



Cambodia Agricultural Value Chain Program Phase II (CAVAC II)

Six-Monthly Report – January–June 2016

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Authors: Ab Koster / Pieter Ypma/ Edo Lin/ Leanne Devereux
Checked by: Laura Tracy/ Aarohi Vashishtha
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Acronyms

ADB	Asian Development Bank
AFD	Agence Française de Développement
AGID	Angkor Green Investment for Development
AQIP	Agricultural Quality Improvement Project
CAIT	International Centre for Tropical Agriculture
CARDI	Cambodian Agricultural Research and Development Institute
CAVAC	Cambodia Agricultural Value Chain Program Phase I
CAVACII	Cambodia Agricultural Value Chain Program Phase II
CRF	Cambodian Rice Federation
DCED	Donor Committee for Enterprise Development
DFAT	Department of Foreign Affairs and Trade
FWUC	Farmer Water User Community
GDA	General Directorate of Agriculture
ICT	Information, Communication, and Technology
IRRI	International Rice Research Institute
JICA	Japanese International Cooperation Agency
LES	Locally Engaged Staff
LTA	Long Term Adviser
MAFF	Ministry of Agriculture, Forestry and Fisheries
MOU	Memorandum of Understanding
MOWRAM	Ministry of Water Resources and Meteorology
MSA	Memorandum of Subsidiary Agreement
NSC	National Steering Committee
OFWM	On Farm Water Management
O&M	Operations and Maintenance
PDA	Provincial Department of Agriculture
PDD	Program Design Document
PDWRAM	Provincial Department of Water Resources and Meteorology
RaPiD	Rice and Pest Diagnostic Tool
RGC	Royal Government of Cambodia
SSC	Southern Seed Company
STA	Short Term Adviser
ToT	Training of Trainers
UXO	Unexploded Ordinances
VAT	Value Added Tax

WB	World Bank
WHT	Withholding Tax

Executive Summary

Australia has a long history of providing aid to support agricultural development in Cambodia. In recent years, support has been primarily provided through the Cambodia Agricultural Value Chain program 2010-2015 (CAVAC). CAVAC was the first market development program funded by the Australian aid program, and was a new approach to agricultural programming in Cambodia. At conclusion, CAVAC helped improve the productivity of more than 250,000 poor farming households.

After the successful completion of CAVAC, Cardno Emerging Markets (Cardno) was awarded the next phase of CAVAC (CAVACII) and the contract was signed on 16 January 2016. CAVAC II aims to increase the productivity and incomes of small farmers and trade in milled rice and other crops by strengthening market systems and investing in irrigation infrastructure.

This Six-Monthly report outlines the activities undertaken and completed during the first six (6) months of the program.

Component 1 continues to work in rice productivity specifically in the fertiliser and pesticides markets. CAVACII is able to expand its work into other crops, such as, Cassava and Maize. Additionally, this component is researching and planning to support smaller crops which will increase the diversification of crops in Cambodia.

Under Component 2, a total of 22 construction contracts were signed and about 20 other contracts for surveys, construction supervision, and pumping equipment were also signed.

Component 3 is a new component for CAVACII. This component will focus on the wider adoption of varieties that are already released in Cambodia but which are not yet widely adopted and available to farmers and have potential for the export market. At the same time we will investigate the possibility to release varieties from Vietnam (both aromatic and japonica) with export potential. This component also plans to support Agricultural Quality Improvement Project (AQIP) and a number of other emerging seed companies to increase the quality and quantity of rice seed varieties suitable for export.

Operationally, the administrative, financial, ICT, and procurement systems from CAVAC were implemented on inception as an interim arrangement to ensure program activities could commence immediately. Existing systems allowed funding to flow immediately into CAVACII.

CAVACII is compliant to the 'Real Tax Regime' of Cambodia from head contract signing date. Compliance with this regime imposes Value Added Tax (VAT) and Withholding Tax (WHT) obligations on program costs and finance systems. Currently, the tax exemption in accordance with the MOU and MSA is unable to be passed to any suppliers, including construction contractors.

A new Operations Manual has been developed and implemented that includes sections on: Procurement and Grants, Human Resources (HR), Financial Management, Administration and Logistics, Asset management, and Fraud and Risk Mitigation.

In addition to the novation of the staff from CAVAC, 8 new locally engaged staff and 3 new STAs have been hired in this period. The total number of staff contracted at 30 June 2016 is as follows:

Position	No contracted at 30 June 2016
Long Term Adviser (International)	4
Short Term Adviser (International)	3
Locally Employed Staff	45

1 Activities Progress and Plan

1.1 Component 1: Productivity and Diversification

1.1.1 Introduction

The Annual Work Plan (AWP) from CAVAC 2015, and the CAVACII Investment Design Document (IDD) specified that CAVAC was required to start the preparatory work for the activities in ‘new’ crops, such as, Cassava and Maize for CAVACII. The IDD also stipulated that CAVAC should assess the need for continued support to the fertiliser sector in the next phase of the program. In CAVAC there was a strong focus on the eastern provinces of Cambodia, and little research was done to explore if the western provinces had adopted similar farming practices as advised through model farmers and companies in the east.

