

INSP/R2005-0001/3

International Bank for Reconstruction and Development
International Development Association

INSP/35556-KH

**MANAGEMENT REPORT AND RECOMMENDATION
IN RESPONSE TO THE
INSPECTION PANEL INVESTIGATION REPORT**

**CAMBODIA: FOREST CONCESSION MANAGEMENT
AND CONTROL PILOT PROJECT
(CREDIT NO. 3365-KH AND TRUST FUND. 26419-JPN)**

May 16, 2006

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OF THE
CAMBODIA: FOREST CONCESSION MANAGEMENT
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Pursuant to paragraph 23 of the Resolution Establishing the Inspection Panel (IBRD Resolution 93-10 and IDA Resolution 93-6), attached for consideration by Executive Directors is Management's Report and Recommendation in response to the findings set out in the Investigation Report No. 35556 dated March 30, 2006, of the Inspection Panel on the captioned Project (Cambodia: Forest Concession Management and Control Pilot Project; Credit No. 3365-KH and Trust Fund. 26419-JPN).

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CONTENTS

Abbreviations and Acronyms	iv
List of Operational Policies, Operational Directives, Operational Manual Statements, and Operational Policy Notes.....	vi
I. Introduction.....	1
II. Background	1
III. Project Description.....	4
IV. Findings and Observations of the Panel.....	6
V. Key Issues	8
VI. Lessons Learned.....	22
VII. Management Action Plan.....	25
VIII. Conclusion	29

Tables

Table 1. Supervision Costs

Boxes

Box 1. Draft Community Consultation Guidelines

Annexes:

- Annex 1. Findings, Comments and Actions
- Annex 2. Sub-Decree on Forest Concession Management
- Annex 3. Information on Supervision
- Annex 4. November 2005 Letter on Forest Management in Cambodia
- Annex 5. List of Key Documents and References

Maps:

Map 1. IBRD No. 33865 Cambodia Concession Areas – 1997 to present

ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
BNPP	Bank-Netherlands Partnership Program
BP	Bank Procedures
CAS	Country Assistance Strategy
CI	Conservation International
CTIA	Cambodia Timber Industries Association
DANIDA	Danish International Development Agency
DFID	Department for International Development (United Kingdom)
DFW	Department of Forestry and Wildlife
EA	Environmental Assessment
EAP	East Asia and the Pacific Region
ESIA	Environmental and Social Impact Assessment
FA	Forestry Administration
FAO	Food and Agriculture Organization of the United Nations
FCMCP	Forest Concession Management Control and Pilot Project
ICR	Implementation Completion Report
IDA	International Development Association
IFSR	Independent Forest Sector Review
IPDP	Indigenous Peoples Development Plan
IPN	Inspection Panel
ITTO	International Tropical Timber Organization
LIL	Learning and Innovation Loan
MAFF	Ministry of Agriculture, Forestry and Fisheries
MOE	Ministry of Environment
MTR	Mid-Term Review
NGO	Nongovernmental Organization
NRM	Natural Resources Management
OD	Operational Directive
OED	Operations Evaluation Department
OP	Operational Policy
OPN	Operational Policy Note
PAD	Project Appraisal Document
PHRD	Japan Policy and Human Resources Development Fund
<i>Prakas</i>	Regulation issued by a Government office or officer, also known as a Ministerial Order
QACU	Quality Assurance and Compliance Unit
QER	Quality Enhancement Review
SAC	Structural Adjustment Credit
SDR	Special Drawing Rights
SEA	Strategic Environmental Assessment
SFMP	Strategic Forest Management Plan
SGS	Société générale de surveillance
TFT	Tropical Forest Trust
TOR	Terms of Reference

TRT	Technical Review Team
TWG	Technical Working Group
UNDP	United Nations Development Programme
USD	United States Dollar
WCS	Wildlife Conservation Society
WWF	World Wildlife Fund

LIST OF OPERATIONAL POLICIES, OPERATIONAL DIRECTIVES, OPERATIONAL MANUAL STATEMENTS, AND OPERATIONAL POLICY NOTES

OP/BP 4.01	Environmental Assessment, January 1999
OP/BP 4.04	Natural Habitats, September 1995
OD 4.20	Indigenous Peoples, September 1991
OP 4.36 ¹	Forestry, September 1993
OP 8.40	Technical Assistance, October 1994
OP/OB 10.00	Investment Lending: Identification to Board Presentation, June 1994
OPN 11.03	Cultural Property, September 1986
OD/OP/BP 13.05	Project Supervision, January 1996 / July 2001
	World Bank Policy on Disclosure of Information, 2002
	President's Memorandum on Adaptable Lending, 1997 and subsequent directives on Learning and Innovation Loans (LILs).

¹ OP 4.36 (Forestry) issued in September 1993 applies to this Project because the Credit financing the FCMCPP was approved in June 2000 while the current Bank Policy OP/BP 4.36 (Forests) was issued in November 2002.

I. INTRODUCTION

1. On February 4, 2005, the Inspection Panel registered a Request for Inspection, IPN Request RQ05/1 (hereafter referred to as “the Request”), concerning the Cambodia Forest Concession Management and Control Pilot Project (FCMCPP), Credit No. 3365-KH, financed by the International Development Association (IDA). The Request was submitted by NGO Forum of Cambodia acting on its own behalf and on behalf of affected local communities living in the districts of Tbeng Meanchey in Preah Vihear Province; Siem Bok and Sesan in Stung Treng Province; and Anlong Veng in Oddar Meanchey Province, Cambodia (hereafter referred to as the “Requesters”).
2. The Executive Directors and the President of IDA were notified by the Panel of receipt of the Request. Management responded to the claims in the Request on March 8, 2005.
3. In its Report to the Board, the Panel found the Request eligible and recommended that the Executive Directors authorize an investigation. The investigation was authorized by the Executive Directors on April 14, 2005.
4. On March 30, 2006, the Panel issued its report outlining the findings of the investigation. Management appreciates the Panel’s thorough presentation of its findings. This report, responding to the findings of the Panel, is organized in several sections. Section II is an overview of the forestry sector in Cambodia at the time the project was being prepared. Section III provides a description of the project. Section IV contains the findings and observations of the Panel. Section V outlines the key issues in preparing and implementing the project. Lessons learned are presented in Section VI and the Management’s Action Plan is provided in Section VII. Section VIII contains the conclusion. The Panel’s findings, along with Management’s responses, are described in detail in Annex 1. Annexes 2-5 provide additional supporting documentation.

II. BACKGROUND

5. ***Governance in Natural Resources Management (NRM)***. The project developed as Cambodia, one of the poorest countries in the region (USD 290 per capita annual income in 2000), emerged in the mid-1990s from decades of war and isolation. Its institutions were fragile and violence and social dislocation were ongoing, with disarray extending to all parts of the economy. During the second half of the 1990s and into this decade, stability has increased, agricultural growth has been restored, rural incomes have increased, and rural poverty has come down (although not as quickly as in urban areas). However, corruption and non-transparent allocation of natural resource exploitation rights have held back and continue to hold back progress with access to natural resources (including land, forests, and fisheries) upon which local communities depend for consumption and much of their income being limited, and the number of landless farmers in Cambodia steadily increasing.
6. By the late 1990s, the Government had begun an ambitious structural reform program, with the support of the Bank and other donors. The Bank’s 2000 Country Assis-

tance Strategy (CAS) for Cambodia discussed the governance challenges facing the country, among them awareness of the excessive role of the military in national life, the limitations and weak capacity of the public administration, low civil service salaries, widespread corruption, and other problems. The CAS further proposed steps to build “the foundations for sustainable development and poverty reduction” as the Bank’s main objective in Cambodia (CAS, p. v). The CAS also acknowledged the risks to Cambodia of faltering political commitment to reforms in the face of powerful special interests or a return to social unrest and political instability. The effective management of critical natural resources—especially land and forests—was an important component of Cambodia’s economic reconstruction.

7. ***Bank Approach to Forestry Sector.*** The Bank’s work in forestry in Cambodia was strongly influenced by the evolving thinking on forestry issues at an institutional level, as reflected in the Bank’s Forest Sector Policy Paper (1991), Forestry Policy (1993), and Forest Strategy (2002). The broad goals of the Bank’s Forest Sector Policy paper were to prevent or significantly reduce deforestation and to stimulate plantations and creation of additional forest resources. It recognized the role of forestry in poverty reduction, emphasized preservation of intact forest areas and included a Bank commitment not to finance commercial logging in primary moist tropical forests. OP 4.36 on Forestry, introduced in 1993, reflected the strategic content of the 1991 paper.

8. During 1999-2000, the Operations Evaluation Department (OED) undertook a review of experience with the strategy and policy, which found that implementation had fallen short of objectives, with a “chilling effect” on Bank support for forestry sector activities, and that lending for self-standing forestry sector operations that traditionally dealt with key forest policy and management sector issues had stagnated. Among many recommendations, OED advised that the Bank should “address the risky and controversial issues of the forest sector.” In particular, OED stated that “Illegal logging needs to be reduced by actively promoting improved governance and enforcement of laws and regulations... helping Bank Borrowers improve, implement, and enforce existing laws and regulations.” To do so “will also require that national stakeholders (especially civil society and the private sector) demand, implement, and monitor improved governance practices.”

9. The Bank subsequently conducted a two-year process of analysis and consultation, resulting in a revised Forest Strategy that was approved by the Executive Directors in 2002 and incorporated in revisions to OP 4.36. This Strategy mandates active Bank engagement in the sector to promote three equally important and interdependent objectives—harnessing the potential of forests to reduce poverty; integrating forests in sustainable economic development; and protecting the vital local and global environmental services and values provided by forests. The Strategy identified, as a priority, the need to address illegal logging and corruption and reform forest concession policies. Concerning concessions, the Strategy committed the Bank to promote use of regulatory frameworks for timber concessions to enhance the contribution of forests to economic and social development as well as environmental protection. The Strategy also committed the Bank to encourage governments to engage independent third-party certification bodies in performance-based monitoring of forest harvesting and management operations.

10. ***The Bank and Forestry Management in Cambodia.*** In the mid-1990s, the Bank undertook a detailed and comprehensive program of sector work in Cambodia to help focus attention on critical ingredients for environmentally sustainable and equitable resources development, including the diverse values of forests, the need for robust systems of governance, and the participation of communities and the private sector. More recently, the Bank has worked closely with the Government of Cambodia to ensure a suspension of logging, promote disclosure and transparency, and formalize a regulatory process to anticipate and mitigate risks of future harm.

11. In 1996, the Government, the Bank and others engaged in an intensive examination of forest policy following a sector analysis by the Bank, United Nations Food and Agricultural Organization (FAO), and United Nations Development Programme (UNDP). That report, “Cambodia: Forest Policy Assessment” (Report No. 15777 KH), laid out the enormous economic, social and environmental potential of the forest resource and identified serious weaknesses in the Government’s approach. Concessions stood out as a critical constraint to the emergence of sustainable, diverse and socially responsible forestry in Cambodia. Illegal logging was also seen as a serious threat to the sector. The Bank, FAO and UNDP recommended a strategy involving development of an improved regulatory and legal framework, re-examination of concession contracts, trade policy reform for log and forest products and other measures. Subsequent studies estimated 3-4 million cubic meters of illegal logging in 1997-1998 and showed a continued pattern of grossly inadequate fiscal returns (Development Alternatives, Incorporated, 1998; Fraser Thomas, 2000b). It was anticipated that at that rate of exploitation, the forest would be exhausted in five years. Analytic work on forestry by the Bank was carried out in close association and collaboration with other agencies, including multilateral agencies—Asian Development Bank (ADB), as well as FAO and UNDP—and bilateral donors and civil society organizations.

12. Although the Bank had serious concerns about Cambodia’s forest concession system, and shared its views with the Government, the Bank recognized the dominant role that concessions had in the sector and the severity of the ongoing damage that virtually uncontrolled concession operations were inflicting. The fact that concessions covered most of the forest area outside of the Protected Areas system, including land with limited commercial potential, while also presenting serious risks to local communities, among them Indigenous Peoples, was raised by the Bank with the Government on numerous occasions both in reports and in ongoing discussions.¹ While working to reduce the most egregious performance deficiencies in some concessions through terminations, the Government remained committed to a concession system as a means of mobilizing revenues from forest resources and introducing effective management and protection through privatization via concessions of management operations that were beyond the scope of Government capacity. This strategy is recognized and employed in many countries for forests as well as other resources, but requires in turn specific kinds of regulatory and safeguard capabilities that, while recognized in Cambodia law and regulation, needed to be devel-

¹ See, for example, “Cambodia: Forest Policy Assessment” and background paper entitled “A Vision for Forestry Sector Development” presented to the 1999 Consultative Group Meeting (World Bank/UNDP/FAO, 1996, World Bank, 1999).

oped at the operational level. The Bank, therefore, employed a three-pronged strategy in Cambodian forestry issues to: (i) assist the Government in rationalizing the concession system; (ii) assist in strengthening the regulatory system for the remaining concessions; and (iii) contribute directly to the development of alternative forest management arrangements, such as community forestry and Protected Areas systems.

III. PROJECT DESCRIPTION

13. **Overview.** The emergence of Cambodia from a post-conflict situation, the dependency of the country's poor on land, forests, and fisheries resources, the particular challenges of governance, and the country's long-term involvement in concession logging all posed substantial risks in moving forward to reform the management of natural resources. By the time the project was approved, there was an urgent need to address overexploitation of timber resources and illegal logging in the concession areas.

14. **The Project.** The IDA Credit of SDR 3.6 million (USD 4.82 million equivalent at the time of approval) for a Learning and Innovation Loan (LIL) was approved on June 5, 2000. The legal agreement was signed July 6, 2000 and the project became effective on October 20, 2000. A Japan Policy and Human Resources Development Fund (PHRD) Grant of USD 240,000 was provided for technical assistance during implementation.² The project was originally scheduled to close on December 31, 2003. The Closing Date was extended at the request of the Borrower to June 30, 2005 to finance the contract of the Independent Monitor, Société générale de surveillance (SGS), when other donors did not come forward. The project finally closed on December 31, 2005 after two extensions. As of Closing, a total of USD 4.82 million was disbursed out of the IDA Credit of SDR 3.6 million equivalent (USD 5.1 million, reflecting SDR appreciation against the USD).

15. **Project Objectives.** The overall project development objectives (Schedule 2 to the Development Credit Agreement) were to demonstrate and improve the effectiveness of a comprehensive set of forest management and operational guidelines and control procedures in forest concession areas, and to establish an effective forest crime monitoring and prevention capability. The project was formulated with the expectation and understanding that greater knowledge was needed about Cambodian forestry and about the ways in which reforms could be advanced. As a LIL, the project was specifically expected to generate better understanding of efforts to maintain the Government's commitment to sustainable forestry, support the private sector, and, through learning from experience, better understand how regulations could be made more effective in the face of difficult working conditions (inefficient operations, low salaries, corruption, etc.).

16. **Project Components.** The project consisted of four components (Project Appraisal Document [PAD], p. 5):

² The PHRD grant to the Government (June 2001) provided additional technical assistance during implementation. This Government-implemented grant focused on social and environmental assessment and collaborative efforts to design the Community Consultation Guidelines.

- *Forest Planning and Inventory Component* (USD 1.3 million). This supported the Forestry Administration (FA) in providing guidance to and exercising quality control over concessionaire preparation of detailed long- and short-term forest management plans. It included the conduct of field surveys and inventories, and assessment of management constraints, biodiversity and social issues, and risks of timber theft.
- *Concession Regulation and Control Component* (USD 2.04 million). This component was designed to strengthen the capacity of the FA to oversee concession operations and to ensure compliance of operations with plans and conditions.
- *Forest Crime Monitoring and Prevention Component* (USD 1.11 million). This component was designed to strengthen the capacity of the FA and Ministry of Environment (MOE) to regularly monitor illegal logging and to launch effective prevention activities. It introduced systematic data collection and analysis techniques, and provided equipment and contractual services, training and technical assistance.
- *Project Management and Institutional Strengthening Component* (USD 0.97 million). This component established a Project Management Unit in the FA, including construction of a small office building, and provision of equipment and staff training.

The project was subsequently modified in 2003 to address post-concession management issues; this modification did not require an amendment to the Development Credit Agreement.

