

November 24, 2005

H.E. Chan Sarun
Minister
Ministry of Agriculture, Forestry, and Fisheries
Phnom Penh, Cambodia

Your Excellency:

***Re: Forest Concession Management and Control Pilot Project (P060003)
Project Close and Options for the Future***

I appreciate the time and support your staff provided to our recent supervision mission for the Forest Concession Management and Control Pilot Project. I understand that the discussions between the Forest Administration (FA), our staff, and other stakeholders were frank and constructive. As the project draws to a close, this is also an appropriate time to review some of the options for the future development of the sector and the Bank's possible engagement.

Project-Related Issues - Concession System, Independent Monitoring, Closure

Forest Concessions: First, the recently completed GFA Independent Review of Strategic Forest Management Plans (SFMPs) presents a strong critique of management planning undertaken to date by six concessionaires in Cambodia. The report concludes that the concessionaires have failed to follow Government guidelines and in particular to effectively engage in consultations at the community level. Failures of consultation have resulted in underestimation of legally protected customary, subsistence and commercial forest use by neighboring communities, and this, in turn, brings into question proposed compartment boundaries, yield estimates, and anticipated economic returns from concession operations.

The Review found that even after five years of management plan preparation, multiple reviews and resubmissions *none* of the six Strategic Forest Management Plans provides an adequate basis for sustainable forest management. In light of these findings, and based on our dialogue with Government counterparts, interested donors, and civil society, *our assessment is that concessionaire performance is unlikely to improve and concessionaires are unlikely to meet their contractual and legal obligations.* As you know, the Bank has on many occasions in the past advised the Government to demand appropriate performance from concessionaires, to fully exercise its rights under the existing concession contracts, and to enforce relevant Cambodian laws. We think that the Government should now act on that advice accordingly and take appropriate action in accordance with the rights available to it under Cambodian law and under the concession contracts (including any right it has to terminate these contracts) to bring this unsatisfactory state of affairs to a quick conclusion.

In anticipation of further concession terminations, we urge the Government to immediately plan for responsible and sustainable management of the respective forest areas following termination. We recommend that the government undertake a rapid assessment of areas under threat of land grabbing and illegal logging and target the most vulnerable areas for a rapid expansion of community or commune-based forest protection and/or land titling for small

holders. Many communities are already organizing spontaneously to protect their access to forest resources, and these communities would certainly welcome Government recognition and support.

While communities can play an important role in resource protection, ultimately it is the government's responsibility to deter and prosecute criminal activities. Therefore any effort to recruit communities for large-scale protection efforts in post-concession areas should be matched by equal efforts to increase the capacity of local Forestry Administration staff to fulfill their duties.

Independent Monitoring - Second, as you know, the closing date for the Project was extended to end December to provide continued support for the independent monitor, and to give time for further discussion of the modalities of and financing arrangements for continued independent monitoring. In this context, both Government and non-government stakeholders have expressed concerns about the precise role of the monitor, about the functioning of the current independent monitor, and about restrictions to the monitor's actions stemming from the terms of reference. We suggest that the Terms of Reference (TOR) be reviewed and revised as needed to ensure that there is an appropriate balance between the auditing, reporting, dissemination, and training functions of the independent monitor under the new contract. To facilitate this debate, the Bank has already shared English and Khmer copies of the current TOR with interested donors, NGOs and civil society groups to solicit comments and suggestions. Recognizing that monitoring is an important and challenging task in the current environment, we look forward to discussing with Government and other stakeholders the development and financing of a participatory system of monitoring. Support for community participation in forest and land resources monitoring is already included under a proposed Japanese grant.

Project Closure – As the closing date of the Project is fast approaching (December 31, 2005), the Task Team has discussed with counterparts in the Forest Administration the procedures for reporting on the outcomes of the project to the Bank's Board of Directors before the end of June, 2006. The Head of the Forest Administration has indicated a final report on the project will be completed shortly. The Bank expects to send a team to review the Government's report and to begin preparation of our own report – an Implementation Completion Report (ICR), as required by our policies – in January. We would like to have the Government's comments on the Bank's draft ICR before it is finalized. The Bank will also ensure that findings from the Inspection Panel review of this operation are incorporated into the final ICR.