The Component 1: Productivity and Diversification continues to work in rice productivity specifically in the fertiliser and pesticides markets. CAVACII is able to expand its work into other crops, such as, Cassava and Maize. Additionally, P&D is researching and planning to support smaller crops which will increase the diversification of crops in Cambodia.

1.1.2 Cassava

CAVACII conducted two (2) surveys to understand Cassava production between the West (Pailin and Battambang) and the East (Tbong Khmum, Kratie and Kampng Cham) of Cambodia. Interviews were conducted with cassava processors, collectors, lending institutes, farmers (large and small scale), provincial, and local authorities. The findings show that there are opportunities for CAVACII in the cassava sector. CAVACII also collected a baseline of farmers’ practices in these provinces, with a total of more than 500 respondents. This will enable CAVACII to compare any changes in cassava growing practice by geographic area.

Key findings of cassava survey

- > Yields, on average, are still high but the variation in yields found was very large. A significant part of this variation can be attributed to the use of fertiliser and the number of years that cassava was produced on the same plot. A significant finding was that companies such as CP are introducing specific fertiliser blends for cassava. The blends follow the nutrient ratios as recommended by the International Centre for Tropical Agriculture (CIAT), while these blends are being introduced in the west, they are not yet available in the eastern parts of Cambodia. Therefore, CAVACII intends to test these blends in the east.
- > Farmers do not have access to consistent cassava varieties, they generally purchase a mix of seedlings and therefore cannot produce a consistent quality of tubers. Seedlings are supplied from Thailand and Vietnam by collectors that buy the tubers and return with cassava cuttings. Often it is the leftovers from Vietnam and Thailand that reach Cambodia. The shortage of seedlings in Cambodia also means that there is significant internal transport leading to the transmission of the disease called, *witches’ broom*.
- > Domestic processors are struggling with the key constraints of high electricity costs and high transport costs. These are constraints that are beyond the expertise of CAVACII to resolve. An additional constraint is the short harvest period - resulting in operations shutting down after the harvest period. CAVACII plans to work with processors to extend the harvest period through looking at staggered planting and the possible introduction of short duration varieties so that processors have access to a more consistent supply of cassava.

- > Cassava is a labour intensive crop and CAVACII will look at resolving issues around labour by working to introduce new labour saving technology such as: weeding, harvesting, and cutting equipment.

Six month plan

- > CAVACII is planning three (3) interventions in the cassava sector (at the time of writing the six monthly report). CAVACII it is close to signing its first contract with Bayon Herritage on improving the capacity of the company to give advice on fertiliser application in cassava crops. It is expected that this will be both in the east and the west of Cambodia (in a maximum of 12 provinces).
- > It is expected that at least two (2) more companies will sign agreements with CAVACII to introduce improved fertiliser knowledge, and blends.
- > CAVACII is in the process of negotiating an agreement with Angkor Green Investment for Development (AGID) to test and introduce new forms of mechanisation for cassava into Cambodia.

1.1.3 Rice fertiliser and pesticides

CAVACII started with a legacy of work in fertiliser and pesticides, much of the work continued where CAVAC ended.

The fertiliser study in the western provinces targeted the poorest rice producing communes, the result showed that apart from some small variation, the fertiliser application of wet season farmers is improving. It is likely that the final differences will be addressed and that continued support of CAVAC in this is no longer required.

New products are coming on the market and CAVACII is conducting a survey on how farmers are using foliar fertiliser to assess whether this should be included in its work in fertiliser in rice.

1.1.4 Pesticide

CAVACII has been consolidating feedback on the pilot version of RaPiD to understand how it is being used and where improvements are necessary with the aim of producing an improved version.

CAVACII is exploring some improved tools to assist with plant pests and disease diagnosis. The objective is to increase the ability of the farmers to make a correct disease diagnosis and therefore be able to select the correct remedy for the disease. As a part of this exercise, CAVACII is developing a survey to understand where in the value chain errors are taking place.