17. The project complemented similar efforts by the Bank and donors to protect wildlife, support community forestry, build institutional capacity, and address land use and rural poverty reduction. The February 2000 Structural Adjustment Credit (SAC) included conditionalities for addressing a set of policy actions to support a more orderly and transparent management system of forestry resources and establish an environmentally sustainable, socially responsible and economically viable forest sector. It focused on: (i) forest crime monitoring, including developing a program for forest crime monitoring and publishing a quarterly report on forest crimes; (ii) concession management, including undertaking a review of concession contracts and of alternate mechanisms for timber royalties with more transparent and market-based pricing principles, and preparing a sub-decree that would define a community forestry policy following appropriate consultations with stakeholders; and (iii) preparing a draft forest law for submission to the National Assembly that would strengthen enforcement efforts and public accountability. In addition, the Bank and GEF prepared a Biodiversity and Protected Areas LIL and the Bank prepared a Land Administration project. A joint FAO/UNDP project, working in tandem with the FCMCPP and the SAC, also addressed forest crime monitoring.

18. **Overall Progress.** There were a number of delays in implementation. The forest crime component of the LIL had to await the resolution of audit and procurement delays affecting the FAO/UNDP project. It took some time for the Government to hire a project

advisor. Within a year of implementation, problems arose over the insufficient capacity of the Government to regulate the sector, challenges in the preparation of management plans, conflicts among the various stakeholders, and the role of the Independent Monitor. The project was rated “unsatisfactory” for implementation from 2002 until completion, and the development objectives rating was downgraded to “unsatisfactory” in 2002 (the latter was upgraded in 2003 to “satisfactory” when the Cambodian Government reinstated a requirement for five-year, or compartment, plans). The project ultimately closed, however, with “unsatisfactory” ratings for both development objectives and implementation, given the numerous difficulties in implementation (see Section V). A chronology of the project’s ratings is included in Annex 3.

IV. FINDINGS AND OBSERVATIONS OF THE PANEL

19. The Panel made the following findings regarding Bank compliance with its policies and procedures in relation to the issues raised by the Requesters; conditions required to attain full compliance for some items are noted below. Responses to the findings are contained in Annex 1 in the form of a matrix that lists each of the Panel’s findings and observations along with Management’s comments and clarifications. Section V provides additional information and context for the issues raised by the Panel. One key statement by the Panel is that the project did not directly cause the damage from large scale unsustainable logging in Cambodia over the past decade; this is also addressed in Annex 1 (Item 4).

OP/BP 4.01 – Environmental Assessment	
NOT IN COMPLIANCE	<ul style="list-style-type: none"> - PAD and other project formulation documents did not contain adequate analysis of environmental issues surrounding the project, as is required by OP 4.01. - Given the very serious potential impacts, and close association of project with these impacts, project should have been placed in Category A, and a full environmental assessment (EA) should have been carried out. By failing to do this, Bank did not comply with OP 4.01. Careful study and debate by multiple parties, as required for Category A project under OP 4.01, could have helped avoid serious errors in design and implementation of project. - Bank focused only on areas covered by concessions to define project area. This led to overly restrictive definition of project area. As a result, project's social impacts were significantly understated and Bank social and environmental safeguards not applied to proper area and population. This is not consistent with the applicable Bank policies, OP 4.01 and OD 4.20. - Bank was frequently made aware of numerous complaints of harms to local communities due to cutting of resin trees. Bank’s failure to consider and investigate these problems does not comply with OP 4.01 and OP 4.36 - An assessment or inventory should have been part of a proper EA, and should have been subject of a participatory survey and inventory at early stage of project. Failure to do so was not in compliance with OP 4.01. - Bank’s decision to postpone active social assessment and consultation procedure until preparation of Environmental and Social Impact Assessments (ESIAs) by concessionaires is not consistent with Bank policies, including OP 4.01, OP 4.04 and OD 4.20, which require early consultations and/or surveys in the preparation phase.
OP/BP 4.04 – NATURAL HABITATS	
NOT IN COMPLIANCE	<ul style="list-style-type: none"> - While project did not explicitly support significant conversion of natural habitats, project design and planning did not adequately recognize existence of natural habitats, particularly critical natural habitats. As a result, essential information to enable their protection was missing in concession planning and approval process. This is not consistent with OP/BP 4.04 on Natural Habitats. - Bank’s decision to postpone active social assessment and consultation procedure

	until preparation of ESIA's by concessionaires is not consistent with Bank policies, including OP 4.01, OP 4.04 and OD 4.20, which require early consultations and/or surveys in the preparation phase.
OD 4.20 – INDIGENOUS PEOPLES	
NOT IN COMPLIANCE	<ul style="list-style-type: none"> - Project's social impacts were significantly understated and Bank social and environmental safeguards not applied to proper area and population. This is not consistent with the applicable Bank policies, OP 4.01 and OD 4.20. - Bank's decision to postpone active social assessment and consultation procedure until preparation of ESIA's by concessionaires is not consistent with Bank policies, including OP 4.01, OP 4.04 and OD 4.20, which require early consultations and/or surveys in the preparation phase. - Panel notes Management's acknowledgement that a framework Indigenous Peoples Development Plan (IPDP) would have been more appropriate during project design, and finds that in line with OD 4.20, an IPDP should have been prepared for this project. - Assignment of responsibility for consulting with Indigenous Peoples to the concessionaires, who are planning to log the forests used by the Indigenous Peoples, led to a flawed and inadequate consultation process inconsistent with OD 4.20.
OP 4.36 – FORESTRY	
IN COMPLIANCE	<ul style="list-style-type: none"> - Bank is in compliance with paragraph 1(a) of OP 4.36, because it did not finance logging or logging equipment. - Decision to work on concession issue is not inconsistent with objectives of OP 4.36.
NOT IN COMPLIANCE	<ul style="list-style-type: none"> - Project's design created a structure likely to lead to inadequate levels of local involvement, community consultations, and social and environmental assessments. This does not comply with OP 4.36 and other Bank policies. - While Bank did not finance harvesting of high value forests, it did not ensure that potential high ecological value of Prey Long forest was explicitly identified in early years of project and taken into consideration during development of relevant Strategic Forest Management Plans (SFMPs), as required by OP 4.36. - Bank was frequently made aware of numerous complaints of harms to local communities due to cutting of resin trees. Bank's failure to consider and investigate these problems does not comply with OP 4.01 and OP 4.36.
OPN 11.03 – CULTURAL PROPERTY	
NOT IN COMPLIANCE	<ul style="list-style-type: none"> - The Panel finds that none of the means of handling the issue of spirit forests, provided for in the Bank policy, was carried out as part of the project. To leave determinations about spirit forests to concessionaires, to include within their ESIA's as they developed and presented their SFMPs for approval, is not consistent with OPN 11.03. - Procedure used by the project to identify important cultural properties relied on the concessionaires to include them within their proposed management plans, without provision for reporting their existence to appropriate agencies or including appropriate specialists. This does not comply with the minimum level of protection and enhancement of cultural properties envisioned within OPN 11.03.
OD/OP/BP 13.05 – PROJECT SUPERVISION	
IN COMPLIANCE	<ul style="list-style-type: none"> - Consistent with OP 13.05, Bank focused its technical assistance on building capacity of the FA to oversee development of SFMPs by companies. - Bank's participation in discussions about mechanisms to allow logs already cut to be transported to processing plants was appropriate and consistent with policy.
NOT IN COMPLIANCE	<ul style="list-style-type: none"> - Management acknowledges that it should have managed the process better. The Panel notes this acknowledgement, and finds that Bank's supervision of this process was not always consistent with OP/BP 13.05. - Supervision of the forest cover survey was inadequate and did not comply with OP 13.05. - Panel could not find in the project documents an evaluation or discussion of whether SGS fulfills criteria related to independence for independent forest monitor. This is not consistent with OP 13.05.
MEMORANDUM ON ADAPTABLE LENDING, 1997 AND OTHER DIRECTIVES ON LILS	
NOT IN COMPLIANCE	<ul style="list-style-type: none"> - Panel finds that the elements conditioning the use of the LIL instrument do not apply convincingly to the project.

OTHER FINDINGS

- The Panel finds that in the project's focus on concessions, other aspects that were important to the Bank program in Cambodia and the Government were largely ignored or at least marginalized throughout the planning phase of the project. In particular, the project did not seem to take on the key objective of using the potential of forests to reduce poverty.
- The Panel finds that the Bank chose to give primary emphasis in the project's design to the technical and financial aspects of concession reform at the expense of environmental and social aspects. It thereby lost an opportunity to lead the debate on much needed reform in the forest sector, so that forests could be sustainably managed for the benefit of all Cambodians.
- The Panel finds that the Bank's willingness to become involved in the forestry sector at a time when others would not is commendable. It recognizes the dedication of staff and the risks that they took. However, in design and implementation of the project, the Panel detected a nearly exclusive focus on reforming forestry concessions, a view that this could be done effectively on a technical basis, and a reduced emphasis on compliance with safeguard policies. Thus the necessary national strategic policy discussion that Bank policy requirements would have triggered did not occur. This may have unintentionally contributed in the long run to prolonging a bad situation and to some degree served to legitimize the concessions.

V. KEY ISSUES

20. The Project Appraisal Document (PAD) identified key risks facing the project, including several noted in the Request and Inspection Panel findings. *While the project encountered numerous difficulties, including problems in governance, obtaining accurate baseline data, conflict among the various stakeholders, and ongoing illegal logging, the Panel has stated that the project did not directly cause the damages from the large scale unsustainable logging that has taken place in Cambodia.* The Panel commended the Bank for engaging in forest-related work and taking risks, but added that it is arguable whether and to what extent the project had a positive impact in terms of development results.

21. Challenges to the project were focused mainly around two key objectives: concession planning and management and forest crime monitoring and prevention. This section addresses several issues identified in the Panel investigation under two main headings—Project Design and Preparation and Project Implementation—and provides additional background information related to the Lessons Learned and Action Plan (Sections VI and VII). As noted above, the attached matrix (Annex 1) lists each of the Panel's observations or findings along with Management's comments and clarifications. This section does not, therefore, discuss all of the issues raised in the Panel's report.

A. PROJECT DESIGN AND PREPARATION

Strategic Commitment and Project Focus

22. *The Panel commends the Bank for engaging in forestry-related work in Cambodia and recognized the risks involved. However, the Panel states that in focusing on technical and financial aspect of concessions, other important aspects (e.g., livelihood and cultural assets) were largely ignored or marginalized throughout project planning. In particular, the Panel states that the project did not seem to take on the key objective of using forests to reduce poverty. It also states that the project did not give adequate attention to the interest of local communities and Indigenous Peoples.*

23. Management notes the Panel's commendation and agrees that engaging in Cambodia's forestry sector entailed considerable risk. The project was part of a broad effort under the 2000 CAS to help build the foundations for sustainable development and poverty reduction, in particular, strengthening good governance through more accountable public administration. The FCMCPP specifically came out of the Government's request for Bank assistance in concession management as part of an urgent effort to address over-exploitation of timber resources and illegal logging and to improve resource use and protection in the concessions. Management acknowledges that the project did not succeed in adequately addressing the concerns of local communities and Indigenous Peoples.

24. The project sought to assist the Government to regulate effectively the forestry sector and promote equitable and sustainable use of forest resources. Consistent with the Government's Sub-Decree on Forest Concession Management (see para. 26 below and Annex 2), the project was designed to support the process by which the Government established planning requirements—including environmental and social assessment, preparation of plans and other documentation, and appropriate scrutiny and public disclosure—that were to be met by concessionaires prior to their being permitted to advance to more detailed planning phases and approval of any operations. The Bank's role was to advise Government on the development and implementation of policies and to encourage the adoption of sustainable and socially responsible forest management. This may have contributed to the Panel's observation that the role of the project and the role of the FA had become conflated in the minds of many observers (Panel Investigation Report, para. 334).

25. At the time concessions were granted (prior to the Bank's engagement) the Government had no systematic approach for planning, monitoring or controlling concession operations. Annual logging permits were issued to concessionaires based almost entirely on their log processing capacity, not on the productive potential of the forest, and without regard to impacts on forest productivity or customary and livelihood rights of affected communities. Logging practices by concessionaires were generally poor and scant attention was paid to social and environmental issues.

26. The Sub-Decree on Forest Concession Management, enacted in February 2000, defined the roles and responsibilities for concession management and supervision and set out the key principles to guide concession operations. These principles aimed to provide protection to local communities and the environment, restrict harvests to sustainable levels, facilitate revenue collection and generally increase transparency and accountability. However, the response from concessionaires to these new directives was much less than expected.

27. The Government of Cambodia requested the Bank's assistance in concession management as part of an urgent effort to address overexploitation of timber resources and illegal logging. The Bank decided to assist the Government through the FCMCPP, the SAC, and related projects (see para. 17) after considering that other donors were not taking on the challenge posed by the concession system. The project's substantial risks were discussed during appraisal. Nevertheless, at the time of project preparation and approval, the Bank and other donors were optimistic about what was seen as a way forward to improve forest management and regulation. Management acknowledges that, in hind-

sight, it overestimated the Government's commitment to the successful implementation of the project. Management further recognizes that the project could have done more to involve local communities and Indigenous Peoples in various aspects of the project (e.g., design, preparation, outreach, implementation), per the requirements of the Sub-Decree (for more information, see section below on safeguards).

Lending Instrument

28. *The Panel states that the main aim of the loan was to support a legal and regulatory program on the basis of which long-term concessions were to be granted. The Panel considers that the project cannot easily be regarded as a “learning and hypothesis-testing” exercise. The Panel adds that elements conditioning use of LIL instrument do not apply convincingly to the project. The Panel states that LILs may not be appropriate when policy framework is poor and Borrower commitment and ownership especially weak. The Panel considers that these two conditions were present at time of design of project and provide further indication of problems of using a LIL as a framework for the project.*

29. Management considered that, given the risks, a LIL would allow the Bank to engage in the forest sector in Cambodia, learn valuable lessons about forestry management, and still allow for an explicit exit option. A technical assistance loan, which would have allowed for a longer and more detailed preparation process, was another option for an approach that was less “pilot” in nature and, in hindsight, may have been more effective in addressing the particularly challenging circumstances of the project.

30. At the time the project was being considered, LILs were a relatively new instrument. Management considered the LIL an appropriate instrument to address the Government's request for urgent Bank assistance in forestry concession management, allowing the Bank to engage in the regulatory aspects of the forestry sector without undertaking a riskier investment operation. The project would thus pilot promising approaches and initiatives; it would also help assess the Borrower's capacity to develop locally based models for development—through consultations with stakeholders—that could be scaled up. The LIL was risky, but, given its relatively small size (USD 5 million) and simpler exit strategy, it was seen as more manageable than an investment credit.

Environmental Categorization of the Project

31. *The Panel states that given the very serious potential impacts, and close association of the project with these impacts, the project should have been placed in Category A, and a full EA should have been carried out. By failing to do this, the Panel finds that the Bank did not comply with OP 4.01.*

32. Management carefully considered the appropriate environmental categorization of the project, given its broader impact, and sought guidance based on the operational policies and best practice. The Bank decided to classify FCMCPP as a Category B project because the project provided technical assistance to improve the management of forest concessions. It also proposed specific interventions, such as providing technical assis-

tance to develop improved planning and inventory management systems, strengthening Borrower capacity for concession regulation and control, and forest crime monitoring and prevention. The project design anticipated that management plans and environmental impact assessments would be prepared addressing specific sites, once they were identified, consistent with Bank practice.

33. The choice of Category B for this project took into account the project's potential impact on sites yet to be identified and was consistent with the classification of other similar forestry technical assistance projects. Given the range of issues identified with respect to the classification of projects, including technical assistance projects, the Quality Assurance and Compliance Unit (QACU) issued "Guidelines for Environmental Screening and Classification" in December 2005. Management will review the Guidelines and update them to provide additional guidance on classification and appropriate safeguards methodology for technical assistance projects concerning natural resources management, including the use of Strategic Environmental Assessments (SEAs) and procedures for the preparation and review of environmental documentation for subprojects. (see Section VI, Lessons Learned).

