Appendix A  The Rectangular Strategy and Government Policy for Rural Development

381. At the first Cabinet meeting of the third parliamentary session, on 16 July 2004, the government announced its intention to implement a so-called “rectangular” development of the country, because it is based on a logical interlocking at three levels of the chosen policies and strategic objectives.\(^{49}\)

382. The core of the strategy consists of a strategy of good governance, with the first four elements as follows (4 sides of the first rectangle):

1. Control of corruption (specific law, creation of an independent research body and a crackdown on corruption; organization of a transparent system of public funding management and concession attribution)
2. Legal and judicial reform (creation of a state of law, drawing up and vote on civil and criminal codes, creation of specialized courts, particularly for commerce and business, independence and neutrality of the judiciary)
3. Administrative reform (professionalisation and neutrality of the civil service and public services) including devolution and decentralization (Provinces, towns, districts and rural councils)
4. Reform of the armed forces (reorganization and professionalisation of army and police personnel) and demobilization of surplus personnel (attribution of land, social concessions, training and professional rehabilitation)

383. These major objectives can only be achieved if the conditions linked to the social and economic environment are fulfilled:

1. Peace, political stability and public order (restore the confidence of working populations and both national and foreign investors)
2. Partnership for development (close cooperation between the State, the donor community, civil society and the private sector)
3. Macroeconomic environment (growth rate of 6%, market-based exchange rate, inflation down to one figure, gradual prudent withdrawal from the dollar system) and a fiscal framework favourable for development (equitable broadening and consolidation of the taxation base, control of tax evasion and of the exemption culture, transparency of customs and budgetary affairs).\(^{50}\)
4. Regional and global integration (recognition of the importance of world trade for economic development; active contribution to the policies and actions of the ASEAN, particularly in economic issues; confirmation of WTO membership).

384. Four major strategic elements are next defined for public action, aiming at achieving the overall objectives of growth and poverty reduction:

1. Strengthening of the agricultural sector
   a. Productivity improvement and diversification: development of high-potential crops and agro-industries, stimulate exports, intensification in the

\(^{49}\) This section is adapted from (SOFRECO and CEDAC 2005).
\(^{50}\) The earmarking of levied taxation for specific expenditure, kept aside from the State budget and Government Treasury, appears to have been disallowed (see discipline n° 3, page 21 of the document “address by S Hun Sen on Rectangular Strategy”, 16 July 2004).
high-density areas, land distribution and securing of land tenure; arranging availability of inputs and loans, raising product quality and bringing up to international standards, priority to border zones and remote areas which need start-up infrastructure.

b. **Land reform and tenure securing**: effective implementation of the law of 2001, equitable distribution of State land to smallholders’ concerns, system of social concessions, setting-up of a solid system of land title attribution, control of illicit land appropriation and speculation, continuation of de-mining campaigns.

c. **Forestry reform**: (sustainable forest management, biodiversity conservation, community-based management)

2. Renovation and development of physical infrastructure
   a. Creation of a suitable network of roads, railways, river transport and ports
   b. Development of electricity supply, particularly in rural areas
   c. Inter-province telephone network (using fibre optics) and generalization of mobile phone systems

3. Development of the private sector and creation of employment
   a. Attract private investment, particularly in agro-industry and labour-intensive industries geared to exports
   b. Promotion of small and medium-size companies: credit availability, facilitate business-creation formalities and procedures, financial support for start-up, strengthen links with the large-scale industries, setting-up of national-level institutions and laboratories for productivity and quality, adapt the regulatory framework and professional training.
   c. Develop employment in agriculture and agro-industry: professional training, technology transfer, advice, employment statistics
   d. Guarantee safety nets: support for the unemployed and handicapped, development of retirement and pension systems; emergence of trade unions.

4. Reinforcement of human skills and resources

385. These elements, taken as a whole, confirm that the government wants to give priority to the rural economy and to agriculture in its raft of public-sector policy measures.

386. Land reform would require putting land distribution and title attribution schemes into practice in the field, taking advantage of administrative devolution now under way. The main broad actions envisaged, which will help in securing the land rights situation, are as follows:

1. Finalization of sub-orders of the land tenure law of 2001 regarding classification and management of State land and economic concessions
2. Development of rural planning and development by the rural councils themselves with central government support
3. Generalization of land titles and registration, including the recognition of collective communal rights in areas where minorities live (objective of 1 million titles in 2007)
4. Reinforcement and reorganization of local authorities responsible for delivering land tenure titles, allowing better transparency in matters of land transfer registration
5. Control of corruption, by instituting clear procedures and fixing minimum standards of service (time, costs)
6. Make easier the resolution of land conflicts by setting up land registry commissions and offering legal access for farmers.

