

ASIAN DEVELOPMENT BANK

AIDE MEMOIRE

Special Project Review Mission

ADB Loan 2599 & Grant 0186 /GOF Grant 0191/ IFAD loan 8243 & Grant 0192

CAM: Tonle Sap Poverty Reduction and Smallholder Development Project

(30 August–1 October 2012, intermittent)

I. INTRODUCTION

1. An Asian Development Bank (ADB) Mission¹ (the Mission) conducted a special project review mission for the Project during 30 August-1 October 2012 on an intermittent basis. The objective of the Mission is to review implementation progress, reassess the overall project implementation plan and revise the overall contract awards and disbursement projections, and agree on the recommended measures for improvement. The special project review mission consisted of a kick-off meeting, field visits, individual meetings and a wrap-up meeting. The Mission met the officials of the Ministry of Agriculture Forestry and Fisheries (MAFF), National Committee for Subnational Democratic Development Secretariat (NCDDS), National Information and Technology Development Authority (NiDA), Council for Agriculture and Rural Development (CARD), and Ministry of Economy and Finance (MEF). The kick-off meeting was chaired by the project director of MAFF, Executing Agency (EA) while the wrap-up meeting was chaired by the project director of NCDDS (EA). The representatives from the Government of Finland and IFAD participated in the meetings. The Aide Memoire (AM) summarizes the findings and agreements based on the discussions with the EA and IAs. List of persons met during the Mission is in Annex 1.

2. The agreements recorded in the Aide Memoire are subject to the approval of higher authorities of the Government and ADB.

II. FINDINGS

A. Overall Progress

3. Since the last review mission in July 2011, most of the agreed actions were undertaken except for the finalization of Project Administration Manual (PAM). (Annex 2) Most of the preparatory activities were completed. Project orientation and basic training on financial management have started. However, implementation is still slow as no physical activities have started. As of 3 October 2012, the cumulative contract awards and disbursement progress is \$5 million (10% of the total financing sources combined) and \$2.8 million (5.63% the total financing sources combined), respectively, inclusive of total advance (\$1.55 million from ADB grant and Finland grant) to imprest accounts. While the advance of GOF grant and IFAD's grant and loan was released to NiDA and NCDDS, no contract awards and disbursement have been made for the ADB loan, grant from the Government of Finland (GOF) and grant and loan from IFAD. The lack of coordinated planning and implementation between the EAs and IAs at the national and subnational level remains as a serious concern.

¹ The Mission comprised N. Ikemoto (Sr. Natural Resource Management Specialist, Mission Leader), C. Hem (Sr. Project Implementation Officer), S. Sok (Sr. Procurement Officer), C. Chea (Gender Specialist), C. Khéang (Governance Specialist), S. San (Project Analyst) and P. Son (Administrative Assistant).

B. Major Implementation Issues and Proposed Measures

Output 1: Commune Development through a Block Grant

12 **a. Improved Rural Infrastructure Supporting Agricultural Productivity.** Communes are responsible for rehabilitating rural infrastructure. A re-fresher training on the project orientation workshops including Project Implementation Guidelines (PIM) for rural infrastructure subprojects was conducted in Kampong Cham during September 2012. The engineering design of the identified priority infrastructure subprojects in the pilot communes has been completed. The Mission noted that the majority infrastructure identified by the 16 communes focuses on road rehabilitation. The engineering designs were done by the two IP3 engineers who are posted in each province within the Provincial Planning and Investment Division (PID) and have been submitted to the Provincial Departments of Rural Development (PDRDs) and Provincial Departments of Water Resources and Meteorology (PDWRAMs) for review.

4. **Main Issues and Agreed Actions.** The main problems are: (i) lack technical capacity at the district level; and (ii) lack of clarity on the type of rural infrastructure that should be supported through the block grants. As the Project covers 196 communes, over 200 infrastructure rehabilitation subprojects are expected to be identified and carried out within the target communes. Due to the large number of irrigation subprojects and the limited technical capacity at the district and province levels, the recruitment of civil engineers will be necessary to assist the Commune Councils (CCs) and to ensure satisfactory quality of civil work design. The budget for additional engineers has to come from the block grant allocated for the small-scale infrastructure. The Mission discussed with NCDDDS and NCDDDS agreed to: (i) assess the required numbers and estimated costs of engineers; (ii) assess the two options: (a) recruitment of civil engineers by each commune to design the infrastructure subprojects; (b) recruitment of individual engineers by the PID to cover several communes; and (iii) inform ADB and IFAD of its decision and appropriate recruitment modality. The NCDDDS assured the Mission that adequate Project orientation will be provided to the next 88 target communes to support the priority infrastructure subprojects for increased agricultural production. The PIC agreed to assist NCDDDS in revising the TORs for the District Technical Support Staff to reflect the revised scope of responsibility to assist the recruited engineers.