Environmental and Social Safeguard Issues

34. *The Panel states that the project's design created a structure likely to lead to inadequate levels of local involvement, community consultations, and social and environmental assessments (OPs 4.01 and 4.36). The Panel finds that the PAD and other project documents did not contain adequate analysis of environmental issues; the project design and planning did not adequately recognize the existence of natural habitats (OP 4.04); and there was no social assessment. The Panel finds that the illegal logging of resin trees has had major negative consequences on the Requesters and local people; an assessment or inventory of resin trees should have been part of a proper EA and should have been the subject of a participatory survey and inventory at an early stage of the project, per the requirements of OPs 4.01 and 4.36. The Panel states that the project should have included an IPDP, per OD 4.20. The Panel states that there also was inadequate protection of spirit forests, per the requirements of OPN 11.03.*

35. The serious environmental and social implications of logging operations were well known to the Bank before the project was approved. The project aimed to address these impacts by ensuring that forest harvesting proposals and management plans included assessments of environmental and social impacts. Some of this work required a level of effort and technical capacity that could not have been achieved during preparation (e.g., an inventory of resin trees) and was, therefore, made integral to implementation. Management recognizes that the concessionaires' ESIA's were of poor quality and provided little additional information and analysis. Management also acknowledges that the project would have benefited from better information-gathering about areas of high ecological importance, a social assessment, and more focused public consultations during preparation that would have captured issues such as the indiscriminate logging of resin trees, and that the project did not fully comply with the Bank's policy on Indigenous Peoples.

36. The Government of Cambodia had virtually no environmental or social safeguards measures in place and little capacity to monitor and mitigate the widespread impacts of logging practices. The project aimed to address these shortcomings through ensuring that site-specific forest management plans and forest harvesting proposals were prepared, assessing environmental and social impacts; and ensuring that the Government had adequate capacity and procedures for reviewing and monitoring compliance with the plans and proposals. The project's focus on reforming the concession management system included measures to introduce regulations and procedures to significantly enhance the consideration of environmental and social issues in concession management planning. Box 1 outlines the design of project support to the development of community consultation guidelines.

Box 1. Draft Community Consultation Guidelines

The Forest Concession Management and Control Pilot Project (FCM CPP) aimed at *“testing and demonstrating, through implementation, a comprehensive set of forest planning and management guidelines and control procedures and establishing an effective forest management compliance monitoring and enforcement capability.”*

Among the sets of guidelines was the Planning Handbook, which recommended that a separate and specific document be prepared with regard to the social issues of the Forest Concession planning process in order to make the process comprehensive.

At the national level, there was a strong consensus among the FA, the donors and the NGO community that the needs and concerns of the local communities who mainly depend on the forest must be integrated into forest management planning. Forest-based livelihoods and cultural values need to be protected and communities should benefit from any commercial use of their forests.

The FA and the World Bank therefore began developing an applicable procedure of Community Consultations in Forest Management Planning for Cambodia and started to train related stakeholders. The community consultation guidelines seek to provide a step-by-step approach, which will enable all partners to follow the process. The purpose of this document is clearly for the benefit and use of FA agents, concessionaires' staff, local communities and all other stakeholders who will be involved in any kind of forest management planning process in Cambodia.

The guidelines explain the participatory approach to forest management planning, describe the role of facilitators, lay out the community consultation procedure step by step, and address mediation and possibilities for conflict resolution and the role and support of “third parties.”

37. Management recognizes that safeguard aspects of project preparation could have been strengthened. For example, the state of knowledge regarding areas of high ecological importance could have been better documented as part of the environmental review of the project. The Government also would have benefited from more explicit guidance on management plans that took into account both production and conservation objectives. SEAs could have been useful in providing more information on the baseline environmental context for proposed forest concessions.

38. Project preparation was constrained by the urgency all partners felt for the project to be operational and increase capacity to manage and control concessions. In retrospect, a focused Social Assessment, specific to the project, at the time of preparation, would have benefited the project. For example, an assessment summarizing social issues in the forestry sector would have been able to assess the indiscriminate logging of resin trees

and its impact on local communities³ However, a detailed pre-project inventory of resin trees and site-specific surveys for all concessions would not have been feasible. Such inventories were to be included in the ESIA's, but as explained above, the ESIA's prepared by concessionaires for Government consideration and public comment turned out to be of poor quality, containing little data and weak analysis (see also para. 45). Management acknowledges that the Bank was not in full compliance with OD 4.20 and that further discussions on how to address Indigenous Peoples should have taken place during project preparation. The Bank will continue dialogue with the Government on the legal framework for indigenous and customary rights over forest resources (see Action Plan).⁴ With respect to cultural property, the Community Consultation Guidelines will explicitly refer to the legal framework in Cambodia and provide guidance regarding archaeological "chance finds."

39. There was some public consultation during project preparation, mostly in the form of information dissemination and outreach. The Bank insisted, with some success, that consultations take place during all levels of planning to identify and protect community resources. The Bank also encouraged and facilitated efforts to improve the quality and impact of consultations related to forestry law. In hindsight, more focused feedback on project design and provisions would have been desirable from selected key stakeholders, including representative local communities potentially affected by the project. This would have helped clarify opportunities and challenges inherent in the implementation of the Government's proposed system, facilitated more explicit understanding of Indigenous Peoples' concerns, and identified possible measures to avoid potential adverse social impacts and enhance benefits.⁵

B. PROJECT IMPLEMENTATION

Concession Planning

40. *The Panel notes that suspension of issuance of logging permits to remaining concession companies, until approval of new forest concession management plan consistent with laws and regulations, was a significant event. The Panel adds that the Bank's participation in discussions about mechanisms to allow logs already cut to be transported to processing plants was appropriate and consistent with policy. The Panel states that supervision of the Borrower's actions related to the log transport ban could have been better performed to ascertain whether the Borrower implemented the project with due diligence. The Panel further states that the Bank failed to consider and investigate numerous complaints of harm due to cutting local resin trees.*

³ During implementation, the Bank supported detailed studies by WCS on resin tapping (see Annex 5).

⁴ For excerpt from the draft Consultation Guidelines, refer to footnote 4, under Item 12 of Annex 1.

⁵ In March 2006, Management authorized a community consultation assessment to facilitate learning from the experience of community consultation under the project and as an input to the Implementation Completion Report. The assessment reviewed the process and outcomes of community consultations in three concession areas and confirmed that consultation was inadequate in many respects and also inconsistent with the governing Sub-Decree on Forest Concession Management. For example, in sampled villages there was no indication that independent consultation teams were formed or participated in organizing or implementing the consultations (although this was called for in the Sub-Decree); most village level meetings were one-time events (with no follow-up); and Community Consultation Committees (required under the Sub-Decree) were established in less than 20 percent of sampled villages.

41. Management notes the Panel's comment regarding the suspension of issuing logging permits and the Bank's participation in discussions about transporting cut logs. Project supervision on all aspects, including logging, was intensive, and the Bank was extensively engaged with the Government in addressing overexploitation of forest resources, including resin trees. The Government order to suspend logging remains in effect and no concessions are currently operating in Cambodia.

42. In November 2001, a Bank supervision mission advised the Government on a draft *Prakas* (a regulation or Ministerial order) on enforcement of the planning and other requirements of the Sub-Decree. In December 2001, the Ministry of Agriculture, Forestry and Fisheries (MAFF) issued a *Prakas* suspending logging and log transportation for concessions that were not fully in compliance with the requirements of the Sub-Decree as of January 1, 2002. The *Prakas* created a much needed incentive for concessionaires to comply with their management planning obligations and simultaneously contributed to a reduction in the scale of both legal and illegal logging associated with the concessions.

43. The *Prakas* remains in effect, a marked contrast to the essentially uncontrolled operations that were routinely approved prior to the project. Illegal logging is known to have occurred, however, and is likely continuing within ongoing concession areas, cancelled concessions, parks and Protected Areas and in other forested areas. Land clearance in areas slated by Government for conversion through its policies of "economic land concessions" also involves logging and commercial extraction.

44. The Bank was actively engaged with the Government and communities on the issue of protecting and managing resin trees, for example, in encouraging the Government to enforce its laws and regulations with respect to those concessionaires who were not complying with their contracts. In hindsight, a more categorical ban on cutting trees may have been appropriate. Resin trees are addressed in the draft Community Consultation Guidelines (see Box 1 above), which the Bank has offered to assist the Government to finalize.

45. During this time, concessionaires have pursued planning and forest management at their own cost and risk. Although management planning guidance and proper incentives are in place, concessionaires have failed to prepare SFMPs that are consistent with their obligations under Cambodian law and applicable policies. As a result the process of concession reform has stalled in recent years. The Bank has repeatedly urged the Government of Cambodia to: enforce its rights in conformity with existing contracts; protect its interests under current contracts; and establish a robust system for planning, management, and protection of post-concession areas.

Managing SFMP/ESIA Preparation, Submission and Disclosure

46. *The Panel recognizes that some Management and staff consistently pressed the Government to improve the planning process and to press concessionaires to conform to guidelines for preparing SFMPs. The Panel confirms that technical assistance was provided to the FA, not companies. In the Panel's view, however, Bank supervision was inadequate. The Panel considers that SFMPs and ESIA were deficient in almost all re-*

gards, from process to content. The Panel states that SFMPs and ESIAAs are especially inadequate because they did not ensure that: local communities would not be adversely affected by project-supported activities; appropriate consultation occurred; appropriate and effective environmental guidelines were in place; and concession operations could be carried out to achieve long-term sustainable management of Cambodia's forests.

47. Management concurs with the Panel's observations regarding the multiple deficiencies found in SFMPs and ESIAAs prepared by concessionaires. Indeed, the Bank has registered its concerns with the Government that none of the SFMPs/ESIAAs provide a satisfactory basis for continuing with planning or operations. The Bank has been actively and consistently involved in advising the Government on the overall framework provided to concessionaires regarding their planning and development of SFMPs/ESIAAs. The Bank has also insisted that the SFMPs/ESIAAs be disclosed, thus strengthening the Government's accountability with respect to their review.

48. At the core of the project has been the Government's establishment of a system to guide preparation and review of a sequence of concessionaire forest management proposals.⁶ Under Cambodian regulations, concessionaires are required to prepare and submit 25 year SFMPs/ESIAAs for review, consideration and approval by FA, MAFF and MOE. Following delays, draft SFMPs and ESIAAs were made public in November 2002, with provision for public comment. The Bank made its Public Information Center in Phnom Penh available for disclosure and monitored distribution of copies to provincial and commune offices. In 2003, the FCMCPP concluded its first technical reviews of the concessionaire plans and solicited comments from the Forestry and Environment Technical Working Group of the Consultative Group (TWG).

49. In association with the TWG, the Bank contracted an independent consultant, GFA Terra Systems, to consider the Technical Review Team (TRT) reviews, focusing on six concession plans that were recommended by the TRT to advance to the compartment (5 year) planning level. Between August 2004 and August 2005 GFA provided detailed reviews of all six concession SFMPs and ESIAAs and suggested significant additional work in all cases. Results of the GFA review were shared with MAFF, concessionaires, other donors and civil society. On the basis of the GFA reviews and consistent with the Development Credit Agreement, the Bank provided comments to Government in a letter issued in November 2005 (see Annex 4). In the November letter, the Bank advised Government to demand appropriate performance from concessionaires, to enforce relevant Cambodian laws, to fully exercise its rights under the existing contracts (including any right it had to terminate them), and to bring the unsatisfactory situation to a quick conclusion. To date, no concession operations have been approved, but neither has Government cancelled any additional concessions. Concessionaires have expressed uncertainty about proceeding with further planning or consultations until Government's intentions are made clear.

⁶ Forest management planning has been designed as a three-tiered system covering 25 year (strategic), 5 year (compartment), and one year (annual, or coupe) intervals. At each of the three tiers the planning process is intended to assess social, economic and biophysical viability.

50. The unequal power relations between concession staff and local communities were among the key social issues recognized during project preparation and noted in the PAD. Responsibility for consulting with affected communities (including Indigenous Peoples) was governed by Cambodian legislation (Sub-Decree on Forest Concession Management) and concession contracts. As previously mentioned, these laws and contracts require concessionaires to develop proposals addressing all aspects of forest management, including social issues, and to seek Government approval before proceeding to the next level of planning or operations.

51. During the period of plan preparation, the Bank insisted on disclosure of draft SFMPs and ESIA, creating an opportunity for the first time for public comment and scrutiny of concession proposals. Following public disclosure, the FA received substantial public comments from numerous stakeholders, including community groups and NGOs. Management believes that this served to enforce the accountability of Government regarding its diligence in SFMP/ESIA review. As noted previously, the Government has not permitted any concessionaire to proceed to operations and the Panel has confirmed that the Bank has not endorsed any concession plans.

Forest Crime Monitoring

52. *The Panel notes the importance of having an Independent Monitor, which was a project objective. The Panel is concerned, however, that provisions of the Terms of Reference (TOR) preventing the monitor from independently initiating field investigations, and making the release of the monitor's report subject to Government verification, conflict with the objective stated in the PAD of having "an independent monitor to provide a check on the accuracy of Government reporting." The Panel observes that information about SGS was readily available from various sources at the time that SGS was appointed. However, the Panel could not find in the project documents any evaluation or discussion on whether SGS fulfills the criteria related to independence for an independent forest monitor. This is not consistent with OP 13.05.*

53. Management concurs with the Panel on the importance of an independent monitor, and the Bank did advise the Government on ways to ensure the independence and transparency of the position.

54. For many project stakeholders, in particular the Bank, NGOs and concessionaires, one of the most difficult issues was forest crime. While some progress had been made under very difficult conditions to address illegal logging, the Government's approach in dealing with an independent monitor was problematic. Global Witness, the first Independent Monitor, was supported by the parallel FAO/UNDP project on forest crime monitoring and reporting. However, the FAO project was unable to deliver because of numerous disputes about contracts, reporting, access to information, and Government endorsements. In December 2001, a Bank supervision mission noted that the problems FAO was encountering in delivering assistance were a major obstacle to moving forward with the FAO project, the FCMCPP, and reform. An FAO review mission in early 2002 reinforced these observations and provisions were made for additional technical assistance up to the close of the FAO project in December 2002.

55. In the aftermath of a December 2002 incident between police and a group of forest-affected communities (who were petitioning FA officials to discuss recently disclosed management plans) and other allegations of human rights abuses leveled by Global Witness, the Government announced that it would no longer recognize Global Witness as the Independent Monitor and requested donor assistance in making alternative arrangements. When no other donors were available to support an alternative, the Bank, after consultation with members of the TWG and others, proceeded with the Government's request to select a new Monitor through an international competitive process using proceeds of FCMCPP. Ultimately, in November 2003, the Government awarded a commercial enterprise, SGS, a contract as Independent Monitor.

56. The Bank, per its procedures, issued no objections to the TOR for the Independent Monitor, the shortlist, and the bid evaluation report. The appointment has been met with opposition from some NGOs, who believe that the Bank, as well as other donors, abandoned key principles by acceding to the Government's request. As part of its regular supervision process, the Bank has been reviewing the performance and independence of the Independent Monitor. A recent Bank mission (March 2006) also reviewed forest law enforcement and governance more broadly with the Cambodian authorities. The mission examined the TOR for the Independent Monitor and recommended changes to ensure greater independence, and new reporting arrangements to ensure increased transparency and avoid conflict of interest.

Forest Cover Survey

57. *The Panel, while recognizing the limitations of the forest cover survey's short time period for the work, short period of supervision by an international consultant, limited financial resources, and the inherent problems with carrying out this type of survey, deems that there is sufficient evidence to suggest that work was not carried out to the standards expected for such an exercise. Supervision of the forest cover survey was inadequate.*

58. Management notes the Panel's findings concerning the forest cover survey. The forest cover survey addressed a range of technical issues, employed valid methodologies for analysis, was carefully supervised by the Bank and was considered technically sound by both Bank and external independent experts.

59. To respond to concerns that had been raised by NGOs and others about the possibility that changes in forest area and conditions might have significantly undermined the management potential of large areas of forest, the Bank in 2002 urged the Government to undertake an update of forest cover data as a contribution to the Mid-Term Review (MTR). The FA proposed assigning this work to its Remote Sensing Unit with international technical assistance provided by the PHRD Grant. The Bank arranged for external reviews of the TOR and proposed methodology and provided its non-objection.

60. The Forest Cover Survey (Department of Forestry and Wildlife [DFW], 2003e, "Trends in Land Cover Changes Detection between 1996/1997 and 2002 by Remote Sensing Analysis") was prepared by the FA with assistance from a qualified international

consultant. The study aimed to provide current information about recent land cover trends as a basis for discussion of forest management issues nationwide, including estimation of areas affected by logging and other recent disturbance. The technical report described the approach and methodology, the extent of ground truthing of the satellite imagery and the results of that ground truthing.⁷ It provided detailed maps of forest cover, forest cover changes and tabular estimates of changes by major forest type for each concession and each park and Protected Area in Cambodia. To estimate the degree to which logging was occurring, the study used the extent of road development as a surrogate measure. The study concluded that trends in forest cover loss over the period 1996/1997 to 2002 proceeded at a rate of 0.5 percent to 1.2 percent with loss of evergreen and semi-evergreen forest of around 325,000 hectares (1 percent for these forest types). These results raised controversy among some stakeholders who expected higher rates of loss and who became concerned over political uses of study results. No alternative studies have been conducted to dispute the results or to challenge the methodology and technique.