Six month plan

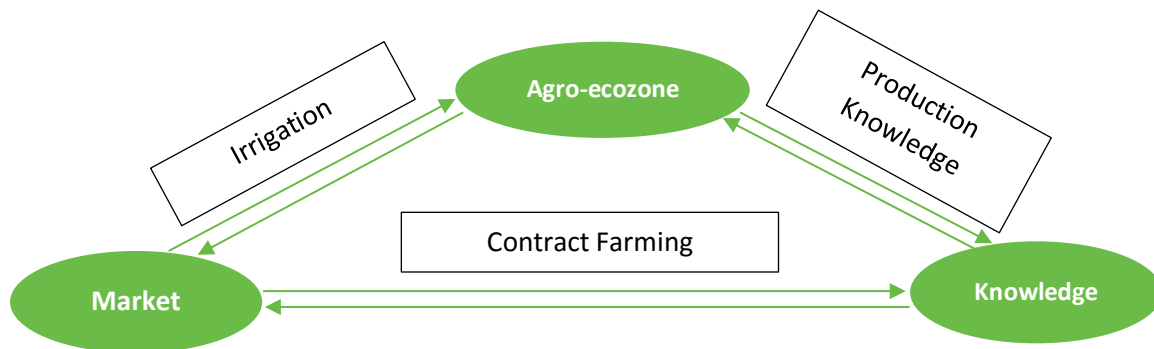
- > CAVACII is going to sign an agreement to test soil testing equipment with companies, to enhance their ability to provide site specific advice.
- > Potentially sign an agreement with a fertiliser company to provide advice on the application of foliar fertiliser.
- > CAVACII is exploring the opportunity to introduce improved equipment for spraying pesticides to increase the effectiveness of crop protection.
- > In near future, CAVACII will look at the current labelling of pesticides to understand the opportunities to reduce pest resistances to pest control agents.

1.1.5 Diversification

CAVACII is looking at diversification as the next logical step in the program. As a program, CAVACII is in the process of understanding circumstances under which farmers feel empowered to diversify the

cropping patterns. Preliminary studies of comparing an area with and without irrigation show that there are three (3) factors that combine to encourage farmers to diversify.

Figure 1 CAVACII Diversification Approach



In the figure above, if one (1) of the three (3) components are less developed, it is an opportunity for CAVACII to intervene by working with a company to enhance knowledge and access to a market. To do this, CAVACII will assess the possible bottlenecks and will try to intervene in relieving the most important bottlenecks. This could lead to several types of interventions, such as:

- > Work with a seed company to introduce the correct knowledge to produce the crop in the agro-ecozone.
- > Work with a (domestic) processor to introduce contract farming to improve quality and supply into the plant.
- > Work with a processor to introduce irrigation into a community (in some countries a common model for sugarcane production). If an opportunity like this is identified, the work will be done in collaboration with Component 2: Irrigation and Water Management.

Six month plan

- > Sign and implement an agreement with a domestic processor (possibly in chili) to increase supply of produce to the plant through contract farming.
- > Sign and implement an agreement with a processor to build its capacity to increase output to domestic and international markets.
- > Conduct study into the constraints of small and medium scale processing for the domestic market.
- > Sign and implement an agreement with a seed company to increase knowledge on the production of a new crop.

1.1.6 Innovation

Component 1 is also considering various innovative ways of reaching farmers in Cambodia. Component 1 will work with companies that are exploring new methods of disseminating information to farmers in Cambodia. Many companies that CAVACII works with are experimenting with using ICT as a potential area of innovation. However, there is limited understanding how farmers can use the innovative technology for their benefit. Social media has reached at the grassroots levels at which CAVACII operate. However, the information available at various websites, mobile applications and instruments like Facebook is yet to be incorporated in to the way CAVACII operates. This as an opportunity to further explore how various media can be used in order to disseminate various CAVACII findings.

Six month plan

- > Sign and implement an agreement with a company to understand how farmers are using ICT to make decisions on production practices.
- > Look at information systems in cassava to understand whether model farmers are a model that could be adapted to be applied in cassava production.
- > Design and implement a competition to encourage ICT innovation for agriculture.

Work with GDA and PDA

- > The GDA and the PDA's are key stakeholders and CAVACII supports them in their priorities, the focus with the GDA will be on understanding the value chains for cassava and maize, while the focus with the PDA's will be in improving the technical content of their PDA retailer training.
- > CAVACII will support the GDA with the drafting of a cassava Policy, it is expected that GDA will submit a proposal to CAVACII for financial support. The policy will encompass aspects such as varieties, soil fertility, and processing of cassava production in the context of a value chain study.
- > CAVACII will support the GDA with the writing of a maize policy, it is expected that the GDA will submit a proposal to CAVACII for financial support. The policy will encompass aspects such as varieties, soil fertility, and processing of maize production in the context of a value chain study.
- > Work with three (3) relevant PDAs to support them in developing and implementing the PDA retailer training, this training will insert technical content into a training that the PDA's already provide.
- > Work with relevant PDAs to do cassava mapping in their provinces.

1.2 Component 2: Irrigation and Water Management

1.2.1 Introduction

Under this component, a total of 22 construction contracts were signed and about 20 other contracts for surveys, construction supervision, and pumping equipment were also signed.

Due to an exceptionally high work load level, a total number of eight (8) short-term staff was recruited; seven (7) for construction supervision and one (1) for operations and maintenance (O&M). In May 2016, a new full time member was added to the O&M group as a coordinator for all activities in Takeo.