5. **b. Improved Capacity of Smallholder Farmers.** The progress was delayed since there was a substantial delay in the fund transfer from First Generation Imprest Account (FGIA) at DCU to Second Generation Imprest Account (SGIA) at GDA. However, since May 2012, GDA has provided TOT training for the Provincial Departments of Agriculture (PDAs) and District Agriculture Offices (DAOs) to carry out Agro-Ecological Analysis (AEA) in each of the 16 communes for 2012. The AEA in these communes has been completed and results of the AEAs will be included during the preparation of the Commune Investment Plans (CIPs) for 2013. Beneficiary identification and Livelihood Improvement Groups (LIGs) formation have not started due to lack of clarity in the LIG guidelines and Commune Development Fund (CDF).

6. The Mission visited Preah Vihear to learn about the LIG and Farming System Improvement Groups (FSIG) approach under the Rural Livelihood Improvements Project (RULIP) financed by IFAD. The group formation and implementation approaches under the RULIP are complex to meet the needs of both LIGs (including ID poor 1) and FSIGs. Funds managed by MAFF are channeled to Provincial Administrations, rather than through NCDDDS directly to the CCs. The Commune Extension Worker (CEW) recruitment process is more rigorous by involving DAOs and PDAs.

7. The Mission also visited agriculture technology demonstration in Kampong Cham under the TA: Tonle Sap Technology Demonstration (TSTD) financed by ADB. TSTD is taking a microenterprise development approach by targeting individual farmers and demonstrating agricultural technologies. The target individual farmers appear to be non resource poor. Some of the technologies require high start-up capital.

8. **Main Issues and Agreed Actions.** The main issues are: (i) lack of timely sequencing of AEA and CIPs; (ii) LIGs and AMEGs approaches; and (iii) lack of clarity in the scope of agricultural activities. The objective of AEA is to serve as a tool to identify and prioritize agricultural development needs at the commune level that need to be included in a 3-Year rolling Commune Development Plan (CDP) and the annual CIPs. The full integration of Commune AEAs into the D&D local planning process will require more effective coordination between PDA and PID at the subnational levels. In addition, the scope and quality of AEA seems to vary among 16 communes depending on the technical capacity of the DAOs staff. GDA agreed to work closely with NCDDDS to develop the AEA implementation schedule for the remaining communes to ensure that AEAs will be completed prior to the finalization of the CIPs for 2014 as much as possible.

9. The existing design promotes the formation of 1200 LIGs (6-7 per commune) and 392 AMEGs (2 per commune). The LIG and AMEG will each consist of up to 25 households, and will each comprise different Common Interest Groups (CIGs) which will be formed based on their needs. As AMEGs are more commercial orientated activities, formation and implementation require technical guidance that covers not only production techniques but also value chain analysis including market opportunities. Market linkages need to be made. However, the incentives for the better-off farmers to stay as a group may not as strong as those of LIG farmers. Given the weak capacity of CCAs and CEWs, the approach for the formation of the AMEGs needs further consideration.

10. Instead of forming so many producer groups, the Mission discussed NCDDDS and GDA and agreed that capacity development should focus on: (i) formation of the LIGs which could include landless households who have the potential for off-farm activities; (ii) postponing the formation of the AMEGs²; (iii) formation of new or strengthening of existing veterinary associations to link to Village Animal Health Workers to provide vaccines and needed technical services for LIGs; (iv) create more options for LIGs to access inputs/extension services by exploring the engagement of the successful microenterprise farmers under the TSTD; (v) linking the quality seed production activities to LIGs so that LIGs farmers will experience the application of quality seeds and realize increased productivity; and (vi) formation of and/or strengthening of existing Farmer Water User Groups (FWUGs) and Farmer Water User Committee (FWUCs) to maintain the rehabilitated assets and manage irrigation water.