61. Supervision of the Forest Cover Survey included Bank sponsorship of workshops and consultations on methodology and study design and presentation of preliminary results. Bank technical specialists and independent experts were asked to review study design and assess the validity of image interpretation technique and data analysis and presentation, including use of adjustment factors applied to the estimated deciduous forest area. Specialists viewed the approach employed as a valid sensitivity analysis that was appropriately described and documented in the survey report and which did not affect the value of the estimates of evergreen and semi-evergreen cover.

Stakeholder Engagement

62. *The Panel states that project supervision should have aimed at ensuring that the unraveling of relationships which became apparent during the early years of the project's implementation was addressed explicitly and quickly; the project should have had the capacity to develop a broadly based constituency embracing donors, Government and NGOs to advance forest sector reform.*

63. Management believes that good faith efforts were made to maintain relationships and open communication with various partners throughout project implementation, although there were strong differences of opinion among the stakeholders on project focus and consultation processes. Management agrees that more direct engagement by Bank staff in social aspects of forest management planning could have helped gain broader support for the project and sectoral reform process. The Bank's participation in the Independent Forest Sector Review (IFSR) process was an effort to encourage other donors to take greater leadership roles.

64. The Bank began its work in forestry in Cambodia in a collaborative mode, working closely with other donors and in close consultation with civil society. Work that led up to the project was harmonized with related ADB efforts on concession management

⁷ Of 88 ground truthing points, 67 (76%) matched with the image interpretation results. Misclassifications were all among the deciduous, other forest and non-forest categories. No errors were detected within the evergreen and semi-evergreen types.

reforms, and the planning guidelines that were developed with ADB support were adopted as the basis of the FCMCPP program. Work on forest law enforcement grew directly out of Global Witness involvement in the earlier technical assistance studies and the FCMCPP component anticipated ongoing Global Witness involvement and co-financing with FAO and UNDP, based on United Kingdom and Australian resources. Workshops and discussions involving Wildlife Conservation Society (WCS), World Wildlife Fund (WWF), Tropical Forest Trust (TFT) and others were supported by the Bank and, in some cases, led to grant finance of complementary activities.

65. Forestry reform was painfully slow, and the Bank, other donors working on the sector, and NGOs were frequently frustrated with the lack of progress on the part of the FA. Members of the Working Group on Natural Resources Management and the NGOs often disagreed among themselves and with each other over the differing approaches to forestry reform. These tensions eventually affected progress on forest sector reforms and law enforcement systems, contributed to the breakdown of collaboration between FA and Global Witness, and deepened the mistrust and lack of confidence of many NGOs and others in the Government's commitment to reform. Physical attacks on NGOs and reports of force used to disperse community petitioners were noted with great concern by the Bank, which expressed its disapproval to the Government.

66. In an effort to help lessen controversy and tension, the Bank and other members of the TWG initiated in March 2003 an IFSR, to provide a fresh look at the entire forestry sector. The IFSR report⁸ (2004) provided a potential basis for a constructive dialogue and offered a large number of recommendations, including some with a direct bearing on the FCMCPP and the Panel's concerns over community issues, Indigenous Peoples' land rights, and biodiversity. One specific IFSR recommendation was to close the forest concession system and to move toward a system of local government control over forest resources decision making, referred to as "Partnership Forestry." The Bank noted that the IFSR provided a potential basis for constructive dialogue on forestry in Cambodia. On the "Partnership Forestry" concept, the Bank noted issues in need of further policy analysis and development, including allocation of land to Protected Areas and other uses, community forestry policy, other mechanisms for public timber sales, forest law enforcement and administrative arrangements for the sector.

67. Despite the atmosphere of tension and conflict, several bilateral donors and NGOs have also continued to work and collaborate closely with the FA—for example, Danish International Development Agency (DANIDA), United Kingdom Department for International Development (DFID), Government of Japan, WCS, Conservation International (CI), and WildAid—but the Bank's high profile and explicit effort to help address concession issues have drawn considerable attention and criticism.

Adequacy of Supervision

68. *The Panel states that many issues raised by the Requesters might not have arisen if the project had received better supervision. The Panel commends Management for rec-*

⁸ <http://www.cambodia-forest-sector.net>

ognizing the existence of significant problems and doing a Quality Enhancement Review (QER). The Panel also appreciates Management's efforts to identify lessons learned and considers that this effort contributes constructively to promoting effective design and implementation of development projects.

69. Management notes the Panel's commendations regarding the Bank's efforts to address the project's challenges and identify lessons learned. As stated earlier, the project was carefully supervised, not only by senior technical experts in the field, but by the regional management and the Bank's senior management. The project's supervision ratings on both development objectives and implementation progress reflected Management's concerns about project performance and development impact.

70. From approval of the project in June 2000 to Closing in December 2005, Bank staff conducted eleven formal supervision missions, including the 2003 MTR. The Bank also held a QER of Bank-wide experts in 2003 to provide guidance on the complex issues facing the project. In addition, there were specifically organized workshops and consultations that included policy dialogues with key stakeholders through the TWG. One notable workshop took place on October 9, 2003, where donors, civil society, international NGOs, various ministries, and a sizeable Bank delegation participated. The workshop resulted in a recommendation that the Bank should remain engaged in the forestry sector.

71. Overall, the project was intensively supervised by the country and project team and received management attention not only from the Country and Sector management but also from East Asia and the Pacific (EAP) regional and senior management as well. The current status and outcome of the project is certainly not due to a lack of effort or level of engagement by the team and Management. In addition, the Task Team Leader was based in a neighboring country during the preparation and early implementation period of the project, and in Cambodia from August 2002 until December 2003. This allowed regular on-time and face-to-face communication with the Government, donors, and other partners. A senior technical Bank specialist participated in numerous supervision missions and provided support on environmental and social issues.

72. During implementation, supervision ratings reflected the concerns of the Task Team and Management about faltering project performance and diminishing prospects for lasting development impact. As the FA was implementing a World Bank project for the first time, the early work of the project revolved around establishment of the project implementation organization, selection and mobilization of technical assistance and limited procurement of supplies and equipment, and overall results were considered satisfactory over the first two years of implementation. As explained earlier, significant problems were first observed in the Forest Crime Monitoring and Prevention Component in the first half of 2002 and were considered largely a reflection of difficulties encountered with delivery of technical assistance from the FAO/UNDP project, which, while beyond the control of either the FA or the Bank, was having serious negative impact. Despite other concerns, which were noted and discussed with FA, the overall ratings were based on substantial progress in mobilizing technical advisers and in agreements reached in June 2002 to publicly disclose draft SFMPs and ESIA's.

73. During the balance of 2002, conditions seriously deteriorated and were reflected in a downgrading of the project ratings for both development objectives and implementation progress to “unsatisfactory.” The FA's reversal on disclosure of SFMPS (corrected in October 2002) and its plan to deviate from the requirement that concessionaires prepare 5 year compartment plans subsequent to the 25 year SFMP, the violent incident involving villagers at the FA Headquarters in December 2002, and the break in independent monitoring that arose from Government's decision to drop recognition of Global Witness were among the major reasons for lowered ratings for development objectives and implementation progress, which continued until December 2003.⁹

74. The Government undertook the MTR of the project in February 2003 (DFW, 2003f). The MTR recognized serious problems that had arisen during implementation, suggested that the FA redouble its efforts to utilize project resources and proposed expanded use of project resources for forest concession control, forest law enforcement work, and reinstatement of compartment-level planning, which the Government had abandoned. The MTR highlighted the lack of trust and credibility that was facing the FA and proposed establishment of a Public Affairs Unit under the project. During the MTR, the FA also suggested an arrangement for the resumption of logging. The Bank advised against this in a Management Letter from the Rural Sector Director to the FA Director on May 21, 2003.

75. At the request of the Bank's EAP Region, a QER was organized by the Quality Assurance Group in October 2003. The QER was conducted by senior Bank managers and technical specialists with wide experience in forestry and natural resources in several regions, including EAP. Key findings included the challenges affecting the pace of reform, the Bank's own difficulties in preparing a coherent strategy, not only to address concession management, but also independent monitoring, community forestry, and environmental protection; and the role of lending, including conditionality, in addressing the forest governance agenda.

76. The QER recommended extending the Closing Date of the Credit and using the remaining funds to carry out aerial and field surveys to verify the current status of forest lands and establish a clear baseline for additional work; analyze options for non-concession land use; carry out a participatory Implementation Completion Report (ICR) to work with stakeholders to develop a consensus around next steps; and maintain pressure on concession reform. The results of the QER were discussed at a workshop with donors, NGOs and the Government in Phnom Penh in November 2003, when the Bank consulted stakeholders prior to releasing the final tranche of the SAC and extending the project.

77. In December 2003 the development objectives rating was upgraded to “satisfactory” in view of the restoration of an independent monitoring arrangement, agreement by FA to reinstate the compartment planning requirement, and agreement on a partial restructuring to incorporate activities on post-concession management to be implemented in

⁹ The supervision ratings for the SAC were also downgraded in August 2002 and May-November 2003, due to forestry issues and one other issue.

collaboration with NGOs (WCS). Implementation progress, however, continued to be rated "unsatisfactory" and remained so until Project Closing. Development objectives were once again downgraded to "unsatisfactory" in June 2005 and remained so until Closing.

78. The project also had a substantial supervision budget (see Table 1), including contributions from trust funds, especially given the relative amount of the Credit. If costs associated with various workshops and management support are added, the overall supervision resources spent on the project relative to its size are high. Despite such efforts, the project was rated "unsatisfactory" and remained so at completion, once again reflecting the difficult environment in which it was being implemented. Supervision reports regularly reported implementation problems. The Credit was augmented by several trust funds, including the Recipient-executed PHRD Grant and a grant from the Bank Netherlands Partnership Program (BNPP). See Annex 3 for supervision frequency and team composition.

Source	2001	2002	2003	2004	2005	Total
BB	35	23	39	120	112	329
TF	41	113	37	0	0	190
Total	75	136	76	120	112	519

Impact of the Project on Forest Cover

79. *The Panel concluded that concession logging has contributed to significant degradation of Cambodia's natural forests and hastened conversion of forests to other uses. The suspension of issuance of logging permits to remaining concession companies, until approval of new forest concession management plans consistent with laws and regulations, was therefore a significant event. However, it is arguable whether the project played a significant role in reducing the number of concessions. And while the Panel reiterated that the project did not directly cause the damage from the large scale unsustainable logging in Cambodia, it is arguable whether and to what extent the project had a positive impact on what actually happened in the field.*

80. Management shares the Panel's concern for the loss of forest caused by uncontrolled logging operations and has strived to support the Government in developing mechanisms to control illegal logging and ensure sustainability of legal concessions. Management appreciates and agrees with the Panel's observations that the project did not directly cause damage to Cambodia's forests. Management also believes that the suspension of logging operations pending approval of management plans was significant and reduced the scale of both legal and illegal logging associated with concessions. Baseline surveys conducted prior to the project estimated that legal and illegal logging was proceeding at such a rate that Cambodia's forests would have been exhausted in five years. While there is some debate about the accuracy of the Forest Cover Survey, all studies have recognized that there has been a drastic reduction in the level of illegal logging since the late 1990s. Management also still remains concerned about the status of conces-

sions that have not yet been formally cancelled. It has strongly conveyed its concern to the Government about the fate of forests and land resources following concession cancellation and has highlighted the urgent need to establish a robust system for planning, management and protection of post-concession areas.

VI. LESSONS LEARNED

81. Management has reflected on the experience with implementation of FCMCPP and has identified a number of lessons that will be important for the Bank's future dialogue in Cambodia on natural resources management (NRM) issues as well as in the design of future operations. These lessons may also have applicability in NRM and forestry operations more generally in the region. The lessons identified here have been reflected in the proposed Management Action Plan.

- *Effective NRM Governance.* Corruption and conflict have impeded progress in the NRM sector. The contribution to governance of work on forestry concession reform can be valuable because it involves a wide range of complex technical, social and institutional variables and actors. Projects and technical assistance in the NRM sector should be particularly diligent in emphasizing transparency, accountability, effective monitoring, and sound dispute resolution mechanisms. Efforts to strengthen the capacity of the central Government to manage natural resources should be complemented by similar efforts at the local level.
- *Assessing Government Commitment and Implementation Capacity.* It is difficult to measure Government commitment to sustainable forestry. The project experience demonstrated that commitment was incomplete and not shared across the range of Government agencies and this led to delays and contributed to controversy and criticism. A step-wise and phased approach, which monitors performance in relation to known capacity to deliver, is a practical and pragmatic strategy for dealing with uncertainty.
- *Shared Vision and Engagement with Other Stakeholders.* In projects that address NRM issues, it is important to map stakeholders' varying and, at times, conflicting interests and engage them early and throughout implementation. Advisory groups could be useful for ongoing feedback and guidance. Interactions with stakeholders should be managed with great care—ensuring expectations are clear, materials are available early and in an appropriate format, neutral facilitators are employed if needed, and existing mechanisms such as technical working groups are used for ongoing dialogue with a range of stakeholders.
- *Role of Local Communities, including Consultations with Affected Communities.* The Bank should play a proactive role in encouraging early and sustained involvement of local communities in project design and implementation. In retrospect, many crucial issues might have been more effectively addressed at an earlier stage—overlapping claims on timber/resin trees, lack of effective concessionaire controls over subcontractors, restriction of access to livelihood resources—lowering tensions and apprehensions on all side and speeding the process of re-

- form. When project implementation involves community consultation, the Bank should work with the implementing agency to ensure appropriate identification of affected communities, the associated area of impact and appropriate third parties (free from conflict of interest) to carry out environmental and social impact assessments. Mechanisms for monitoring compliance with planned consultation procedures should also be agreed in advance, and results of monitoring efforts should be made publicly available.
- *Ensuring Donor Coordination and Integrated Approaches.* Forestry programs and donor support need to be well positioned within a broader NRM framework that recognizes inter-linkages across forests, biodiversity protection, agricultural land, water, fisheries and other land uses. The Bank does not need to be a principal donor in all of these areas, but needs to work with the Government, other donors and NGOs to ensure that the inter-sectoral linkages in policy and management complementarities and tradeoffs are generally acknowledged, and that sufficient support is being provided to ensure the integrity of the overall management framework.
 - *Promoting Environmental and Social Safeguards.* Under conditions where there is a limited history of applying environmental and social safeguards, the Bank should work with the Government to identify opportunities for mainstreaming safeguard issues and approaches into national guidelines, procedures and legal frameworks where appropriate. For example, the Bank is continuing its dialogue with the Government on the legal framework for indigenous and customary rights to forest resources. Where there are capacity issues the Bank should adopt a step-wise approach toward progressive, incremental improvements and monitor progress.
 - *Independent Monitoring.* The role of an independent monitor is particularly demanding. For independent monitoring to be successful, it is important that the independent monitor is technically qualified, professional, and willing to pursue rigorously matters within the mandate of the position. A major challenge is ensuring the right level of independence, and objectively including clarity on how the independent monitor is contracted and by whom.
 - *Proactive Communications Strategy.* Clear, consistent communications are essential in challenging governance environments. Teams should first clarify the formal link between communications, political analysis, and operational decisions to ensure external information and questions are fed back into operational decision making. The implementation of a communications strategy that is discussed and endorsed by the entire project team—and shared with the larger country team—is essential. The strategy should include: a proactive disclosure policy (including press briefings at agreed intervals); mechanisms to promptly identify and correct errors and misperceptions; and plans and resources to translate information into local language and disseminate it through a variety of media.

- *Role of Private Sector.* Experience with private sector concessionaires was disappointing; it suggests the difficulty of identifying and providing appropriate support to firms; and underlines the significance of avoiding Bank interference in specific commercial transactions and ongoing contractual relations of Government. Modest investments by some concessionaires in good technical advice could have delivered quality plans and credible agreements at the local level that would have garnered public support rather than opposition. The Bank in collaboration with the TWG should support Government efforts to identify opportunities for responsible private sector enterprises. The Bank and TWG also should consider supporting analytical work to highlight positive global experience with public-private partnerships, focusing on socially, environmentally, and economically sustainable forest management, such as the guidelines and procedures emerging from the Extractive Industries Review.