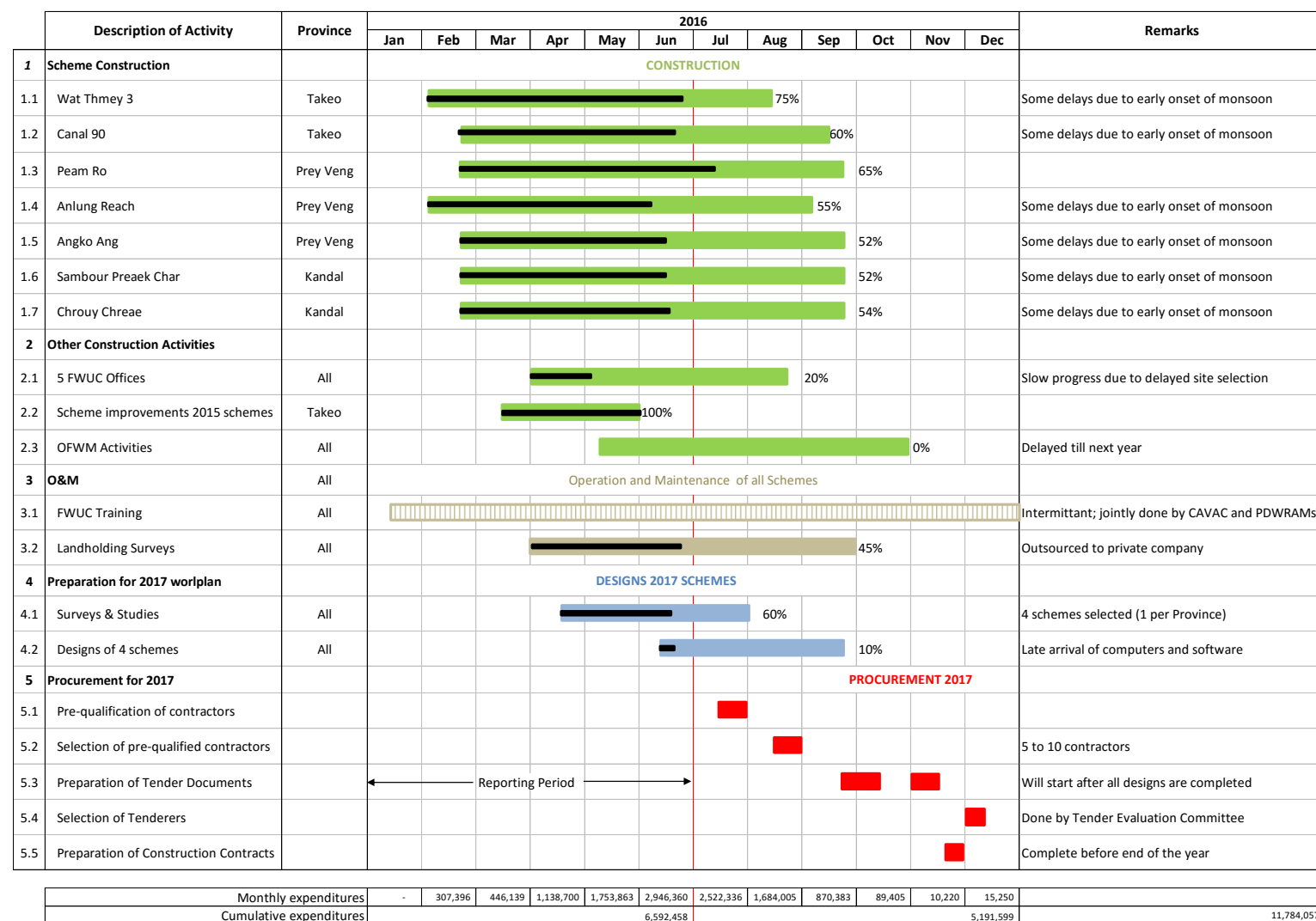
A number of schemes in each of the four (4) provinces were visited in the beginning of the program. All schemes were identified by the PDWRAMs and visited by the CAVACII team to verify pre-feasibility and decide to select or reject the scheme for further study and detailed design. Mainly for budgetary reasons it was decided to select only four (4) schemes; one (1) in each of the four (4) target provinces of Component 2.

1.2.2 Scheme construction

All construction contracts for canals and pump houses were signed in February (7 scheme construction, 5 pump house construction and a few smaller construction contracts), shortly after the start of CAVACII. The initial construction progress was slow on most contracts but improved during the months of April and May 2016. Heavy rainfall during many days in June caused further construction delays. The overall construction progress of the irrigation schemes is presented below in Figure 2.

In summary, all 7 irrigation schemes will be complete before December 2016.

Figure 2 Progress and Planning Schedule 2016



1.2.3 Other construction activities

CAVACII Farmer Water User Community (FWUC) offices are always constructed on public land. Ideally the locations are not too far away from the village and scheme location to avoid security problems and long travel times for meetings. Finding such locations is often difficult and needs prior consultation and approval of local authorities. This has caused some delays in the start of the construction of some of these offices. In two (2) cases the designs had to be revised as they are being constructed along the embankment of the river and needed additional foundation design.

