop of rice and not growing a second crop, because the first crop is sufficient for their home consumption needs and they can earn more in the dry season from other activities (e.g. in the cities and towns).

The aim of the project is not to “force” farmers to grow a second crop of rice during the dry season but to provide an enabling environment for them to grow a crop of their choosing – whether it be rice or a diversified high value crop such as vegetables. Only by providing farmers with the options to diversify will farmer income improve.

7. The priority of the government is to develop irrigation systems so there is an opportunity to produce a second crop during the dry season. For the dry season we need to diversify into a higher valued crop. For example, farmers should grow rice followed by vegetables or another crop (like legumes) in order to get a higher value as well as improve soil conditions.

Agreed.

8. What is the role and responsibility of DAE in the project? In Component 2 the project should include Agricultural Extension workers at the district level e.g. CAAEP II. Can use some of the AEW in the project for training purposes and providing extension advice.

DAE and other line agencies will be able to provide support to project TA in line with farmer demands for extension and other services. If under the Commune Marketing Plan there is a demand for extension training (for agronomy or water management use etc), then relevant technical experts will be recruited from PDAE and PDOWRAM. In the formulation of the Commune Marketing Plan there is scope for the adoption of similar procedures as the AEA in building capacity of the commune councils to develop such plans.

9. DAE has already established agricultural cooperatives for production of agricultural products. Need to ensure that the project capacity strengthens these to increase their ability to do marketing.

Agreed.

10. Will the project form groups of farmers and associations? Need to be mindful that there is already a Law on Farm Development Communities (Cooperatives), so the farmer associations need to be formed with this law in mind.

Agreed.

11. Need to include livestock production into the program design, especially breeding of cattle for the export market.

In the initial TOR provided to the Consultant team livestock was specifically excluded from the diagnosis stage. There should be no reason why, during implementation, livestock development activities could not be undertaken if this is the output from the Commune Marketing Plan.

12. What are the implementation procedures going to be like?

The implementation procedures are still under development and will be further elucidated in the Design Phase. Section 16 provides an indicative outline of the institutional framework.

13. The SEILA funding management process is too slow (to be relied on).

The project proposes an implementation process which is similar to the SEILA program in that the commune councils are responsible for the development of the Commune Marketing Plan, whose analogue under the SEILA program is a Commune Development Plan. Under both programs there is a role for a provincial screening committee who approves the plans. This is where the two projects differ. Under the SEILA program the Provincial Committee under the chairmanship of the Provincial Governor along with representatives of government line agencies makes the decision and then applies for funding to be dispersed by the Ministry of Finance. This procedure may take many months. Under the proposed AusAID project, the pre-screening is carried out by a provincial committee of “relevant” line agencies, with final decision being made by the Project Management Unit – who then releases the funds. Provided there are no implementation issues with fund disbursement, this should be a relatively quick process.

14. The capacity of farmers to make proposals for investment projects are very limited.

Agreed. The project envisages an extensive and intensive level of TA at the commune level to assist commune councils to develop the commune marketing plans. The experience of CAAEP-II with the AEAs provides some guidance on this matter.

15. The program should aim to target 4-5 provinces in order to get a wide coverage, rather than the 2-3 provinces as indicated by the project.

The value chain approach explicitly requires a non-locational project approach – farmers and processors may be in completely different provinces. That said, specific farmers (locations) need to be targeted in order to focus the intervention effort and not to dilute the aid effect. The final number of provinces and which ones will be decided by AusAID and elucidated in the Design Phase of the project

16. Written Comments will be delivered to the Team before 10th of April.

No further comments apart from Comment 15 were received after the end of the meeting on 5th April 2006 and before the deadline.