VII. MANAGEMENT ACTION PLAN

82. This section is divided into two parts: The first, Specific Actions, addresses measures arising specifically from the project and broader institutional actions that Management could apply to other similar projects in the Bank. The second part, Approach Moving Forward: NRM Framework, outlines a longer-term approach to dealing with forestry and other natural resources in Cambodia.

A. SPECIFIC ACTIONS

83. The project raised a number of important issues related to its design, analytical tools, and environmental and social assessment, which the Panel addressed in its findings. Drawing from lessons learned and specific commitments that could be undertaken, even though the project has closed, Management proposes to do the following (a) across the Bank and (b) within the Region (EAP):

Across the Bank:

- Review and update the “Guidelines for Environmental Screening and Classification” issued by QACU in 2005 to provide additional guidance on classification and appropriate methods of undertaking environmental and social safeguard related actions in technical assistance projects. This would include guidance to Bank staff on appropriate analytical approaches and procedures for consultations required for projects that support “process oriented technical assistance” in the natural resources management sector.
- Promote the use of SEAs and related methodologies to support the preparation and implementation of selected NRM projects to provide more information on baseline environmental and social trends and conditions.
- Take steps to ensure that approaches, such as landscape level biodiversity management, best management practices for Protected Areas, and information-sharing

(e.g., mapping, gap analysis, review of the Protected Areas system) are introduced in future projects of this type.

Within the Region (EAP):

- Support the finalization of the draft Community Consultation Guidelines in Cambodia; also ensuring that the Guidelines explicitly include a reference to the legal framework in Cambodia and provide guidance regarding the appropriate authorities to inform when “chance finds” occur.
- Recognizing the urgency of securing land and resource rights for Indigenous Peoples, make a strong and immediate effort (including providing technical assistance) in collaboration with other donors and Government under the TWG for Land, to finalize, as a matter of priority, the legal and enabling implementing procedures required for making the provisions of the Land Law a reality for indigenous communities in Cambodia.

B. APPROACH MOVING FORWARD: NRM FRAMEWORK

84. ***Governance and NRM.*** In May 2005, the Board endorsed a new CAS for Cambodia. Drawing on extensive consultations with the Cambodian authorities, NGOs, and civil society, this new CAS focuses on governance, improving donor coordination and partnerships, and results. As with the previous CAS, the focus of this CAS on governance includes specific efforts to improve the management of natural resources, especially land and forests. The proposed program consists of a USD 10 million IDA grant for a Land Allocation for Social and Economic Development Project (scheduled for FY07) that aims to provide land and/or greater security of tenure and agricultural services to the poor and landless. In addition, the Bank is preparing a USD 10 million IDA grant for a Land Management and Administration Project II (LMAP II, FY08) as a follow-up to the current support for land titling from the first LMAP (approved in FY02) that is providing around 25,000 land titles per month. Project work is being complemented by Analytical and Advisory Activities (AAA) on land, forestry and agrarian structure issues that aim to build consensus among all concerned stakeholders (government, donors, civil society, and communities) on the way forward in these critical areas of NRM. Annual Poverty Reduction Support Operations (PRSOs), commencing in FY07, will provide momentum to reforms, not only in the natural resources sector, but in governance, private sector development, and public financial management.

85. Building on the strategy outlined in the CAS as well as the experience with the FCMCPP, the Bank’s November 2005 letter to the Government of Cambodia outlined a strategy for going forward in the forest sector, including concession management, monitoring, and a range of forest management options. Considering the complexity of issues related to sustainable forest, land and biodiversity management in Cambodia, the Bank has initiated a process of engagement with the Government of Cambodia, donors, local stakeholders, and civil society representatives in a sustained dialogue on poverty alleviation and NRM.

86. In March 2006, at the Consultative Group meeting for Cambodia, donors agreed that, while significant progress had been made on several governance issues, reforms needed to be stepped up in a number of areas, including NRM. On the one hand, the pace of land titling has picked up, and transparency of information regarding economic land concessions has improved following the concerted efforts of the donor community. On the other hand, however, land grabbing by the rich and powerful continues unabated and the Government does not seem to have the political will to enforce its own laws on keeping the size of economic concessions to a maximum of 10,000 hectares, as required by the Land Law. Currently, for example, it is reported that the Government is considering awarding a concession of 60,000 hectares to a Chinese company to start a rubber plantation, which would be in violation of the Land Law. The Inspection Panel report highlighted the problems the Bank has faced in the forest sector, and given the lack of political will to fight forest crimes, a consensus has yet to emerge on a clear way forward.

87. ***NRM Framework.*** Drawing on lessons learned not only from the project, but from other lending and policy activities, an NRM framework is being put together that is based on the general Governance Framework in the CAS and focuses on the following three pillars:

- ***Transparency.*** Bank engagement will promote increasing public participation in decision making and improve public access to information in support of accountability.
- ***Decentralization and Local Empowerment.*** Bank engagement will include support at sub-national levels: (i) to expand community and commune level planning and management of natural resources; and (ii) to strengthen the voice of local stakeholders in the governance of natural resources.
- ***Partnerships.*** The Bank will work closely with partners in developing programmatic approaches and integrating forest management decisions into broader NRM planning and implementation efforts. Partners will include TWGs for land; fisheries; agriculture and water; and forestry and environment; as well as the private sector, the media, local and international NGOs and other civil society representatives.

PHASE I: DIALOGUE TO BUILD CONSENSUS

88. In order to reach a common understanding on the way forward, a major dialogue with the Government and other stakeholders on forestry and rural development options is already underway and drawing, where appropriate, on recent analytical work undertaken by the Bank and others.¹⁰ This dialogue now needs to be deepened and would proceed with the explicit aim of exploring both the *short-term imperative to address concerns related to access to natural resources by the rural poor, illegal logging and forest land en-*

¹⁰ Several related and partially overlapping studies have recently been completed and a summary and synthesis to capture main messages and convey these in a concise form to policy makers are needed. Examples include IFSR, GFA 1&2, International Tropical Timber Organization (ITTO) Land Studies, Rural Investment and Local Governance Project studies, Seila studies, and Cambodia Development Resource Institute studies.

croachment, and continuing forest loss and the longer-term options for sustainable management of forest resources and will attempt to balance the competing objectives of biodiversity conservation and expanding opportunities for economic growth.

89. The proposed dialogue will touch on several key issues including:

- Improving the availability of information on natural resources and their management (addressing the quality, completeness, and frequency of data collection, and improving the transparency of mechanisms for monitoring and reporting, including public disclosure and dissemination).
- Development of a national vision statement building on the existing *Forest Policy Statement* of the Government of Cambodia and preparation of a National Forest Plan to guide implementation of the existing legal framework, to identify viable and sustainable forest management options, and to foster a broader national consensus on priority actions in the short and medium term.
- Integrating forestry into NRM planning and implementation (through ongoing processes and pilots at both local and landscape levels).
- Appropriate conferral of use and/or tenurial rights in the context of ongoing land use planning and demarcation of a permanent forest estate.¹¹
- Development of more robust forest law enforcement via enhanced independent monitoring; strengthened accountability mechanisms; strengthening Government enforcement capacity; use of remote sensing; prosecution case tracking; prosecutor training; and strengthened court capacity.
- Mechanisms to foster inter-ministerial coordination and strengthen governance of natural resources and efforts to clarify roles and responsibilities among central, provincial, and commune level authorities.

90. Consideration of renewed and expanded engagement on the part of the Bank would only commence once there was a clear understanding and commitment on the part of relevant authorities within the FA, the MAFF, and other Ministries with overlapping mandates (Land, Environment), and upon consultations with other stakeholders.

PHASE II: POTENTIAL PRINCIPLES, APPROACH FOR RE-ENGAGEMENT

91. Depending on the outcomes of the aforementioned dialogue and on any new national consensus that may emerge, the Bank would consider a new operation with forestry in Cambodia. Any significant expansion of Bank engagement would be based on up-front analytical work and/or piloting adequate to ensure that there is a shared understanding of policy issues, constraints, and opportunities to inform project design.

¹¹ Consistent with existing sub-decrees on demarcation and state land management and focusing on the identification and strengthening of legal claims to common property resources by Indigenous People and other forest dependent communities.

92. Lending for projects or project components under the proposed engagement would only take place for designs that are consistent with the following principles;

- *Active and Informed Participation of Primary Stakeholders (those most directly affected by implementation).* Development and dissemination of clear and concise guidelines for community consultation to ensure mutual understanding of overarching objectives and rights and obligations consistent with the existing legal framework.
- *Conferral of Secure Rights to Land and Other Natural Resources.* This includes associated responsibilities for conservation and sustainable use to communities and or households consistent with and supportive of a developing role for local government.
- *Collection and Wide Dissemination of Information.* Information disseminated in Khmer on program objectives and project design/implementation at local, provincial, and national level to increase transparency and build public understanding and confidence in the sector.
- *Focus on Integrated NRM Planning.* Effective protection and sustainable use of forest resources through integrated planning and development of new sources of income for forest fringe communities through improved productivity and economic returns from forests, agriculture, livestock, and fisheries.
- *Community-based and Entrepreneurial Approaches.* Adoption of approaches that encourage communities and entrepreneurs to develop skills to harvest sustainably, process, and sell produce directly in domestic markets and where appropriate to seek private sector partners to identify and access international marketing opportunities.

VIII. CONCLUSION

93. In Management's view, the Bank has made every effort to apply its policies and procedures and to pursue its mission statement in the context of the project. It is Management's judgment that the Lessons Learned and the proposed Action Plan appropriately address the issues identified in the Panel's report.

**MANAGEMENT REPORT AND RECOMMENDATION
IN RESPONSE TO THE INSPECTION PANEL INVESTIGATION REPORT ON
CAMBODIA: FOREST CONCESSION MANAGEMENT AND CONTROL PILOT PROJECT
(CREDIT NO. 3365-KH AND TRUST FUND. 26419-JPN)**

**ANNEX 1
FINDINGS, COMMENTS AND ACTIONS**

No	Issue	Para No.	Comment/Action
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PROJECT CONCEPT AND DESIGN

1.	<p>Project Focus on Concession System</p> <p>The Panel, in principle, commends Management for engaging in forestry-related work in Cambodia. Panel recognizes that this required the courage to be a risk taker, knowing that the work was important for poverty reduction and development. In such context compliance with safeguard policies is essential, even though transaction costs may be higher.</p> <p>In Project's focus on concessions, other aspects that were important to Bank program in Cambodia and to Government were largely ignored or at least marginalized throughout the planning phase of the Project. In particular, Project did not seem to take on the key objective of using the potential of forests to reduce poverty.</p> <p>Project did not give adequate attention to vital interests of local communities and indigenous peoples in forest resources, and to the contested nature of the forest domain.</p> <p>The Panel finds that the Bank (i) biased the collection of information needed to design the Project towards technical and financial aspects, and (ii) ignored the important role of forests in Cambodia as livelihood and cultural assets for local and indigenous communities. The Bank chose to give primary emphasis in Project's design to the technical and financial aspects of concession reform at the expense of environmental and social aspects. It thereby lost opportunity to lead debate on much needed reform in forest sector so that forests could</p>	108, 123, 125, 128, 129	<p>Comment: Management notes the Panel's commendation and agrees that engaging in Cambodia's forestry sector entailed considerable risk. Management also shares the Panel's view that compliance with safeguards is essential.</p> <p>It is important to note three things. First, the Bank recognized the complexity of the forestry sector in Cambodia, which has roots in conflict. The Khmer Rouge funded their war effort by trading timber, and a 1993 United Nations resolution banning the export of round logs helped cripple funding for the remaining Khmer Rouge factions. Concession logging, endorsed by the post-Khmer Rouge Government, preceded the project and Bank involvement in Cambodian forestry. Early logging was authorized on the basis of plans prepared by concessionaires and based almost entirely on processing capacity rather than forest potential. Logging practice by concessionaires was generally poor, as were road construction, worker safety and other aspects.</p> <p>Second, the project was part of a broad effort under the 2000 CAS to help build the foundations for sustainable development and poverty reduction, in particular strengthening good governance through a more efficient and accountable public administration. The FCMCPP was conceived in this context, as were the GEF Biodiversity and Protected Areas Management Project (BPAMP) LIL and the Land Management and Administration Project. These operations complemented earlier projects addressing land use and rural poverty reduction, such as the Northeast Village Development Project LIL, and the Agricultural Productivity Improvement Project.</p> <p>Third, while the project was focused on concession management and review, the Bank was continually engaged with its partners on broader forestry issues, such as the livelihoods of forest communities; the environmental, social, and cultural aspects of forests; and reform in the sector. The Bank provided financing for forestry studies through a technical assistance credit and mobilized additional grants addressing biodiversity, legal, and social issues. The Bank and other donors also developed projects to protect wildlife, support community forestry, and build institutional capacity.</p> <p>The project came out of a Government of Cambodia request for Bank assistance in concession management as part of an urgent effort to address overexploitation of timber resources and illegal</p>
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No	Issue	Para No.	Comment/Action
	<p>be sustainably managed for the benefit of all Cambodians.</p> <p>The skill sets and seniority level for technical forestry and strategic political dialogue are quite different. Operating on one level without the other will often prove futile and lead to problems as in the present case.</p>		<p>logging. With concessions already in place in 1997, there was an immediate need to improve resource use and protection in those areas. Rather than promote the existing concession system, the LIL sought to assist the Government to regulate effectively the forestry sector.</p> <p>After considering that other donors were not taking on the challenge posed by the concession system, the Bank decided to assist the Government in reforming the system. The substantial risks were discussed during project appraisal. Nevertheless, at the time of project preparation and approval, the Bank and other donors and NGOs (such as ADB, FAO, TFT, UNDP, WCS and WWF) were optimistic about what was seen as a way forward to improve forest management and regulation. The project did not achieve all of its objectives, and was extended at the request of the Borrower only to finance the contract of the Independent Monitor when other donors did not come forward. As the challenges with the project (and its approach) emerged, Management sought additional expertise through the QER. In an attempt to modulate the contentious relationships associated with the project, the Bank tried to get others in the donor community to take a greater leadership role through the IFSR (see Item 23).</p> <p>The FCMCPP had four components aimed at: supporting the FA in providing guidance to and exercising quality control over concessionaire preparation of detailed forest management plans; strengthening the FA's capacity to oversee concession operations and ensure compliance of operations with the plans; helping the FA and MOE to regularly monitor illegal logging and launch protection activities; and establishing a project management unit in the FA. Learning and innovation goals included a better understanding of how specific activities (e.g., local benefits from socially responsible operations) could help overcome resistance to reforms; getting long-term industry commitments to sustainable forestry; and developing an effective regulatory mission in the FA in the face of corruption, low public sector wages and difficult working conditions.</p> <p>In contrast to the then prevailing approach to forest concessions in Cambodia, in which local communities and Indigenous Peoples were excluded from decision making and had little or no access to information or dispute resolution options (an approach that persists in other Cambodian land management contexts), the project sought to institutionalize appropriate procedures. It built on background studies that documented the extent of social exclusion in the concession system, the attendant risks and the harm that was occurring. In line with the Sub-Decree on Forest Concession Management, the project aimed to develop and enforce planning requirements that would include environmental and social assessment, preparation of plans and other documentation,</p>

No	Issue	Para No.	Comment/Action
			<p>and appropriate scrutiny and public disclosure before being permitted to advance to more detailed planning phases¹ and approval of any operations.</p> <p>Concessionaires have pursued planning at their own cost and risk. A range of technical, social and environmental aspects of concession submissions were found to be deficient, and no concession plans have been accepted or approved. Logging remains in abeyance, a marked contrast to the essentially uncontrolled operations that were routinely approved prior to the project.</p> <p>Management agrees that the project did not succeed in adequately addressing the concerns of local communities and Indigenous Peoples (see Items 13 and 14). These issues were considered to be of critical importance and were addressed in plans and guidelines from preparation throughout implementation. Progress on these issues was less than desired and slower than expected. Conflict among the stakeholders made further progress even more difficult.</p> <p>In engaging with the Government, donors, NGOs, and civil society on this project, and in addressing the difficult issues in the forestry sector, Management tried to take full advantage of a range of skills in furthering the forest policy dialogue, drawing not only on the Task Team, which included senior technical experts in forestry, natural resources economics, and social science, but also Regional Management (Country Management Unit, Country Manager, Country Director) and senior management (Vice President's front office, Managing Director).</p> <p>Action: See Action Plan in the main text.</p>
2.	<p>Choice of LIL as Financing Instrument</p> <p>Main aim of loan was to support a legal and regulatory program on the basis of which long-term concessions were to be granted. This cannot easily be regarded as a "learning and hypothesis-testing" exercise.</p> <p>Elements conditioning use of LIL instrument do not apply convincingly to the Project.</p> <p>LILs may not be appropriate when policy framework is poor and borrower commitment and ownership especially weak. These two conditions were present at time of design of Project and provide further indication of problems of using LIL as</p>	143-146, 150-151	<p>Comment: The LIL and Adaptable Program Lending were approved by the Board in September 1997 as new investment instruments. The Board paper emphasized that LILs would be suitable in circumstances where experimentation and piloting were needed to determine the best course of action through a small-scale operation, to pilot promising development initiatives, to assess the Borrower's capacity or to experiment with and develop locally-based models through consultation with critical stakeholders before moving ahead on a larger scale. LILs are usually used in sectors or situations in which behavioral changes and stakeholder attitudes are critical to progress, and where "prescriptive" approaches might not work well. The Board also emphasized that, by their nature, some LILs would enter into uncharted territory or deal with situations of high degrees of uncertainty. Given the higher risk nature of such operations, failure and exit were explicit design options for choosing the LIL instrument. LILs have to be processed expeditiously with limits on the preparation cost of US\$100,000 and the processing time of six months for a</p>

¹ Cambodia has a three-tiered forest management planning system: strategic forest management plans (25 years), compartment level plans (5 years), and annual (coupe) plans (1 year).