387. The agricultural support and technical and marketing advice services remain at an embryonic stage, in spite of training schemes for agents of provincial services and the founding of the Cambodian Agronomic Research and Development Institute (CARDI), achieved with the support of Australian development aid. These services, essential for making agriculture more competitive, must therefore be reinforced and their activities developed. Moreover, there are hardly any economic and business-oriented professional agricultural organizations in Cambodia, owing especially to farmers' mistrust and reluctance to join groups which could remind them too much of the cooperatives of the collectivisation era of the 1964-1979 period. The actions planned concerning these aspects are as follows:

1. Continuation of the development of the national system of research and popularisation/agricultural advice for the benefit of smallholders, based on analysis of the demand expressed by the different types of agriculture and farmer. This process would take into account schemes responding to such demands already under way or programmed by public agencies, associations or private actors.
2. Support to encourage the emergence and development of producers' organizations, on the basis of an analysis of constraints and opportunities linked to the different sectors
3. It would be advisable therefore, when drawing up proposals specific for the rubber sector concerning "vertical" research and advice, to take into account this national system using a more “transversal” approach.

388. Concerning rural infrastructure (roads and electricity), the priority actions would be as follows:

1. The drawing-up of an overall and regional infrastructure development strategy, with the support of donor organizations, depending on the link between agricultural and industrial potential and infrastructure-related constraints
2. Reinforcement of skills related to selection, planning and the role of contracting authority, at central government level, but with particular attention also to provincial level
3. Organization of maintenance procedures and the necessary finance using fiscal or parafiscal mechanisms.

389. The planning and overall management of the agricultural and rural sector would require:

1. An overall development programme focused on specific regions and for each sector, to be devised and implemented by way of a participatory process
2. Redefinition of the role of central and local government, in the light of deregulation of the economy and privatisations
3. Reallocation of national budget resources and foreign aid in line with programming, in a more selective way
4. Increase overall public financial effort in favour of agriculture, and especially for smallholders.
Appendix B  Terms of Reference For Agrarian Structure Study

CAMBODIA: Agrarian Structure Study

Terms of Reference

Draft 12-10-04

The Royal Government has indicated in its Rectangular Strategy that its agriculture policy is “to improve agricultural productivity and diversification, thereby enabling the agriculture sector to serve as the dynamic driving force for economic growth and poverty reduction.” Government has also highlighted the role of land and committed a policy of “strengthening an equitable and efficient system of land management, distribution and utilization, including land registration and distribution, land tenure security, eradication of illegal settlements and land grabbing, and the control of land ownership concentration for speculative purposes.” This strategy is intended to be supported by implementation of new policy instruments established under the 2001 Land Law, including Social Land Concessions (distribution of state private lands to the poor), Economic Land Concessions (long-term contracts for plantation-type developments on large areas); State Land Management (mapping, land use and allocation procedures) and implementation of the Unused Land Tax.

While the overall objective of Government’s strategy is clear, the means to achieve this through agricultural growth is not clear and still disputed within Government. The Rectangular Strategy highlights inclusive growth, and given Cambodia’s relatively rich natural resource endowment and the concentration of poverty (90% of poor) in rural areas, agricultural and rural development is the key mechanism to achieve this. However, neither the Rectangular Strategy nor other key strategic documents – SEDP II or NPRS – clearly identify the role of smallholder agriculture in achieving growth, including export production. Numerous senior officials view plantation style development as the key to export led, rural growth, while smallholder agriculture is viewed as a kind of “dead end” activity for maintaining a currently unemployable rural populace.

Implementation of the new policy framework is supported with actual and planned donor support. The ongoing Land Management and Administration Project (LMAP) has provided focused on strengthening private property rights through land registration and improved land dispute resolution mechanisms. LMAP has also provide support for land policy development and land management activities which are increasingly being implemented in conjunction with preparation of the proposed Land Allocation for Social and Economic Development (LASED) which seeks to improve the efficiency of state land use through support to distribution/privatization of “social land concessions” to the landless and land-poor, implementation of state land management activities, including economic land concessions.