Scheme improvements were mainly done at the Wat Thmey irrigation scheme. The improvements comprised re-shaping parts of the main canal, construction of water distribution canals, and improvement of the drainage system.

The On Farm Water Management (OFWM) activities have been delayed till next year. To optimise the water management at field level activities such as land levelling, construction of field channels, and improvement of field drainage are needed before the activities associated with OFWM begin. To align these activities with RGC policy and avoid overlap with other donor funded programs in the same provinces, a clear and more detailed planning needs to be prepared first. Such a plan will be prepared during the second half of 2016.

1.2.4 Operation and maintenance

At the start of the reporting period, discussions were held with the staff of the Provincial Department of Water Resources and Meteorology (PDWRAM) of the new provinces (Prey Veng, Kandal and Tboung Khmum) on CAVACII's policy and strategy for operation and maintenance (O&M). Staff was assigned by the PDWRAMs and contracts were signed for each scheme to establish and train the FWUC in operation, management, and maintenance of their scheme. Training activities are jointly organised by CAVACII and PDWRAM staff.

The most important tool for a FWUC to manage their scheme is a complete and accurate landholding map indicating the location, size and ownership of each plot within the command area. Previously these maps were produced by the PDWRAM but have proven to be inaccurate. This resulted in disagreements between the FWUC and land owners on plot size and related irrigation service fee.

This time a contract was signed with a local firm, experienced in this field, to produce landholding maps for all seven (7) schemes to be completed before the first cropping season after scheme completion.

1.2.5 Preparation of 2017 Work Plan

The preparation of the work plan for 2017 was started in April 2016. On the request of CAVACII, the PDWRAMS of all four (4) provinces submitted us a list of identified projects based on the selection criteria discussed with them before. Visits to all of these schemes were made with PDWRAM staff in May 2016. During these initial visits the technical feasibility is studied by assessing available water resources, size of the scheme, soil suitability, cropping pattern and willingness of farmers to change to more intensive farming practices. Once technical feasible, the initial lay-out of scheme is presented to farmers and discussions are held on land contribution, operation, maintenance costs and management costs, establishment of a FWUC and any other issue presented by farmers. This process has been completed for all four (4) selected schemes as shown below:

Table 1 New schemes for 2017

Scheme Name	Province	Command Area in ha
Tahel	Prey Veng	552
Ta Soung	Takeo	700

Kaoh Chen	Kandal	440
Krouch Chhmar	Tboung Khmum	315

1.2.6 Plan for the next six months

The planning of activities for the next six (6) months is presented in Figure 1. A summary is given below:

- > completion of construction of all seven (7) schemes;
- > completion of construction of five (5) FWUC offices;
- > completion of seven (7) landholding maps;
- > complete designs of four (4) new schemes for implementation in 2017; and,
- > procurement of works for 2017.

1.3 Component 3: Milling and Export

1.3.1 Introduction

Component 3 is a new component for CAVACII and focuses on the introduction and use of five (5) new varieties suitable for export and increased use of quality seed. One of the key constraints faced by the rice millers and exporters is the variable quality of paddy delivered to the mills which is partly a function of varietal mixtures and partly a function of the quality of the planting seed used by paddy producers. Variety development in Cambodia is in the mandate of the Cambodia Agricultural Research Institute (CARDI) and is predominantly based on germplasm made available by the International Rice Research Institute (IRRI). The CARDI research agenda is mainly donor driven and varieties developed and released recently do not always meet the demands of the export market. In view of the limited number of varieties in the research pipeline, Component 3 will focus on the wider adoption of varieties that are already released in Cambodia but which are not yet widely adopted and available to farmers and have potential for the export market. At the same time we will investigate the possibility to release varieties from Vietnam (both aromatic and japonica) with export potential.

Quality seed is still in very short supply in Cambodia. The AQIP is the largest seed producer but does not exceed 3000 metric tons per annum at this stage. There are a number of emerging seed companies and Component 3 will support both AQIP and these emerging seed companies to increase quality and quantity of varieties suitable for export through better seed production practices and post-harvest handling by promoting direct seeding of rice and mechanical drying amongst others.

1.3.2 Sector update

Component 3 currently has one (1) intervention manager and a rice seed production manager was hired in April 2016. Further recruitment will be considered in the future.