No	Issue	Para No.	Comment/Action
	<p>framework for Project.</p> <p>Management could have foreseen that this type of Project might not be effective in present political context, particularly by time of Project inception when a number of sector studies had been carried out.</p> <p>With respect to the applicability of Bank policies to a Project financed with a LIL, the Panel notes that the Bank document defining LILs as financing instruments reads, “LILs would conform to the Bank’s basic operational policies.”</p>		<p>total loan of not more than US\$5 million equivalent.</p> <p>In hindsight, a technical assistance loan—which would have allowed for a longer and more detailed preparation time—may have been more effective under the circumstances, but the Borrower and Management both considered the LIL appropriate for the particular circumstances in the country at the time of project appraisal in October 1999.</p> <p>The choice that Management faced at the time was not between the LIL/technical assistance instrument and the Sector Investment Loan/Adaptable Program Lending instrument but between limited engagement and no engagement. Bank policy dialogue with Cambodia was conducted through the preparation process of the 2000 SAC, which included conditions regarding a broad range of forestry issues raised by earlier Bank-supported analysis and other complementary efforts (see Item 1 above). The FCMCPP, along with the SAC conditionality, enabled the Bank to carry out a more intensive and higher level dialogue than would have otherwise been possible. Management considered that this approach allowed the Bank to remain engaged in advising the Government without undertaking a much riskier Sector Investment Loan, particularly given the political context. While Management was aware that Bank engagement in the forestry sector, even if limited to concession management, was to be considered rather risky, the choice of the LIL instrument enabled the country to learn lessons while developing relevant institutions, and also allowed for an explicit exit option. Ultimately, the project was rated “unsatisfactory” in 2002,² both in terms of achieving its development objectives and implementation progress, and it exited the portfolio as such (see Item 23).</p> <p>Management recently concluded a review of LILs. In terms of processing and project supervision, both staff and Borrowers have found that the overall costs and time – in preparation, application of fiduciary, social, and environmental safeguards, internal processing procedures and review – are too high given the small size of the operations. Some Borrowers, however, consider that the LIL is a potentially useful instrument for learning and innovation, and adaptable to different country needs and priorities, especially for IDA.</p> <p>Action: The project has closed. Management is considering next steps on engagement in the natural resources sector in Cambodia. See Action Plan in the main text.</p>
3.	<p>Guidelines and Procedures for Concession Areas</p> <p>Panel is concerned that, with respect to social aspects of the concessions,</p>	140, Exec Sum	<p>Comment: See Items 10 and 11 below.</p> <p>The operational policy for Technical Assistance does not require that national laws and policies developed with Bank support comply with Bank policies—although the Bank often seeks oppor-</p>

² The rating was upgraded to satisfactory in 2003 when the Cambodian Government reinstated the requirement for five-year compartment plans. The project ultimately closed, however, with “unsatisfactory” ratings for both development objectives and implementation, given the numerous difficulties in implementation.

No	Issue	Para No.	Comment/Action
	<p>certain parts of guidelines issued under Project do not meet Bank safeguard policy requirements and do not provide an adequate framework for Government to decide on any future forestry concessions. Unless this is properly remedied, Project will not achieve one of its main objectives to demonstrate and improve effectiveness of a comprehensive set of forest management and operational guidelines and control procedures in forest concession areas.</p> <p>For example, guidelines do not require IPDP-type plan to be prepared to address impacts of concessions on affected indigenous peoples, and do not include provisions to compensate people who would be involuntarily deprived of traditional access to usufruct rights over resin trees.</p>		<p>tunities to be proactive and assist governments to modernize these laws and policies. The FCMCPP financed the drafting of national guidelines for concession management. While the Bank did provide advice to the Government on best practices, drawing on Bank policies, the Government prepared the guidelines according to its own national requirements. In its response to the Government's guidelines, the Bank has indicated areas of disagreement.</p> <p>During supervision the Bank conveyed to the Government and concessionaires its view that Indigenous Peoples and community consultation issues were not being adequately addressed in concession planning work related to the project and advised use of an approach that was in line with Bank policies. Guidelines prepared by the project (FA, Guidelines for the Review of the Forest Management Plans, 2004) appropriately address community consultation issues, while remaining vague on the specific needs of Indigenous Peoples.</p> <p>Action: Since the project is closed, no project-specific action is possible. However, in the continued dialogue regarding the forest sector, social issues are being addressed as a primary concern. The Bank will assist the Government in completing the Community Consultation Guidelines for production forests. As part of the learning process in the ICR, the Bank is assessing the concessionaires' community consultation efforts during the preparation of the SFMPs (see Items 17 and 18 below).</p>
4.	<p>Project Harm from Logging The Panel reiterates that the Project did not directly cause the damages from the large scale unsustainable logging in Cambodia over the past decade. Indeed the Project aimed to ameliorate the extent of damage, and the Panel commends this intention. However, it is arguable whether and to what extent the Project had a positive impact on what actually happened in the field.</p>	149	<p>Comment: Management fully concurs with this important statement of the Panel that the project did not directly cause the damages from large scale unsustainable logging in Cambodia over the past decade. The most positive impact made through the project was securing the agreement of Government to suspend concession logging from January 1, 2002 until concessions had submitted satisfactory plans. This was an especially important step.</p> <p>Management recognizes that prior to the project serious damage to the forest and to local and indigenous communities, along with loss of potential government revenues, was occurring and that illegal activities did and still do occur. Baseline surveys conducted prior to the project estimated that illegal logging was proceeding at a rate of 3-4 million cubic meters per year in 1997 and that, at that rate, Cambodia's forests would have been exhausted in five years (ca. 2002). These studies drew on data collected by Global Witness and other civil society organizations and were widely disseminated and discussed prior to project approval. Current studies of illegal logging do not provide directly comparable aggregate estimates of annual illegal logging, but reports during the intervening period, including by Global Witness, have recognized a drastic reduction and none indicate anything approaching the magnitude of the 1997 destruction.</p>

No	Issue	Para No.	Comment/Action
			<p>Controls brought about through the tightening of the forest concession system may also have led to attempts at evasion through abuses of economic land concession and other mechanisms. Management notes that third parties, including contractors and others who may in some cases be associated with concessionaires or corrupt public officials, are largely responsible for these damages and Management will continue to press the Government to apply the full weight of Cambodian law to prevent and control these activities.</p> <p>The Bank has also been actively involved in efforts to strengthen forest crime monitoring and prevention. A Forest Law Enforcement and Governance assessment mission reviewed in April 2006 the performance of the Independent Monitor (see Item 22) and various government agencies responsible for forest crime monitoring and suppression.</p> <p>Action: The Bank will be following up through dialogue with the Government on the detailed recommendations of the assessment mission (see Action Plan).</p>

ENVIRONMENTAL COMPLIANCE

5.	<p>Bank Involvement in Project Decision to work on concession issue is not inconsistent with objectives of OP 4.36. Bank is in compliance with paragraph 1 (a) of OP 4.36, because it did not finance logging or logging equipment.</p> <p>Bank's view that Government's commitment to sustainability was consistent with OP 4.36 when Project was formulated may have been based on wrong assumptions. Given rampant forest destruction and community abuses already occurring, Bank should have taken greater pains and exercised greater caution to ensure its compliance with Bank Forestry policy.</p> <p>Project's design created a structure likely to lead to inadequate levels of local involvement, community consultations, and social and environmental assessments. This does not comply with OP 4.36 and other Bank policies.</p>	163-164, 168-169	<p>Comment: Management acknowledges the Panel's finding of compliance with paragraph 1(a) of OP 4.36. Indeed, the project did not finance, nor did it intend to finance, logging operations or equipment. Management also agrees that the decision to work on the concession issue was consistent with the objectives of OP 4.36. A properly designed and implemented forest concession system is not incompatible with the concepts of sustainable forest management. The objective of establishing environmentally and socially sustainable management of forest harvesting operations is consistent with Bank policy.</p> <p>As explained in Item 1, the Bank and other donors had been working closely with the Government for several years on forestry issues, and reform of the concession system was viewed by high levels of Government as a very high priority problem. The Government's request for support, the Letter of Development Policy under the 2000 SAC, and the promulgation of the legal basis for sustainable forest concession management (Sub-Decree), were the indications of Government commitment to reform of the sector.</p> <p>In addition to the importance given to concession management, the Government also indicated its commitment to sustainable management and conservation of forests through the BPAMP. The BPAMP was implemented simultaneously with the FCMCPP and, among many activities, supported the Government's efforts to develop national legislation and regulations on Protected Areas management as well as to test effective mechanisms for working with local communities in conservation efforts. Several international conservation NGOs, including WWF, Fauna and Flora In-</p>
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No	Issue	Para No.	Comment/Action
			<p>ternational, CI and WCS, worked closely with the Bank on the forestry and biodiversity LILs.</p> <p>Regarding public consultation, Management notes that, at the time the project was approved, the conceptual approach (see Item 1) was to ensure that concession review and approval included extensive opportunities for public consultation and comment. Management believed that this conceptual approach was appropriate. However, Management acknowledges that the concessionaires' lack of capacity and, possibly, support, did lead to poor quality ESIA's and inadequate public consultation (see Items 11, 13, and 18).</p> <p>Projects that support introduction of policy and procedural reforms in the management of natural resources have many environmental and social implications which may or may not materialize, depending on a number of factors. Management concurs with the Panel finding that such projects could benefit from broader stakeholder consultations prior to project approval. In addition, project design should include explicit opportunities for public consultations throughout the implementation period.</p> <p>Lessons Learned: The Bank will continue to improve measures to ensure such consultations are built into the preparation of similar projects for natural resources management. The Bank will review and update the "Guidelines for Environmental Screening and Classification" issued by QACU in 2005 to provide additional guidance on classification and appropriate methods of undertaking environmental and social safeguard related actions in technical assistance projects. This would include guidance to Bank staff on appropriate analytical approaches and procedures for consultations required for projects that support "process oriented technical assistance" in the natural resources management sector</p>
6.	<p>Identification and Protection of Forests of High Ecological Value Prey Long forest is one of few remaining areas of relatively undisturbed dense semi-evergreen lowland forest in Indo-Chinese province of the Indo-Malayan Realm. It merits consideration as "forest of high ecological value" and this should have been obvious to Bank Staff during both design and implementation stages of Project.</p> <p>Prey Long forest is presently covered by three concessions, and is at risk of sustaining serious damage if industrial scale logging is carried out.</p> <p>While Bank did not finance harvesting of high value forests, it did not</p>	173-174, 176, 180	<p>Comment: Management concurs with the Panel's finding that the project did not, nor was it designed to, finance the harvesting of timber. No concession was approved under the project for the Prey Long forest areas nor was any new concession proposed.</p> <p>While the Bank does not underestimate the ecological value of Prey Long, it is important to note that this area is not now, nor was it at any time prior to the review and approval of the project, part of Cambodia's declared system of Protected Areas that was established in 1993 to protect critical natural habitats at the macro landscape level (see Item 7). One of the very important outputs of the BPAMP was a Protected Areas system review, completed in 2005, to identify gaps in coverage of Protected Areas. The review confirmed previous assumptions that Cambodia's Protected Areas system is representative of important and sensitive habitats. The Protected Areas system review funded under the BPAMP also covered Prey Long, examining, in particular the habitat value of Prey Long. The review has not been finally approved by MOE, but is likely to contain recommendations for</p>

No	Issue	Para No.	Comment/Action
	<p>ensure that potential high ecological value of Prey Long forest was explicitly identified in early years of Project and taken into consideration during development of relevant SFMPs, as required by OP 4.36.</p>		<p>enhanced protection of parts of Prey Long.</p> <p>Guidelines developed for and under the FCMCPP address micro-level considerations by requiring the mapping of forest use, including environmentally and socially sensitive Special Management Areas. Through the BPAMP, the Bank has also supported the development of emerging concepts of landscape level biodiversity management and has followed similar approaches being developed by leading conservation NGOs. Such approaches are still being developed in Cambodia, and are promising.</p> <p>Management recognizes that the state of knowledge regarding areas of high ecological importance could have been better documented as part of an environmental review of the project. Since various efforts were underway to collect and review relevant information on biodiversity and conservation efforts, the Bank could have made better use of this information as part of the preparation process.</p> <p>The project intended to develop and refine the three-tiered forest management planning process (SFMPs, compartment, and annual plans), including addressing areas of ecological and other values. In retrospect, Management recognizes that the Government would have benefited from more explicit operational guidance on how concessionaires could prepare management plans that were consistent with both production and conservation objectives.</p> <p>Lessons Learned: Since the project did not support logging or any management plan for logging in Prey Long, there is no corrective action to be taken. The Bank will take steps to ensure that such approaches as landscape level biodiversity management, best management practices for Protected Areas, and information-sharing (e.g., mapping, gap analysis, review of the Protected Areas system) are introduced in projects where the Bank is supporting forest management and biodiversity conservation. The Bank will seek opportunities in the future to work with the Government of Cambodia, other stakeholders involved in biological diversity conservation in Cambodia, and, especially, conservation NGOs in the further development of approaches to analyze and manage biodiversity and areas of high ecological value that lie outside the officially designated Protected Areas system.</p>
7.	<p>Identification and Protection of Natural Habitats</p> <p>Most of Cambodia's forests that have been, or could be, subject to industrial logging fall into the category of natural habitats for the purpose of OP 4.04. Industrial logging, as carried out by concessions in past, has caused significant loss of natural habitat and destruction of spirit forests without any consideration of their spiritual or</p>	183, 187-188	<p>Comment: Management agrees that past logging practices in Cambodia have had serious impacts that often were neither pre-identified nor mitigated. Among other objectives, the project intended to introduce improved management of the forest estate, including its biodiversity values. Management also concurs with the Panel's finding that the project did not support the direct conversion of natural habitats. The project developed guidelines, procedures, codes of practices, etc. that would have mandated comprehensive assessments of environmental and social impact as part of concession planning.</p>