11. The establishment of Veterinary Associations is more suitable at the district level while a procurement of a service provider is suited at the province level. Service providers can be recruited to form the associations and provide needed capacity building in close collaboration with the staff from PDA and DAOs. For example, the PDA may carry out the procurement process on behalf of the interested communes. A tripartite contract can be made between the PDA, CCs and Service Provider to specify the scope of services required per commune, and the

² While the formation of LIGs is the priority, formation of AMEGs may be considered on a case by case. If the better-off farmers in the target communes express strong interests in forming groups and their production activities will have the potential for providing short-term/season employment for the LIG farmers and ID poor 1 farmers, formation of such CIGs can be considered.

roles of the PDA/DAOs. Output based payment can be made directly by the CCs from the Block Grants to the Service Providers after DOAs have endorsed the quality of service delivery. A service fee for PDA and DAOs could be included in the contract. Similar contract arrangements can also be made for agricultural extension delivery. For capacity building of FWUGs/FWUCs, appropriate contract arrangements between PDWRAMs and communes need to be made. The NCDDDS and GDA agreed to discuss and assess and develop appropriate contractual arrangements for Service Providers and PDWRAMs. As IFAD grant and loan (\$13.6 million) will finance the capacity improvement activities, the Project Implementation Consultant (PIC) agreed to work with NCDDDS to come up with the appropriate allocation of block grant between service provision and revolving funds, and to provide clarity in the CDF guidelines.

12. The GDA and NCDDDS also agreed to clarify the following aspects of the CDF guidelines: (i) an appropriate balance between on-and off-farm activities in the wet and dry seasons; and (ii) a careful consideration of the scope of off-farm activities to avoid a risk of fragmentation and scattered activities. The GDA also agreed that the existing AEA process will integrate climate change considerations to identify appropriate adaptation/mitigation interventions. PIC agreed to accelerate climate change training for GDA, PDAs and DAOs.

13. **c. Strengthened Communes Project Management Capacity.** NCDDDS finalized the block grant allocation for 196 project communes. The 16 pilot communes have opened their bank accounts, signed MOUs with NCDDDS and have received 10% of the 2012 allocation as operational budget. They recruited Commune Administrative Assistants (CAA) and CEWs. The pilot 16 communes will receive a further fund release this year. NCDDDS conducted the PIM training during September in Kampong Cham province. Further trainings will be conducted for the district and commune staff in each province by the PST members. The 2nd batch of 88 communes have opened their bank accounts and they are in the process of recruiting CCAs and CEWs.

14. **Main Issues and Agreed Actions.** The main issues are: (i) weak institutional coordination at the national and subnational levels to coordinate planning and implementation; (ii) weak capacity of CAAs and CEWs; (iii) lack of clarity in number of villages to be covered; (iv) timing of future transfer of funds to communes; and (v) lack of detailed operation guidelines. The Mission noted limited understanding about the Project among the CCs. Some of the CEW does not have suitable qualifications and experience while some CAAs have qualifications more suited for CEWs. The NCDDDS agreed to conduct the annual performance of the CCAs and CEWs and improve the CAAs and CEWs recruitment process by involving the PDA and DOA to increase due diligence.

15. The selection of target villages will be required in each commune before the LIG formation commences. Other groups such as veterinary associations, seed producers and other input/extension providers can extend their services to LIG as well as other farmers in the same and other villages in the target communes. The NCDDDS agreed to work with PIC to revise the existing village selection criteria to improve the clarity. The NCDDDS also agreed to complete transferring funds to CCs by 2015 to all 196 communes and to use the remaining two years for monitoring and evaluation. PIC also agreed to assist NCDDDS to develop guiding notes to communes to clarify the commune use of the block grant (e.g., procurement of solar panels, use and management of motorcycles, cofinancing infrastructure costs, etc.)

Output 2: Enabling Environment for Increased Agricultural Productivity and Diversification.

16. **Improved Agricultural Policy Environment.** The PIC has completed a comprehensive analysis of recent and on-going agricultural policy work supported through a range of other projects and donors. A policy gap analysis has been completed. A stakeholder workshop will be conducted in mid-October to present the findings of the review and to reach a consensus on the focus for the Project support in the future.

17. **Main Issues and Agreed Actions.** As several donors have been providing policy support, the GDA informed the Mission that the focus should be on awareness raising at the subnational level and pilot testing of the application of policies such as Good Agricultural Practices and Contract Farming by piloting and documenting the lessons learned under Output 1 and 2. The Mission supported the revised focus. GDA agreed to submit the revised plan to specify the policy topics after the completion of the workshop and to develop mechanisms for capturing lessons learned during the implementation.