Exploring the landscape

During the first six (6) months meetings were held with key stakeholders such as development partners, millers, rice exporters and seed companies/cooperatives. Meetings with development partners JICA, IFC, ADB, AFD, World Bank, IRRI¹, to name a few, are on an ongoing basis to avoid duplication and overlap. Good relations were developed with the GDA Rice Department, AQIP and CARDI. Many of the key rice millers and rice exporters (Such as Crystal, Golden Rice, Golden Daun Keo, Nikoline, LNB, City Rice, BRICO, Apsara Rice, AMRU, Green Trade, Angkor Rice, White Gold, Baitong, Chhorng Din, Kim Se rice mills) were visited and areas of cooperation were discussed. A number of these millers/exporters are interested in seed production for their out grower farmers and Component 3 will support a selected number of them in the field of seed production training.

¹ Please see the acronym list for details.

In May 2016, Component 3 staff visited Vietnam and met with Southern Seed Company (SSC), Loc Troi seed company (formerly An Giang) and Cuu Long Mekong Delta Rice Institute. Loc Troi are already registered to do seed business in Cambodia and want to develop their business further. Discussions with Loc Troi are advancing and Component 3 will collaborate with Loc Troi with the development of their seed business in Cambodia. Cuu Long Institute is the breeder of several varieties that are informally traded in many parts of Cambodia (OM varieties). We are currently investigating if and how these varieties can be officially registered and released in Cambodia. Cuu Long also develops Japonica varieties which may have an export potential from Cambodia. Component 3 is facilitating an exchange of germplasm between Cuu Long and CARDI to evaluate these Japonica varieties in Cambodia in 2016.

Research and industry platform

Component 3 facilitated a first research/industry platform in June 2016 where CARDI and the Cambodia Rice Federation (CRF) exchanged ideas about the kind of research and varieties are needed by the industry to meet export targets. As a result of this exchange, Sen Kra Ob (SKO) was identified as key variety to the aromatic rice export market but as SKO is not a pure variety at present CARDI will be asked to start a fast-track purification program in 2016. Modalities for cost sharing between CRF and CAVACII will be worked out in the coming weeks. A second item discussed was the exporters wish to have Japonica rice produced in Cambodia for export. Component 3 will work with CARDI and Cuu Long Rice Institute of Vietnam to accelerate the introduction of suitable varieties.

It is intended that this platform becomes institutionalised and that industry and research will meet on a regular basis.

Facilitation on Rice Export

Support to CRF: The Cambodia Rice Federation is mandated, under a sub-decree, to represent the Cambodian rice sector both nationally and internationally. Membership of CRF includes rice millers and exporters as well as farmer associations. CRF is as an association still in its infancy and its secretariat lacks on many fronts the capacity to function properly and provide services for its members. A proper functioning CRF is also in the interest of Component 3 as it will be a key stakeholder in setting the export agenda for Cambodia. At the request of CRF, CAVACII is currently providing management support to the CRF secretariat. An experienced management consultant mentors and trains secretariat staff on the basis of one to three (3) days per week on communication strategies, work prioritisation, membership benefits etc. The first tangible result was the raising of USD15, 000 in sponsorship money for the upcoming AGM. Component 3 also arranged for two (2) key note speakers at the AGM presenting a vision of Cambodian rice production in a changing global trade context and in the context of climate change.

Leveraging CAVACII's irrigation: Crystal rice mill, one of the biggest rice mills, located in Kampot province and Nikoline rice mill in Tboung Khmom province have expressed their interest to investigate more on CAVACII's irrigation schemes that are strategically located near their rice mill to see potential contract farming with CAVACII's FUWC.

1.3.3 Activities Plan

1. Support to Seed Companies

AQIP is a semi private seed company established with Australian Aid. It was privatised in 2006 with 49% of the shares retained by the RGC. Component 3 initiated first discussions about full privatisation with GDA and the SOMA group. The result is a consensus within MAFF and the AQIP board of directors that full privatisation of AQIP is desirable with SOMA becoming a majority shareholder. CAVACII will supply a STA in July to do a technical due diligence of AQIP while SOMA will do a financial due diligence. Once full privatisation is a fact component 3 will develop the necessary

intervention plans to support further growth of AQIP and address current weaknesses in seed production, quality control and management.

Component 3 has identified six (6) emerging seed companies that will require support to grow their businesses. In the coming six (6) months support measures will be identified and intervention plans will be drawn up. In addition, Component 3 will work with the seed producer associations established by the, now closed, USAID funded HARVEST project and will link them to seed companies for support and sustainability.

Seed drying: Proper drying of rice seed is the most critical step in post-harvest handling of seed to ensure seed vigour and germination capacity. Many seed producers do not have mechanical seed dryers or in the case of AQIP have dryers but do not use them properly. Sun drying as is commonly done, compromises the germination capacity by exposing seed to detrimental temperatures while rewetting of seed causes internal fractures affecting seedling vigour.

Low cost batch dryers were introduced in Cambodia several years ago and are currently manufactured locally. Component 3 will in the coming months develop an intervention plan to make these low cost dryers available to seed producers and training in the proper use of these dryers.