No	Issue	Para No.	Comment/Action
	<p>cultural values. It has also, in many cases, opened door to conversion of natural habitat to non forest land uses.</p> <p>While Project did not explicitly support significant conversion of natural habitats, Project design and planning did not adequately recognize existence of natural habitats, particularly critical natural habitats. As a result, essential information to enable their protection was missing in concession planning and approval process. This is not consistent with OP/BP 4.04 on Natural Habitats.</p>		<p>It is correct that the Bank did not require full assessments of the ecological values of forest areas proposed for concessions prior to the approval of the project. The intent was to build such reviews into the concession planning and management process.</p> <p>The Bank and the Government were aware of the distribution of critical natural habitats at the time the project was approved. The Government had initiated a national system of land use zoning that, although poorly implemented, recognized biodiversity habitat values. As early as 1993, the Government of Cambodia had formally declared a system of national Protected Areas which covered 18 percent of the area of the country. This system was considered to be comprehensive in its design and representative in terms of habitat coverage. Other independent regional and national priority setting initiatives carried out by leading authorities confirmed this conclusion.</p> <p>Nevertheless, as explained in Item 8 below, the Bank and Borrower agreed to undertake specific mapping during implementation once the concession sites had been identified. Through the BPAMP, the Bank maintained frequent contacts and shared information with conservation NGOs throughout the implementation period on the status of important conservation areas.</p> <p>Lessons Learned: In future the Bank will promote the use of SEAs and related methodologies to support the preparation and implementation of selected NRM projects in various regions to provide more information on the baseline environmental and social trends and conditions.</p>
<p>8.</p>	<p>Need for Environmental Assessment</p> <p>One could hardly overemphasize negative effects of logging on a natural habitat of world class value and most importantly on very poor and vulnerable rural communities and indigenous peoples.</p> <p>Many alternative approaches and measures exist to reduce or avoid impacts of logging. These could and should have been considered within an appropriate environmental assessment.</p> <p>PAD and other project formulation documents did not contain adequate analysis of environmental issues surrounding the Project, as is required by OP 4.01.</p>	<p>194, 199, Annex A</p>	<p>Comment: Management notes the Panel's comments regarding adequate analysis of environmental issues. The serious environmental and social implications of logging operations were well known to the Bank before the project was approved. Management concurs with the Panel's observation that logging can lead to high ecological and social impacts if carried out in the absence of adequate controls, procedures and review processes. The project aimed to address these through ensuring that site-specific forest harvesting proposals or specific forest management plans were prepared to assess environmental and social impacts.</p> <p>Management agrees that there are many ways to reduce the adverse impacts of logging operations. Such techniques and protective measures were to be included in the forest concession management plans themselves. In many jurisdictions around the world, Forestry Codes of Practice mandate appropriate methods and technologies for logging in specific situations. The project developed Codes of Practice to be applied in the Cambodian context, but because of the suspension of logging that occurred during implementation of the project, the planned training in supervision and control of reduced impact logging was not fully completed.</p> <p>During the project's initial years ESIA's were required of each</p>

No	Issue	Para No.	Comment/Action
			<p>concessionaire consistent with Cambodian law. However, as noted in the initial Management Response to the Request, the sixteen ESIA's prepared by the concessionaires were widely recognized to be of poor quality. The Bank, along with other donors, undertook an independent review of SFMPs and ESIA's to provide a detailed critique of concession plans with respect to social, legal and biophysical aspects. The results of this review highlighted the fundamental weaknesses in the planning processes, leading the Bank to renew its calls for the Government to demand appropriate performance from the concessionaires and take appropriate action in accordance with its rights under the concession contracts and applicable Cambodian laws.</p> <p>Management acknowledges that the PAD could have made better use of ongoing assessments of biodiversity conservation efforts in Cambodia to inform project design (see Item 6). Also see Item 9 for additional information on Environmental Assessment at the design stage.</p> <p>Lessons Learned: Since the project is now closed, there is no specific corrective action that can be taken on the project. See Item 9 below regarding Bank follow-up on environmental screening and classification in technical assistance projects.</p>
9.	<p>Environmental Categorization of the Project</p> <p>Given the very serious potential impacts, and close association of Project with these impacts, Project should have been placed in Category A, and a full EA should have been carried out. By failing to do this, Bank did not comply with OP 4.01.</p> <p>Careful study and debate by multiple parties, as required for Category A project under OP 4.01, could have helped avoid serious errors in design and implementation of Project. This type of assessment might have led, for example, to greater focus on alternative approaches to industrial scale logging, such as various types of community and partnership forestry.</p>	205	<p>Comment: Management believes that the decision to classify this project as a B project was appropriate and consistent with Bank practice. The Bank recognizes that such decisions are judgment calls that are guided by Bank policy but also by current best practice and the expected on-the-ground impacts of operations.</p> <p>The B classification assigned to this project was based on its specific interventions—providing technical assistance to develop improved planning and inventory management systems, strengthening Borrower capacity for concession regulation and control, and forest crime monitoring and prevention. The choice of B for this project was consistent with the classification of forestry, LIL and other technical assistance projects Bank-wide.</p> <p>The B classification did not mean the Bank considered the environmental and social implications of the project to be irrelevant or unimportant. Instead, the Bank determined that the procedures and guidelines for social and environmental analysis of specific forest management proposals for concession systems would be best developed as part of the package of technical assistance and that their implementation would be built into the project design.</p> <p>The project design explicitly recognized that environmental and social problems existed in the management of forest concessions and incorporated measures to address them. However, specific planning decisions to be made at each location could not be known in advance. Therefore, the value of additional up-front impact analysis was questionable, and a process-oriented approach was considered preferable. Furthermore, prior to project ap-</p>

No	Issue	Para No.	Comment/Action
			<p>praisal, studies under the Technical Assistance Project (see Annex 5) did examine social and environmental issues.</p> <p>Management acknowledges that relevant information on the important environmental issues could have been collated during preparation and, more importantly, additional opportunities for public debate on the environmental and social implications of the project could have been built into the preparation period of the project.</p> <p>Projects of this type would also benefit from the application of analytical tools, such as SEA, as an alternative to project level impact assessments.</p> <p>Lessons Learned: No project-specific action is proposed at this point since the project is closed. The Bank will review and update the “Guidelines for Environmental Screening and Classification” issued by QACU in 2005 to provide additional guidance on classification and appropriate methods of undertaking environmental and social safeguard related actions in technical assistance projects for natural resources management. This would include guidance on appropriate analytical approaches and procedures for consultations for projects that support “process oriented technical assistance” in the natural resources management sector. The Bank will also recommend selective use of SEA approaches in future projects of this type and will identify and disseminate good practice guidance notes on the use of such methodologies.</p>

SOCIAL COMPLIANCE

10.	<p>Need for Social Assessment Forests form a crucial part of the survival strategy of the rural poor, who depend on and use forests in a great variety of ways. Forests are particularly important for indigenous peoples, who live in the more remote and isolated regions of the country. Forests comprise their cultural and spiritual home, and are the basis of their economic identity.</p> <p>Lack of social assessment specific to this Project has had serious consequences for Bank's ability to comply with its operational policies from design through implementation phases of Project.</p>	36, 211	<p>Comment: Management agrees that the project did not adequately assemble relevant knowledge and analysis of the social aspects specific to the project. More focused social analysis, e.g., in the form of a social assessment, during preparation would have benefited the project in a number of ways: highlighting social issues in the forest sector, providing a better basis for a facilitated planning and consultation process, and identifying possible measures for incorporation into the project, such as the need to address Indigenous Peoples issues, and to identify and recognize customary use rights to forest areas (e.g., the use of resin trees by local communities) and protect spirit forests.</p> <p>Under the project, the Bank addressed the issues as they emerged since it was found preferable to assess these in detail as part of the site-specific planning process during implementation. Bank supervision of the project paid attention to social issues in compliance with operational policies. A social safeguard specialist participated in most missions from 2003 onwards, a PHRD Grant program³ was put in place to provide technical as-</p>
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³ The USD 240,000 PHRD grant (June 2001) to the Government provided additional technical assistance during implementation focused on social and environmental assessment and collaborative efforts to design the Community Consultation Guidelines.

No	Issue	Para No.	Comment/Action
			<p>sistance to the Government on the social aspects of the management plan evaluation, and a consultant was contracted to draft Community Consultation Guidelines, although this was not finalized.</p> <p>Lessons Learned: See Action under Item 3.</p>
11.	<p>Identification of Affected Population and Project Area</p> <p>In this case, a safeguard postponed is a safeguard denied, because by failing to identify beforehand affected population, Bank policies requiring consultation and participation of that population could not be properly followed.</p> <p>Even at delayed date, Bank focused only on areas covered by concessions to define Project area. This led to overly restrictive definition of Project Area. As a result, Project's social impacts were significantly understated and Bank social and environmental safeguards not applied to proper area and population. This is not consistent with the applicable Bank policies, OP 4.01 and OD 4.20.</p>	212, 215	<p>Comment: From the outset, the project team recognized the adverse impacts on local communities from concessions (see PAD, page 9), and one purpose of the project was to address the problem by enhancing and detailing the regulatory framework, ensuring that concessionaires prepared SFMPs and ESIA's based on consultation with affected communities, and increasing the capacity of the FA to monitor and possibly sanction non-compliance by concessionaires or their sub-contractors.</p> <p>Guidelines prepared prior to and during the project were numerous and somewhat disparate stand-alone documents. The Community Forestry Guidelines include general guidance on the rights of indigenous communities. The Sub-Decree on Forest Concession Management contains general instructions on community consultation and customary rights, and was seen as the legal basis for safeguarding community interests and rights, as well as being an "umbrella" for the various guidelines, to which it refers. While the SFMP/ESIA guidelines, manuals and handbooks may not be comprehensive, they generally set the same direction. They vary in detailed operational guidance, however, and are inadequate in the analysis and definition of what constitutes the project area (area of influence) for concession planning.</p> <p>The Sub-Decree mandates a structure of consultative mechanisms with potentially affected communities during planning and implementation of a concession. These mechanisms provide for local communities to play a role in monitoring performance of the concessionaire. They also aim at the protection of access rights to those forest resources occurring on concession areas that are of economic, subsistence and spiritual value to local communities.</p> <p>It was anticipated that deficiencies in public consultation processes would occur, especially at the strategic level, because of the large areas and large number of villagers involved, as well as the long-term planning horizon of the SFMPs. At the start of the project, forest concessions covered large areas of the country with up to half the population of the whole country living within or close to forest concessions. However, the extent of deficient and sub-standard planning and assessment in the SFMPs and the ESIA's could only be determined during project implementation.</p> <p>Regarding the limited definition of the project area, most SFMPs/ESIA's determined that villages within a 5 kilometer radius of the concession boundary should be included as communities affected by the concession, and therefore should be consulted. Already in 2001, the Bank noted to the Government that the defi-</p>

No	Issue	Para No.	Comment/Action
			<p>dition of the project area was too restrictive, and unacceptable for planning purposes, since it is well known and documented that some people travel 30 kilometers to tap resin trees and collect other non timber forest products. This point was also emphasized by the independent review of the SFMPs (GFA reports of August 2004 and 2005), which found that the socio-economic survey and participatory planning of community use areas were not well defined in the guidelines and that performance of the areas was disappointing.</p> <p>Recently, the Bank commissioned an assessment of concessionaires' community consultation efforts during the preparation of SFMPs in three concession areas in Cambodia, as part of preparing the ICR. It confirms the findings of the Panel, that community consultations had not taken place in a meaningful way. See Item 18.</p> <p>In hindsight it may be questioned whether the capacity of the concessions was too optimistically assessed for successful implementation of this aspect of the project, and whether it was inappropriate to expect the concessionaires to be responsible for hiring qualified consultants to objectively assess the environmental and social impacts required in the ESIA. However, as already noted, the project per se did not result in social impacts on local communities because no logging was funded and no concessions were approved.</p> <p>Lessons Learned: The draft Community Consultation Guidelines address the issue of defining affected communities and the area of impact, and the role of third parties in independent ESIA preparation, including community consultations and monitoring of compliance. This should ensure the inclusion of all affected villages in consultation processes. See also Item 10.</p>
12.	<p>Impacts on Local People of Illegal Logging of Resin Trees Importance of resin harvesting for many rural Cambodians was apparent to the Panel. Information indicates threat of logging concessions to trees tapped for resin is very severe because resin tapping makes up a significant portion of the income for approximately 100,000 people.</p> <p>Illegal logging of resin trees has had major negative consequences on Requesters and local people. Bank was frequently made aware of numerous complaints of harms to local communities due to cutting of resin trees. Bank's failure to consider and investigate these problems does not</p>	218, 241-243	<p>Comment: The Bank team was well aware of the importance of resin trees to local communities, and that indiscriminate logging of such trees had taken place with little or no compensation, as well as illegal logging. Management was not made aware of the specific complaint letter leading to the Request for Inspection, or any other specific complaints, although the letter is dated one year before the Request for Inspection was sent to the Bank.</p> <p>The Bank-supported (BNPP) revisions of the Government's biodiversity guidelines specifically addressed resin-tapping and livelihoods, as well as proposing mechanisms for addressing adverse impacts of logging (see WCS report on field testing guidelines for managed forests, Section 6, June 2002). The draft Community Consultation Guidelines incorporate social issues such as access to resin trees at the strategic (concession-wide) as well as at the compartment and coupe planning levels.</p> <p>While Management acknowledges that an up-front general social assessment, summarizing social issues in the forestry sector, would have been able to assess the problems in more detail, it</p>

No	Issue	Para No.	Comment/Action
	<p>comply with OP 4.01 and OP 4.36.</p> <p>An assessment or inventory should have been part of a proper environmental assessment, and should have been subject of a participatory survey and inventory at early stage of Project. Failure to do so was not in compliance with OP 4.01.</p> <p>The Panel also notes that the system to review concession plans failed to have a policy disqualifying concessionaires who were engaged in illegal logging of resin or other trees. This seems to constitute a flaw in design which is inconsistent with the general spirit of the Bank's Forest Policy.</p> <p>In this sense, the Project missed an important opportunity to help reduce the potential incentive for illegal logging of resin trees and to resolve the basic conflict between resin-dependent communities and industrial loggers. This is of particular concern given that the traditional tapping of resin trees has been shown to be a long-term sustainable use of forests, which also contributes to poverty alleviation, one of the primary aims of O.P. 4.36</p>		<p>does not appear that a detailed inventory and site-specific surveys for all concessions would have been feasible during preparation given the design and objectives of the project. Such inventories were considered to be more appropriate and cost-effective in site-specific ESIA's and management plans. This was planned for in the project's design; however, Management recognizes the poor quality of the ESIA's and lack of attention to the issue by concessionaires.</p> <p>The Bank endorsed and supported the Government's proposal to use companies' track records in concession evaluation. The Bank encouraged the Government to enforce its laws and regulations with respect to those concessionaires that were found by Government experts and officials to be in clear and persistent non-compliance with their contracts.</p> <p>During project implementation, the Bank repeatedly requested—since July 2001, when the Bank commented on the TOR for ESIA's, prepared by the Cambodia Timber Industries Association (CTIA)—that the right of communities to harvest and have access to non timber forest products, including resin trees, be specifically protected; the Bank also requested that access by tappers be ensured in line with Cambodian law, including customary laws and principles. Finally, the Bank stressed the need for transparent and inclusive community consultations, and the special needs of indigenous non-Khmer communities.</p> <p>The Bank has assisted the Government in developing draft Community Consultation Guidelines which, among other issues of interest to communities, deal with resin trees. The draft Community Consultation Guidelines discuss access to resin trees at the strategic (concession-wide) as well as at the compartment and coupe planning levels. However, in hindsight, a more categorical ban on cutting of resin trees would have been appropriate.</p> <p>Management notes that illegal activities took place prior to and irrespective of the project, that no concessions have been approved, and that the logging ban aided in curtailing illegal logging of resin trees.</p> <p>Lessons Learned: The issue of resin trees is addressed in the draft Community Consultation Guidelines, which the Bank has offered to assist the Government to finalize. The Bank will also continue dialogue with the Government on the legal framework for indigenous and customary rights over forest resources.⁴</p>

⁴ Excerpt from the draft Consultation Guidelines: "It can be argued that the new Forestry Law (2002) did not directly repeal the 1993 Prakas. The 1993 requirement to obtain permission from local communities to harvest resin trees does not expressly conflict with any provision in the new Forestry Law and therefore may remain valid. However, MAFF has drafted a new Prakas to replace the 1993 version and implement Article 29 of the new Forestry Law (2002). This draft currently includes language similar to the 1993 Prakas regarding the right to harvest resin trees upon permission of the local community and forestry officials. This would repeal the suspension stated in FA Directive 740, RBo. KKB, Phnom Penh, dated April 26, 2001, and potentially reinstate the policy that assisted in depletion of numerous resin trees and damaged the livelihoods of local communities throughout Cambodia. A window of opportunity exists at this time for the FA to submit the

No	Issue	Para No.	Comment/Action
13.	<p>Consultations with Affected People during Project Preparation Bank's decision to postpone active social assessment and consultation procedure until preparation of ESIA's by concessionaires is not consistent with Bank policies, including OP 4.01, OP 4.04 and OD 4.20, which require early consultations and/or surveys in the preparation phase.</p> <p>Panel recognizes challenges of consultation at the time of Project design, but notes that this does not diminish need for and importance of such consultations. Lack of early consultation greatly reduced Management's capacity to be informed of critical concerns relating to indigenous peoples, resin tapping, local community ownership of trees, community forestry initiatives, and other matters of central importance to the affected communities.</p>	253, 255	<p>Comment: Management notes the Panel's recognition of the challenges of conducting consultations during project preparation and agrees that more independent, project-specific consultations during preparation with local communities potentially affected by the project would have been appropriate. This would have helped clarify opportunities and challenges inherent in the implementation of the Government's proposed system, facilitated more explicit understanding of Indigenous Peoples' concerns, and identified possible measures to avoid potential adverse social impacts and enhance benefits.</p> <p>Management maintains that detailed site-specific assessments, community consultations and development of mitigation measures are best done during implementation following the planning procedures prepared for the project (and enhanced during implementation). The responsibility for these consultations rests with the concessionaires when preparing their strategic, compartment, and annual plans. However, as noted in Item 18 below, the Bank recognizes that more should have been done to ensure appropriate consultations with Indigenous Peoples for site-specific concession planning.</p> <p>Management notes also that the Bank was concerned about the quality and impact of consultations undertaken by concessionaires in the course of their plan preparation. Indeed, consultations at various levels and with a wide spectrum of stakeholders have taken place because of the Bank's efforts to improve the Government's management and control over the concession system. Furthermore, the Bank has insisted that consultations take place during all levels of planning to fully identify and protect community resources. Specific measures taken during implementation to improve actual consultations and the general procedures and guidelines for consultations include:</p> <ol style="list-style-type: none"> 1. The PHRD Grant program to the Government to provide technical assistance in social aspects of plan evaluation; 2. The Forest Concession Management Planning Manual (DFW, 2001b); 3. ESIA guidelines (Annex 1 of DFW, 2001b); 4. Bank efforts throughout project implementation to develop linkages between NGOs, including the NGO Forum, and the FA, and also efforts to engage the NGO Forum in a collaborative program to work with communities; 5. Preliminary draft Community Consultation Guidelines; and 6. An assessment of concessionaires' community consultation efforts during the preparation of SFMPs in three concession areas. <p>The Bank has also participated actively in efforts to expand and improve the quality and impact of consultations related to for-</p>

draft Prakas for public comment, required by Forestry Law, Art. 3, and amend the language regarding resin trees. A recommendation could be: 1) To strictly prohibit the harvest of resin trees tapped by local communities thereby protecting customary user rights and traditional livelihoods (FL, Art. 2, 15, 40)."