18. **b. Increased Availability and Access to Quality Seeds.** Due to the delay of fund transfer from FGIA to SGIA imprest account, implementation has been slow. The main progress made includes: (i) surveys of rice and vegetable varieties and seed demand have been completed in the 16 pilot communes; (ii) 100kg foundation seeds were procured from CARDI and has been planted for the production of registered seed at the research stations; (iii) improved rice productivity through the System of Rice Intensification (SRI) is being promoted through 24 demonstration plots featuring three varieties, which differ between the provinces, and eight Farmer Field Schools (FFSs); and (iv) assessment of the rehabilitation needs for Tuek Ville Research Station in Siem Reap and Balang Research Station in Kampong Thom. The identification of seed producer groups is still on-going. The ToT for the DOA staff on rice and livestock production will commence in early October in each province. Technical training for the research station staff will be conducted through assistance from CARDI during Q4.

19. The Mission visited both research stations. While supporting the improved certified seed production capacity of the research stations which is in line the prakas introduced in March 2011, the Mission recognized a need to develop business plans that should identify a detailed implementation plan and timeframe to financially sustain the production activities.

20. **Main Issues and Agreed Actions.** The main issue is the lack of strategic planning to set the overall targets and sequencing of activities. The original intention of quality seed production is to increase the availability of affordable quality seeds for the target smallholder farmers (LIGs) in order to increase their productivity. The current approach of demonstrating new rice varieties and SRI technologies through on-farm demonstration needs modification to target LIG farmers so that they will realize the benefits of investing in better quality seeds and improved varieties matching current market demands. The production of registered seed at the research stations needs to be sustained in order to support larger scale production of certified/good seed through the seed producer groups so that the future demand for seed can be satisfied since farmers normally replace seeds after three planting cycles. The required volume of foundation seed and production costs at the research stations should be based on the projected increase of sales of registered seed to the Seed Producer Groups. The required volume of certified/good seed by Seed Producer Groups should be based on the anticipated increase of sales to farmers including LIGs. The need for production of quality vegetable seed needs careful assessment since hybrid seed of many vegetable types are already available in the local markets. GDA and PIC agreed to develop: (i) detailed implementation plan for the seed

production to specify the schedules for sequencing activities with established targets of farmers and production volumes; and (ii) detailed business plan for research stations with appropriate exist plan of the project support.

21. **c. Increased Access to Agricultural Information and Market Data.** The implementation has been delayed due to slow progress of piloting the Telecenters under the ADB financed TA: Tonle Sap Technology Demonstration (TSTD)³. Due to a delay in TA implementation there is insufficient information to conclude the result of telecenter piloting and no replication has started under the Project. The NiDA staff assigned to the Project separately conducted field surveys, selected potential locations, developed a concept and prepared the procurement packages. A stakeholder workshop on the concept that was planned in the 15 months work plan has not been conducted. The NiDA has already started the preparatory work such as pilot test training in four telecenters in Siem Reap, Kchass, Svay Check, Varin and Chung Knears and presenting the concept to 47 communes in four target provinces to implement the concept. The Mission met with NiDA staff involved in both TSTD and the Project, and the representatives of the GOF and discussed the implementation issues.

22. **Main Issues and Agreed Actions.** As of now, direction of rural ICT implementation under the Project has yet to be identified due to: (i) a delay of the TSTD pilot demonstrations; and (ii) lack of clarity in the ownership of ICT assets. TSTD team introduced the revised strategy to accelerate needed training and improve the Telecenter operations. It requires a few more months to be able to assess results at least partly. The concept developed by NiDA expands the original scope (as extension service tools) by including marketing, buyer and seller matchmaking, microcredit and other social activities. The NiDA has been carrying out the preparatory work without sharing any survey results, contents of training, or the concept with other EAs and IA. No detailed implementation strategy and plan (including financial projections) have been developed; and therefore, it is difficult to assess the viability of the proposed models. In addition, marketing of agricultural products seems to go beyond the institutional mandate of NiDA and it is not clear whether NiDA staff has appropriate capacity to carry out agricultural marketing activities.