2. Support to improve farmers' practices on seed

Reducing seeding rates: Rice producers (including some seed producers like AQIP) broadcast rice seed instead of transplanting. Seeding rates observed vary from 150 to 400 kg per hectare. These high quantities put a strain on the seed system. The use of direct rice seeders address this issue and seeding rates can be reduced to 60 kg per hectare or lower. Component 3 works closely with Harvest Centre Cambodia, Don Bosco in Battambang, Ibis rice in Kampong Thom and CARDI to demonstrate the technology. Target audiences are seed producers, rice mills with an interest in seed production and service providers. Three demonstrations will be established in the 2016 early wet season and further demonstrations are planned for the dry season irrigated rice in November/December.

Survey into motivation to buy seed: The reasons of why farmers buy or not buy quality seed are not well understood and Component 3 has developed a survey tool which tests a number of hypothesis by questioning both farmers with and farmers without irrigation about their motivation and frequency of buying seed. The survey was tested in June and will be fine-tuned this month and then used to interview farmers in key rice producing provinces.

Model seed production farm: Component 3, in collaboration with GDA and CRF, is developing the concept of a model seed production farm which will function as a farmer field school to demonstrate the best practices in rice seed production. Such a farm will be established in November 2016 in one pilot province.

3. Support to improve seed regulations

Support for implementation of seed regulations: Although a Cambodian seed law was passed in 2008, no enabling regulations for variety registration or the certification of seed were established. Currently there is a decree (Prakas) being circulated within the MAFF (GDA) and it is expected to be signed by the Minister later this year. At the request of GDA component 3 will consider support to GDA to disseminate the contents of this Prakas through workshops and written materials and assist GDA in operationalising of the enabling regulations.

1.4 Operations

1.4.1 Start up

The administrative, financial, ICT, and procurement systems from CAVAC were implemented on inception as an interim arrangement to ensure program activities could commence immediately. Existing systems allowed funding to flow immediately into CAVACII.

The contracting of construction contractors for all seven (7) irrigation canals, pump houses, and supply of pumps that were tendered in CAVAC was completed, allowing construction to commence on time in January 2016. All pumps were ordered, manufactured, delivered, and tax exemptions granted and cleared customs before 30 June 2016. All the pumps are in storage waiting for installation once the construction of pump houses is complete.

CAVACII is complaint to the 'Real Tax Regime' of Cambodia from head contract signing date. Compliance with this regime imposes Value Added Tax (VAT) and Withholding Tax (WHT) obligations on program costs and finance systems. Currently, the tax exemption in accordance with the MOU and MSA is unable to be passed to any suppliers, including construction contractors.

A new Operations Manual has been developed and implemented that includes sections on: Procurement and Grants, Human Resources (HR), Financial Management, Administration and Logistics, Asset management, and Fraud and Risk Mitigation.

1.4.2 Staffing

Within two (2) weeks of head contract signing Cardno contracted novated staff from CAVAC Phase I. This included 39 locally engaged staff (LES), and three long-term advisers (LTA) the Operations Manager, Irrigation and Water Resources Management Manager, and Productivity and Diversification Manager. The new component manager for Rice Milling and Export Manager was contracted and mobilised at the start of the program. During the period ended 30 June 2016 there has been recruitment of three (3) Short Term Advisers (STA): M&E Adviser, Procurement Adviser and Environment Adviser.

There has also been recruitment of eight (8) new LES positions: Procurement and Grants Manager, Finance Manager, Rice Seed Expert, Operations and Maintenance expert – two (2), Communications Manager, Intervention Managers – two (2). The recruitment for additional Intervention Managers for more will occur later in the year after a second round of recruitment conducted in June was unsuccessful. Recruitment was unsuccessful for the Results Measurement Manager position. The novated Results Measurement Expert has accepted this role and recruitment to for the Results Measurement Expert position will be conducted later in the year. After unsuccessful recruit the positions of Office and Logistics Manager and Human Resources Manager was unsuccessful, Terms of Reference were revised and applications for Office & HR Manager closed 24 June 2016.

The total number of staff contracted at 30 June 2016 is as follows:

	No contracted at 30 June 2016
Long Term Adviser (International)	4
Short Term Adviser (International)	3
Locally Employed Staff	45

1.4.3 Procurement and grants

Significant procurement will be completed during the period. Contracts for all irrigation works including FWUC offices, Scheme improvements and other support services for Component 2 activities. Procurement and installation of the new ITC system and equipment is near completion.

Procurement of nine (9) new motor vehicles will be finalised in July 2016.

Outputs based agreements for Government Liaison Officers as Deputy Team Leader positions; as nominated by the RGC counterparts (MOWRAM and MAFF) have been executed within one (1) month

of Head Contract signing. The position of Government Liaison Officer as Deputy Team Leader for MOWRAM was changed 15 May 2016 at the request of the Secretary of State of MOWRAM.

Partnership agreements, grants, and other services required to support the work of Productivity and Diversification, and Rice Export components will be executed once the Annual Work Plan is agreed.