Looking Forward and Exploring a Range of Forest Management Options

Forest management is at a major crossroads in Cambodia, and it is clear from our discussion with many Cambodian and donor partners in the sector that a broader approach to managing land and forests in Cambodia is needed that includes a range of forest management systems and ensures effective local participation. We also believe that the conclusions and recommendations of the Independent Forest Sector Review provide a good basis for such an approach and wish to encourage the Government and the Technical Working Group (TWG) on Forests and Environment to engage with all concerned stakeholders and quickly develop a national consensus on the way forward in the context of the preparation of the annual action plan of the TWG and the benchmarks for the upcoming Consultative Group meeting. The Bank is committed to remain engaged in the forest sector in Cambodia and to support the Government and the TWG in exploring options and developing such a consensus.

In this context, the release of forest land from concession agreements presents an opportunity to experiment with new more equitable and sustainable forest management

alternatives; and we encourage the Government to actively explore a mix of approaches. Some examples include:

Community Forestry - Community forestry has significant scope for expansion under the new sub-decree; and while the draft procedures for implementing community forestry are seen by many as cumbersome and too focused on central government control, we expect that these guidelines will be revised and improved, especially as FA gains implementation experience. Groups that have been practicing community forestry for several years are now able to secure legal rights over the resources they are managing. We also see scope for expanding community forest beyond restoring degraded forests into managing higher-value forests, as well. Grant support from the Japanese government and through the Bank is now being put in place to facilitate this purpose.

Partnership Forestry - Partnership or commune-managed forestry was proposed by the Independent Forest Sector Review as a potential alternative to concession management for larger scale forest areas. While there is no explicit legal provision for partnership forestry at this time, there may be scope for the Forest Administration to extend this right to communes under specific conditions. Partnership forestry pilots are already being implemented with support from Danida/DfID and CIDSE, and could be expanded to other communes with further work on the legal and implementation aspects.

Public Private Partnerships - There are also options to combine aspects of community and partnership forestry with commercial forest operations which can strengthen land tenure of local communities. We understand that the Wildlife Conservation Society and the Tropical Forest Trust are currently preparing a proposal for such an operation in Mondulkiri Province and this could provide some useful experience.

Realignment of Conservation Priorities - Working closely with the Ministry of Environment the Bank has recently completed an analysis of the conservation system in Cambodia. This preliminary analysis has highlighted opportunities to adjust the distribution of conservation areas to improve protection of high conservation value forests on the one hand and potentially release lower conservation value areas for more productive uses.

One area that we would like to raise as requiring special attention is **Annual Bidding Coupes**. We understand that the Forest Administration plans to use the same planning and management standards as were developed for forest concessions in their direct management of the coupe system. However, we and other donors are concerned that Forestry Administration staff may lack capacity to implement environmental and social impact assessments, as required under these standards, and may face difficulties in working effectively with local communities to ensure sustainability of forest resources management. Implementation of an annual coupe system will present new challenges for the Administration to effectively oversee and control operations at the field level. Failure to ensure annual bidding coupes are implemented with due attention to transparency in the bidding process, adequate community consultation, sufficient oversight by Administration staff, and independent monitoring of any infractions, could result in future conflicts with communities and further loss of important conservation values, as has occurred in other countries in the region. We urge the Government to review the capacity of regional Administration staff to meet the new demands likely to be placed on them. The Bank stands ready to support such a review.

I have asked Ms. Hoonae Kim, sector manager, and Mr. Peter Jipp, Sr. Forestry Specialist to be in Cambodia this week to continue the discussion on the closure of the current Project as well as on options for the future, and our Country Director, Ian Porter, will try to join them for the

meeting of the Technical Working Group on November 28. In this context, and in view of their interest in these issues and to help begin a broader discussion with key stakeholders, we are copying this letter to the Technical Working Group and other interested stakeholders.

Please be assured of our continued support and readiness to assist in this effort.

Yours sincerely,



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cc: H.E. Keat Chhon, Senior Minister, Ministry of Economy and Finance
H.E. Ty Sokhun, Head, Forestry Administration
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