23. The models promoted by TSTD and by NiDA in the Concept are private operator models. It is uncertain if private operators will continue operating for the intended purposes beyond the project period if assets are owned by private operators⁴. With the delay of TSTD and dated information from appraisal, the Mission identified the need for viability assessment, discussed with the GOF, NiDA, and MAFF, and agreed that (i) a short-term individual international consultant needs to be recruited by using the grant fund from Finland under the Project to (a) conduct an assessment of the TSTD telecenters; (b) review the concept developed by NiDA; and (c) develop recommended rural ICT implementation strategy and plans for the Project; (ii) while NiDA remains as IA, the NiDA Project Coordinator for TSTD will be engaged as a Project Director (counterpart staff) in the Project to ensure that the activities will be implemented according to the implementation strategy and plans that are agreed by the EAs, IAs, ADB and GOF and reflect adequate lessons learned from TSTD. A joint review mission will be conducted in early February 2013 to appraise the recommended implementation plan. NiDA requested ADB to recruit an international consultant as ADB can attract a large number of potential candidates through advertising the ADB's Consulting Management System. The

³ The intention is to pilot demonstrate 20 Telecenters in order to replicate the successful models under the Project. The Government of Finland finances the rural ICT under the TA and the Project.

⁴ Computers need to be replaced every few years. Under the rural ICT models being piloted by TSTD and proposed by NiDA, the operators are responsible to replacing the assets that were initially provided by the projects.

Mission also discussed with NiDA and MAFF and agreed that NiDA and MAFF will submit ADB the revised scope of NiDA's activities for the remaining 2012.

Output 3: Effective Project Management

24. **Progress.** Most of the progress made so far is related to preparatory activities. The Provincial Inception Workshops were held in August 2012 at the provincial level. The overall progress, however, is very slow. No Project Steering Committee meeting has been held because no consolidated progress report was prepared. No Project Performance Management System (PPMS) has been developed to monitor the project activities as a whole. PIC has been working with NCDDDS and MAFF to improve the existing implementation guidelines (e.g, PIM, CDF, commune operation guidelines), develop PPMS, and terms of reference for baseline surveys.

25. **Main Issues and Agreed Actions.** The main issue is the lack of coordinated planning and implementation between MAFF and NCDDDS to ensure a timely sequence of activities. Timely sequencing of commune planning, AEAs, block grant release, rural infrastructure rehabilitation, LIG formation and agricultural support (including quality seed support) is crucial to realize intended outputs and outcome. NCDDDS is ready to release the block grants to the next batch of 88 communes (1st release in October 2012 and the remaining release by early next year). To ensure timely sequencing of activities, MAFF and NCDDDS agreed to: (i) introduce a monthly coordination meeting at the national and subnational levels; and (ii) organize a joint 2013 workplan planning workshop to facilitate coordinated planning and development of the implementation workplan for 2013.

26. The Mission also recognized that timely fund flow at MAFF is crucial to realize timely sequencing of activities. GDA is already being assisted by PIC to improve the preparation of Withdrawal Applications (WAs) to submit them to DCU on a regular basis. The Project is complex due to multiple institutions involvement (2 EAs and 2 IAs) and multiple interventions. The decentralized implementation approach adds an additional complexity. The Mission views that the existing Imprest Account set up at MAFF needs re-examination. MAFF/DCU and GDA agreed to reassess the existing fund flow to determine the need for upgrading SGIA at GDA to FGIA by assessing the revised implementation plans and contract awards/disbursement projections developed by NCDDDS and GDA.

27. Some provincial departments requested a budget to renovate their offices. The Mission discussed with GDA and NCDDDS and they agreed to assess and determine the needs and budget.

C. Procurement

28. The main procurement of goods carried out by the EAs and IAs includes: (i) procurement of 15 vehicles and 142 motorcycles; (ii) office equipment and furniture for MAFF and NCDDDS; and (iii) foundation seeds (rice). 13 out of 15 vehicles have been kept at the national level. The first batch of 142 motorcycles (out of 582) were procured and distributed at the national and subnational levels. During the field visits, the provincial and district government for agriculture and administration requested the additional vehicles (2 for PDAs in Banteay Meanchey and 2 for PIDs in Kampong Cham and Kampong Thom) and additional 56 motorcycles. The Mission discussed with MAFF and MAFF agreed to transfer one vehicle kept at GDA to PDA in Kampong Cham and one out of two vehicles allocated for PICs to PDA in Kampong Thom. Procurement of the additional 4 vehicles and 56 motorcycles will require more than the

additional \$0.5 million (including vehicles, fuel, drivers) on top of the existing budget of \$1,058,600. Vehicles and motorcycles are provided to assist their field work based on their tasks in the TORs. Frequency of field monitoring needs vary among the staff as their TORs are different. The Mission discussed with NCDD and GDA and they agreed to reassess the issues and submit ADB a proposal that includes justification and reallocation need if there are no other solutions are possible. The Mission agreed that engineering equipment can be procured by SMEC as its contract includes equipment budget.