1.4.4 Facilities

Temporary offices were setup for use during the first two months of the inception period whilst the new office located on level 2 and 3 of the Emerald Building 64 Norodom Boulevard, Daun Penh, Phnom Penh, Cambodia, was established. All staff and facilities are now located at the new CAVACII office since 7 March 2016.

1.4.5 Deliverables

Report / Output	Date Due	Schedule 1 Reference	Approved by DFAT
Due Diligence Report	20 January 2016	4.12 (a).	Yes
Inception Plan Annual Work Plan Risk Management Plan	1 March 2016 (as per agreement with DFAT)	Clause 8.2 and Clause 8.3	Yes – from DFATs
Operations Manual	16 April 2016	Clause 9.3 and Clause 9.5	Yes
Environmental Management System	30 April 2016	Clause 6.11	Yes

2 Financial Report

2.1 Summary

Description	Actual to date	Contract Limit	Balance of funds avail	% Contract Limit spent	Jan 2016	Feb 2016	Mar 2016	Apr 2016	May 2016	Jun 2016
Personnel Costs	\$ 939,711.79	\$ 21,423,651.00	\$ 20,483,939.21	4.39%	\$ 57,738.68	\$ 160,794.62	\$ 177,583.73	\$ 166,496.67	\$ 182,196.69	\$ 194,901.40
Personnel Costs LTA Expat	\$ 403,262.85	\$ 6,819,624.00	\$ 6,416,361.15	5.91%	\$ 35,742.85	\$ 73,504.00	\$ 73,504.00	\$ 73,504.00	\$ 73,504.00	\$ 73,504.00
Personnel Costs STA Expat	\$ 18,108.10	\$ 900,240.00	\$ 882,131.90	2.01%	\$ -	\$ -	\$ 964.60	\$ 7,000.00	\$ 3,250.00	\$ 6,893.50
Personnel Costs LES fixed term	\$ 518,340.84	\$ 13,703,787.00	\$ 13,185,446.16	3.78%	\$ 21,995.83	\$ 87,290.62	\$ 103,115.13	\$ 85,992.67	\$ 105,442.69	\$ 114,503.90
Adviser Support Costs	\$ 139,323.16	\$ 3,013,124.00	\$ 2,466,409.27	4.62%	\$ 39,647.88	\$ 22,070.54	\$ 29,640.53	\$ 6,394.48	\$ 26,491.75	\$ 15,077.98
Administration Costs	\$ 508,815.86	\$ 2,568,000.00	\$ 2,059,184.14	19.81%	\$ 3,604.79	\$ 27,672.58	\$ 21,579.28	\$ 314,782.56	\$ 80,418.26	\$ 60,758.39
Administration Costs Office Running Costs	\$ 128,564.78	\$ 2,137,686.49	\$ 2,009,121.71	6.01%	\$ 3,017.75	\$ 25,731.64	\$ 9,738.86	\$ 31,743.06	\$ 22,681.90	\$ 35,651.57
Administration Costs Office Set Up Costs	\$ 380,251.08	\$ 430,313.51	\$ 50,062.43	88.37%	\$ 587.04	\$ 1,940.94	\$ 11,840.42	\$ 283,039.50	\$ 57,736.36	\$ 25,106.82
Program Activity Costs	\$ 8,442,717.39	\$ 53,752,374.65	\$ 45,309,657.26	15.71%	\$ 294.20	\$ 477,776.94	\$ 575,936.14	\$ 1,509,824.31	\$ 1,246,083.58	\$ 4,632,802.22
Productivity & Diversity - C1 Program Activity Costs	\$ 35,228.89	\$ 7,458,454.75	\$ 7,423,225.86	0.47%	\$ -	\$ 4,688.77	\$ 2,997.28	\$ 870.69	\$ 11,820.24	\$ 14,851.91
Irrigation - C2 Program Activity Costs	\$ 8,396,961.32	\$ 38,835,465.15	\$ 30,438,503.83	21.62%	\$ 294.20	\$ 472,850.80	\$ 572,408.90	\$ 1,505,997.43	\$ 1,231,513.24	\$ 4,613,896.75
Milling & Export - C3 Program Activity Costs	\$ 10,527.18	\$ 7,458,454.75	\$ 7,447,927.57	0.14%	\$ -	\$ 237.37	\$ 529.96	\$ 2,956.19	\$ 2,750.10	\$ 4,053.56
Milestone Payments	\$ 646,596.00	\$ 6,273,659.70	\$ 5,627,063.70	10.31%	\$ -	\$ -	\$ -	\$ 161,649.00	\$ 323,298.00	\$ 161,649.00
	\$ 10,677,164.20	\$ 87,030,809.35	\$ 121,255,910.85	12.27%	\$ 101,285.55	\$ 688,314.68	\$ 804,739.68	\$ 2,159,147.02	\$ 1,858,488.28	\$ 5,065,188.99

Figure 3 Financial report summary