Moving forward with implementation of the new policy framework requires a better definition of the role of smallholders in a dynamic, growth-oriented rural economy. The policy instruments identified under the Land Law will enable Government to influence the distribution of land resources through direct transfer and market mechanisms. Government cannot implement these instruments in a neutral fashion as given the limited availability of good quality land for agriculture, trade-offs will have to be made between provision for large and small holdings. The priority allocation of complementary public expenditures – own revenues and ODA – will also be dependent on what agrarian structure rural infrastructure and business support services are intended to facilitate. In addition, the size and contractual conditions on investments for economic land concessions will reflect the degree to which approaches which integrate smallholders are considered desirable.

Government’s partners have indicated clearly that financial and technical assistance in support of improved utilization of Cambodia’s land resources is conditioned on a clear statement of Cambodia’s vision for agrarian structure. Experience worldwide, and particularly in East Asia, has demonstrated the productivity advantages of smallholder agriculture (diseconomies of scale) relative to large scale operations. The relative advantage depends on several factors, including complementary market access conditions (roads, communications, credit and input availability) as well as supportive policies (marketing restrictions, unofficial costs) and particularly on development of effective producer and marketing organizations to reduce transaction costs for input and output marketing. Donors have been and will continue to be focused on supporting these complementary factors in Cambodia in support of poverty reduction. However, given the key role of Government in setting the incentives for public service delivery and coordinating across service delivery and regulatory functions, it is essential that there be a consistency in the ends to which Government and donors are aligned.
In order to provide Government with the basis for determining its strategic approach to land and agricultural development, a study will be carried out which reviews the experience in Cambodia in terms of the productivity of smallholder vs. large scale production. While still overcoming the post-conflict limitations on the enabling business environment, Cambodia already has several examples of dynamic agricultural initiatives involving small, medium and large enterprises reflecting distinct organizational models. The proposed study will review a sample of these experiences to identify, inter alia, the factors determining their viability, potential for scale up/replication, and comparison of likely impacts on broader production, exports and employment aggregates. The study will also draw upon experience in neighboring countries of successful smallholder based agricultural development to identify differences in the conditions and incentives facing Cambodian farmers. The study will provide Government with the basis for reviewing options in term of how it utilizes its emerging policy instruments to influence the structure of the agricultural sector as input into the preparation of a policy statement on desired land use and allocation in support of rural economic development.

Issues to be addressed

The study will focus on clarifying the trade-offs for the most relevant alternative land allocation scenarios being faced by Government, including between allocation of high quality agricultural land for large, economic plantations or smallholders, and maintenance of degraded and encroached forest land as forest estate or to be privatized for social concessions. The approach draws on the agrarian structure work of Binswanger, Feder, de Janvry, Rosengrant, Deininger and Ravillion to address four key elements:

- **Describe current land distribution and agrarian structure status and trends**
- **Assess the relative costs and benefits of plantation vs. small holder production systems and other alternatives in terms of productivity, costs and employment.**
- **Assess the relative costs and benefits of reforestation, agro-forestry and agricultural systems on degraded forest lands in terms of financial and economic returns, contribution to employment, exports and environmental services.**
- **Identify the conditions – including policy environment, rural infrastructure and other supporting services - required for Cambodian smallholders to integrate into dynamic, export-oriented agricultural value chains similar to smallholders in neighboring countries.**

Methodology

The primary methodologies for testing, or addressing these hypotheses will be:

- Literature review on land distribution and agrarian structure in Cambodia
- Enterprise level models of alternative production systems
- Value chain analysis which identifies the role and relationship of smallholders in the context of input, production, processing, transport and marketing of consumer products
- Review of experience in neighboring and other countries in Asia primarily, including examples of above models but also broader
- Structured interviews and workshops with key stakeholders in Cambodia

The analysis and report will be prepared working closely with the Working Group on Agrarian Structure being established under the Council for Land Policy (CLP) and chaired by the Ministry of Agriculture, Fisheries and Forestry. Members of the National Technical Preparation Team for the proposed Land Allocation for Social and Economic Development Project (LASED) are expected to participate in implementation of the study.

A module on land has been included in the most recent socio-economic household survey and some initial results may be available during the preparation of the study. At the least, the study should, based on review of the questionnaire, provide guidance on how the survey data can be used to provide further clarity on the above issues.

Outputs

A report which covers:

1. Review of existing information on agrarian structure, land distribution and production relationships in Cambodia
2. Presentation and explanation of the models and results
3. Broader implications for policy with particular reference to land allocation and public investment support (is there scope for some extrapolation of results to discuss employment, poverty, exports in aggregate?)

Timing

An initial draft report should be completed and provided to CLP, the World Bank and GTZ (funding agencies) by March 10, 2005, and based on comments, a revised draft presented to stakeholders in the context of a workshop by March 30, 2005.