29. GDA/IA procured 100 kg of foundation seeds directly from CARDI as CARDI is the only government institution who supplies foundation seeds in Cambodia. The Mission updated the Procurement Plan as GDA plans to procure the additional foundation seeds from CARDI.

30. The main civil works include small-scale rehabilitation of infrastructure through community participation and rehabilitation of research stations in Kampong Thom and Siem Reap through NCB or shopping. Neither of the works has started.

31. Out of three consulting service packages, individual consultants and the PIC (SMEC) were recruited and in place while technical consultants (QBS) have not been recruited by NiDA. The Mission discussed with NiDA and Government of Finland and agreed that procurement method needs to be changed from QBS to individual in order to recruit an individual international consultant to carry out the assessment of the pilot demonstration under the TSTD and the concept note developed by NiDA to develop recommendations for replication under the Project. The revised procurement plan is in (Annex 3)

D. Project Costs and Financing

32. **Contract Awards and Disbursements.** As of 3 October 2012, the cumulative contract awards and disbursement progress are \$5 million (10% of the total financing sources combined) and \$2.8 million (5.63% the total financing sources combined), inclusive of total advance (\$1.55 million from ADB grant and Finland grant) to the imprest accounts. The Project is rated "at Risk" based on the contract awards and disbursement projections prepared during the fact finding mission. To accurately reflect the two-year start-up delay and reflect the implementation needs, the Mission worked with the EAs, IAs and the PICs to revise the existing contract awards and disbursement projections for the project period from 1 September 2012 to 28 February 2018. The revised projections changed the overall project rating from "at risk (Red)" to "on-track (Green)" as there is no longer a huge gap between the projected and actual contract awards and disbursement. However, the adjusting the projections resulted in the need for accelerated implementation for 2013-2015 (Annex 4).

33. **Imprest Account and Accounting System.** The imprest fund operation has been slow. While the expenditures have been incurred by the EAs/IAs, submission for replenishment/liquidation is slow. Based on the 6 months projection (July-Dec 2012), NCDD submitted through MEF the 1st withdrawal application (WA) to request an advance amount of \$242,297.56 for ADB loan and \$730,105.22 for ADB grant for the Pooled FGIA. For its operation account (ADB grant), NCDD submitted the WA to MEF on 19 September 2012 to request for 1st replenishment in the amount of \$186,000, including ADB Grant proceeds of \$179,000 and \$7,000 for counterpart fund. Advance from IFAD (\$70,216 for grant and loan combined) was released to NCDD while the request for counterpart fund (\$226,591) has been sent to the MEF. MAFF has submitted the WAs to liquidate the advance for its FGIA while NiDA submitted MEF its 2nd application (\$35,273.97). The EAs/IAs agreed that their finance officers will expedite submission of withdrawal applications to ADB while MEF agreed to expedite the process to

send WAs to ADB. MEF also agreed to release the counterpart funds in a timely manner. MAFF and NiDA plan to submit its applications for replenishment next month. The Mission recognized the need to increase the current ceiling of the loan for the pooled FGIA as transfer of block grant needs to be accelerated to cover the increased number of target communes and complete the transfer by 2015. The NCDDS agreed to submit ADB a request letter with justifications.

34. Expenditure at the national, provincial and district offices have been mainly incurred since February 2012 and are related to per diem and transportation costs. The Mission checked the petty cash payment vouchers and supporting documents of expenditures incurred by all target provincial and district offices and observed that they were available and neatly filed. Replenishment of Advances from EA/NCDDS to provincial/district offices are made regularly. The Advance from MAFF/DCU FGIA to GDA SGIA caused in turn a delay to the implementation of the GDA's activities. The MAFF (DCU and GDA) agreed to closely monitor the existing fund flow from FGIA to SGIA at MAFF. The need for upgrading the SGIA at GDA to FGIA will be assessed at the next project review mission based on the monitoring results.

35. The QuickBooks accounting software was introduced and is being used for recording of financial transactions and preparation of financial report at the provincial level. A training course on the operations of the project records keeping and accounting systems (accounting code) are being scheduled for the provincial and district Finance/Accounts. The Mission requested and the EAs agreed to prioritize and schedule required training courses so that the provincial and district Finance Officers and Accountants are familiarized with the procedures and can apply them smoothly.

36. **Financial Audit.** Financial transactions of both EAs and IAs were audited by external auditors. The audit financial statement reports and management letter covering the period 27 December 2009 to 31 December 2011 submitted to ADB timely. The audit reports recommend improved internal control of financial management, particularly vouchers at MAFF (DCU, GDA). PIC has started to provide assistance to GDA to strengthen its internal control.

37. **Priority Operating Cost (POC).** The POC was introduced by the Government in July 2010 to replace the incentive schemes. The POC was ended in June 2012 as no options to replace POC were developed by the Government. ADB discussed with MEF and agreed that (i) salary supplement scheme will resume; and (ii) on-going projects will follow the financing arrangements for salary supplement arrangements indicated in the financing agreements. The EAs submitted the final list of counterpart staff to the MEF. The Project includes the salary supplement budget that has been reallocated to the contingency. The Mission agreed to reallocate budget for salary supplement back to the recurrent costs once the final list of counterpart staff is submitted to ADB.

E. Gender Development

38. The gender action plan was revised to align with the project outputs agreed at the last review mission. The revised Gender Action Plan (Annex 5) ensures: (i) that female farmers comprise 30% of LIG memberships; (ii) a target of 40% female participation in community planning groups to develop the CIPs; (iii) that at least one female is elected to 3 person management teams of LIGs and/or FWUCs; (iv) 30% female trainees in all project supported training; (v) that 50% female headed households have access to extension, quality seeds, and rural finance; and that (vi) the project M&E framework includes gender indicators and reports on sex disaggregated data. The NCDDS and MAFF-Development Coordination Unit (DCU),

through the Project Managers in each EA/IA, are responsible for overseeing the implementation, monitoring and reporting (quarterly and annually) of the GAP. EAs and IAs will appoint the Project Gender Focal Points persons at national and provincial levels by 15 October 2012.

F. Safeguards and Compliance with Covenants

39. The Mission reviewed the implementation of Covenants (Annex 6) and noted that out of 32 covenants, the following 4 provisions are out of track: (i) development of a project website; (ii) development of Project Performance Management System (PPMS); (iii) dissemination of procurement documents; and (iv) submission of quarterly progress reports to ADB. NCDDS has developed a project website related to the NCDD activities. MAFF and NiDA have not yet developed the project website. No consolidated quarterly progress reports have been prepared and submitted to ADB. No PPMS has been developed. As the Project has two EAs, the Mission discussed with EAs and IAs and they agreed that (i) procurement related documents will be posted on the respective websites created by NCDD, MAFF and NiDA; and (ii) consolidated quarterly progress reports will be posted on the existing CARD (CARDiG). PPMS is urgently needed to serve as a tool to jointly review the implementation progress against the set targets. PIC agreed to develop detail PPMS and update the PPMS once the baseline survey results are available.

G. Governance

40. The Mission reviewed the implementation progress of the Good Governance Framework (GGF). The EAs and IAs generally followed the procurement procedures specified in the Standard Operating Procedures (May 2012). They also received general training on financial management. Additional training on financial management and on the job training by PICs are planned to increase their internal financial control. Training on PIM at the commune level is urgently needed to ensure that the communes will understand and follow the procurement procedures. The main weak areas are in the areas of: (i) disclosure of procurement related documents and contract award information; (ii) safety for petty cash custody at provinces, districts and communes; (iii) Lack of signed Code of Ethical Conduct and Code of Conduct for civil servant; and (iv) lack of institutional coordination at the national and subnational levels. Both EAs agreed to take the measures to address the weakness. The GGF has been updated to indicate the implementation status (Annex 7) and agreed actions.

III. AGREED ACTION PLAN

41. The Project still have a lot of implementation challenges. While the Mission recognized the strong commitment of the EAs and IAs for improved implementation, closer monitoring is needed to ensure that agreed actions will be implemented within the agreed timeframe. A summary of major issues and agreed action plan is in Annex 8.

42. The Mission expresses its gratitude to the RGC, its staff, representatives from GOF and IFAD, and the Project consultants for the cooperation extended to the Mission.



Nao Ikemoto, Project Officer
1 October 2012