No	Issue	Para No.	Comment/Action
			<p>estry, for example, by facilitating input from NGOs to discussions on forestry law and the community forestry sub-decree.</p> <p>Lessons Learned: The Bank continues to pay attention to consultation efforts in regard to production forests. The assessment of concessionaires' community consultation efforts will inform the ICR and the finalized Community Consultation Guidelines.</p>
14.	<p>Preparation of an Indigenous Peoples Development Plan Indigenous peoples live in the heart of lands subject to concessions. Forests comprise their cultural and spiritual home and are the basis of their economic identity.</p> <p>Panel notes Management's acknowledgement that a framework IPDP would have been more appropriate during Project design, and finds that in line with OD 4.20, an IPDP should have been prepared for this Project.</p> <p>Many of the prerequisites for IPDP are lacking. Had they been developed, many of the problems that have afflicted the Project would have been recognized and might have been corrected.</p>	37, 260, 263	<p>Comment: Management agrees that the Bank was not in full compliance with OD 4.20 and that further discussion of how to address this issue should have taken place during the preparation of the project. The project approach was to develop, together with and as part of the general consultation process, criteria and guidelines for community engagement in concession areas with local communities, including issues such as customary use of resources. During implementation a consultant was hired to improve the consultation guidelines, including provisions in line with the Bank's policy on Indigenous Peoples.</p> <p>In retrospect, Management considers that, rather than an IPDP, screening studies and a framework IPDP would have been the appropriate approach. Unfortunately such an instrument was not explicitly available under OD 4.20, although it had become practice in the Bank to deal with more process oriented projects by preparing frameworks (for both IP and resettlement). The revised policy (OP 4.10) includes more flexible instruments, including an Indigenous Peoples Planning Framework, to respond to different types of Bank-assisted projects.</p> <p>The project envisaged that detailed site planning, building on a consultative process with affected communities, would be undertaken during implementation by qualified consultants hired by the concessionaires. When it became apparent that this did not happen, the Bank pointed out these weaknesses during the consultation process and in the resulting ESIA's.</p> <p>Lessons Learned: Since the project is closed, no action is possible under the project. However, in the continued dialogue regarding the forest sector, Indigenous Peoples and broader social issues are being addressed as a primary concern.</p>
15.	<p>Cultural Property: Spirit Forests and Archeological Sites Spirit forests are recognized throughout Cambodia, and have status as protected areas under Bank Policy OPN 11.03. The Panel finds that none of the means of handling the issue of spirit forests, provided for in the Bank policy, was carried out as part of the Project. To leave determinations about spirit forests to concessionaires, to include within their ESIA's as they developed and pre-</p>	80, 272, 277, 279	<p>Comment: Management acknowledges that the Bank was not in full compliance with OPN 11.03 and that more up-front work could have facilitated improved attention to these issues during implementation.</p> <p>The concessionaires are bound by national legislation related to spirit forest and archaeological "chance finds" in their operations. The Sub-Decree on Forest Concession Management includes the following objectives:</p> <ul style="list-style-type: none"> To "protect and maintain rights of access to those forest resources occurring on concession areas that are of economic, subsistence and spiritual value to local communities" (Art.

No	Issue	Para No.	Comment/Action
	<p>sented their SFMPs for approval, is not consistent with OPN 11.03.</p> <p>There is widespread presence of long-recognized, important archeological sites in Cambodia, including in heavily forested areas, and “archeological tourism” is important to Cambodia’s economy.</p> <p>Procedure used by the Project to identify important cultural properties relied on the concessionaires to include them within their proposed management plans, without provision for reporting their existence to appropriate agencies or including appropriate specialists. This does not comply with the minimum level of protection and enhancement of cultural properties envisioned within OPN 11.03. It also potentially entails serious damage to cultural properties because it fails to include provisions for protecting, from future looting, sites that may be discovered.</p>		<p>2.5); and</p> <ul style="list-style-type: none"> To “ensure regular consultation with, and participation by local communities and other relevant stakeholders in the development of concession management plans and the monitoring of operational activities over the life of the concession” (Art. 2.6). <p>Cambodian law addresses “chance finds” of cultural heritage sites, requiring that work stop, and that the find be immediately reported to the local police. The police are required to report the find to the Governor of the Province, who shall report it to the competent authority, and ensure the protection of the site for 30 days, within which the competent authority shall assess the site and declare it a public protected site (Law on the protection of Cultural Heritage, January 23, 1996). This law was found to be sufficient to comply with OPN 11.03, and guidelines prepared prior to and during the project (e.g., Forest Planning Handbook, FA, 2004) incorporated criteria for identifying cultural heritage sites, procedures for their identification, and provisions excluding such sites from commercial logging.</p> <p>During implementation, when it became evident that implementation by the concessionaires in preparing SFMPs/ESIAs did not meet minimum standards of community consultation, a consultant was hired to prepare detailed, step-by-step, Community Consultation Guidelines and standards (see Items 11-13 above). Other Guidelines developed under the project call for identification and designation of Special Management Areas and specifically refer to sacred groves, spirit forests and archaeological sites.</p> <p>It should be noted that none of the SFMPs were found to be able to proceed to the compartment planning level and therefore, no damage to cultural heritage occurred under the project.</p> <p>Action: The finalized Community Consultation Guidelines will explicitly reference the legal framework in Cambodia and will provide guidance regarding the appropriate authorities to inform when archaeological “chance finds” occur.</p>

PROJECT IMPLEMENTATION AND SUPERVISION

16.	<p>Technical Assistance Provided Panel did not find evidence that technical assistance was provided directly to companies. Rather, consistent with OP 13.05, Bank focused its technical assistance on building capacity of the Forest Administration to oversee development of SFMPs by companies.</p>	307	<p>Comment: Management notes the Panel’s finding.</p> <p>Action: No action to be taken.</p>
17.	<p>Review of SFMPs/ ESIAs Notwithstanding efforts by Manage-</p>	Exec Sum,	<p>Comment: Management concurs with the Panel’s observations regarding the multiple deficiencies found in SFMPs and ESIAs</p>

No	Issue	Para No.	Comment/Action
	<p>ment to address problems that arose, significant problems persisted in reviews and drafts. These included: failure to disqualify companies who had engaged in past illegal logging practices; disincentive to identify and remove spirit forests from areas proposed for logging; conflict of interest issues; and inclusion of resin trees in proposed annual allowable cuts. After reviewing available evidence, Panel considers that SFMPs and ESIAAs were deficient in almost all regards, from process to content.</p> <p>The SFMPs and ESIAAs are especially inadequate in four important and interrelated respects: (i) a failure to ensure that local communities will not be adversely impacted by Project-supported activities, (ii) a failure to ensure that appropriate consultation occurred, (iii) a failure to ensure that appropriate and effective environmental guidelines are in place and (iv) a failure to ensure that concession operations can be carried out to achieve long-term sustainable management of Cambodia's forests.</p> <p>Panel recognizes that some Management and Staff consistently attempted to press the Government to improve planning process and to press concessionaires to conform to the various guidelines for preparing SFMPs. However, Bank supervision of planning and development of SFMPs/ESIAAs was inadequate in that Bank's level of supervision in general did not match magnitude of the problems caused by poor SFMPs and ESIAAs.</p>	<p>334-337</p>	<p>prepared by concessionaires and notes the Panel's finding that the project did not endorse or recommend approval of any SFMP.</p> <p>The Bank was actively and consistently involved in advising the Government on the planning and development of SFMPs/ESIAAs. Supervision entailed involvement not only by senior technical specialists on the ground, but senior management in the region and at headquarters.</p> <p>The Bank co-financed an independent review of strategic forest management plans and shared the results of this review with MAFF, concessionaires, other donors and civil society. On the basis of the independent review, and in accordance with the Development Credit Agreement, the Bank advised the Government to demand appropriate performance from concessionaires, and encouraged it to enforce relevant Cambodian laws, to fully exercise its rights under the existing contracts (including any right it has to terminate them), and to bring the unsatisfactory situation to a quick conclusion.</p> <p>Lessons Learned: In dialogue with Government counterparts the Bank will continue to press for appropriate Government action on concession reform and robust planning and management of post-concession areas.</p>
<p>18.</p>	<p>Consultations and Disclosure in the Development of SFMPs/ ESIAAs</p> <p>Panel notes unequal power relations between concession staff and local communities. Assignment of responsibility for consulting with indigenous peoples to the concessionaires, who are planning to log the forests used by the indigenous peoples, led to a</p>	<p>346, 353, Annex A</p>	<p>Comment: Management shares the Panel's concerns regarding the unequal power relations between concession staff and local communities. This was among the key social issues recognized during project preparation and noted in the PAD. Consulting with affected communities (including Indigenous Peoples) was governed by Cambodian legislation (Sub-Decree on Forest Concession Management) and concession contracts. These laws and contracts require concessionaires to develop proposals addressing all aspects of forest management, including social issues, and</p>

No	Issue	Para No.	Comment/Action
	<p>flawed and inadequate consultation process inconsistent with OD 4.20.</p> <p>Panel noted significant concerns and tensions that arose during the consultation and disclosure process, referred to both in Request and Response.</p> <p>Management acknowledges that it should have managed the process better. The Panel notes this acknowledgement, and finds that Bank's supervision of this process was not always consistent with OP/BP 13.05.</p>		<p>to submit plans and assessment for Government evaluation and approval.</p> <p>Studies during project preparation defined expectations for concessionaire planning of SFMPs and ESIA's, and the project was designed to build the required vetting capacity in Government. The Bank insisted on disclosure of draft SFMPs and ESIA's, leading to opportunities for public comment and scrutiny of concession proposals. Management believes that this served to enforce the accountability of Government regarding its diligence in SFMP/ESIA review. As noted previously, the Government has not permitted any concessionaire to proceed to operations and the Bank has not endorsed any concession plans.</p> <p>In 2001, the Bank reviewed the TOR for ESIA's and specifically noted that "local communities must be given the opportunity to participate constructively and effectively as equal partners in the development of the SFMP/ESIA (including contribution to TOR) through an inclusive and transparent consultation process...Government's responsibility will be to oversee the consultation process to ensure its fairness and transparency." (Comments on ESIA TOR and Workplan as conveyed in 2001 Management Letter).</p> <p>Notwithstanding these efforts, Management agrees that the consultation process was not consistent with OD 4.20. The Bank's concerns about the inadequacies in this process have been conveyed repeatedly to Government (see also Item 14).</p> <p>In March 2006, Management authorized a community consultation assessment to facilitate learning from the experience of community consultation under the project and as an input to the ICR. The assessment reviewed the process and outcomes of community consultations in three concession areas and confirmed that consultation was inadequate in many respects (e.g., no indication independent consultant teams were formed or participated in consultations, lack of follow-up in village meetings, few Community Consultation Committees established) and also inconsistent with the governing Sub-Decree.</p> <p>Lessons Learned: Results of the assessment and lessons learned will be incorporated in the ICR and shared with the Government. In the future, it will be important to better support the Government in implementing its forest legislation, including consultation requirements.</p>
19.	<p>Forest Cover Survey</p> <p>Recognizing limits in conducting the forest cover survey (e.g., short time for work, limited resources), there is sufficient evidence to suggest that work was not carried out to standards</p>	361	<p>Comment: Management notes the Panel's findings concerning the forest cover survey. The survey was prepared by the FA with assistance from a qualified international consultant. It aimed to provide current information about recent land cover trends as a basis for discussion of forest management issues nationwide. It described technical issues and methodology, the extent of ground</p>

No	Issue	Para No.	Comment/Action
	<p>expected for such an exercise. Applying arbitrary factors to raw data to align them with values perceived to be “more correct” constitutes an arbitrary correction that provides an inadequate estimate of this critical data. Supervision of the forest cover survey was inadequate and did not comply with OP 13.05.</p>		<p>truing of the satellite imagery and the results of that ground truthing process.⁵ The study also provided detailed maps of forest cover, forest cover changes and tabular estimates of changes by major forest type for each concession and each park and protected area in Cambodia. To estimate the degree to which logging was occurring, the study used the extent of road development as a surrogate measure. The study cost less than USD 100,000 and was financed by the PHRD Grant for Implementation Technical Assistance.</p> <p>Supervision of the forest cover survey included Bank sponsorship of workshops and consultations on methodology and study design and presentation of preliminary results. Bank technical specialists and independent experts were asked to review study design and assess the validity of image interpretation technique and data analysis and presentation, including use of adjustment factors applied to the estimated deciduous forest area. Specialists viewed the approach employed as a valid sensitivity analysis that was appropriately described and documented in the survey report and which did not affect the value of the estimates of evergreen and semi-evergreen cover. These survey results raised controversy among stakeholders who expected higher rates of loss and who became concerned over political uses of study results.</p> <p>Action: No further action to be taken.</p>
20.	<p>Conversion of Forest to Other Land Uses Concession logging has contributed to significant degradation of Cambodia’s natural forests and has hastened conversion of forests to other forms of land use.</p>	368	<p>Comment: Management notes the Panel finding. Management shares the Panel’s concern for the loss of forest cover caused by uncontrolled logging operations and has made and will continue to make every effort to support the Government in developing mechanisms to control illegal logging and to ensure sustainability of legal concessions. Management appreciates and agrees with the Panel’s observations in para. 149 (noted under Item 4 above) that the project did not directly cause damage to Cambodia’s forest. Insecure and unclear tenure contribute to the process of land conversion and land alienation; secure access to land and transparent management of national resources in the public interest are of vital direct importance to Cambodia’s rural majority. Through the Bank’s policy dialogue with the Government on state land management, the Bank will continue to grapple with the challenges of NRM.</p> <p>Action: See Action Plan in Management Response.</p>
21.	<p>Suspension of Forest Concession Activities Suspension of issuance of logging permits to remaining concession companies, until approval of new forest concession management plan</p>	369, 371	<p>Comment: Management agrees with the Panel’s finding that suspension of logging operations pending approval of management plans was significant in that it created much needed incentive for concessionaires to comply with their management planning obligations and simultaneously reduced the scale of both legal and illegal logging associated with the concessions. The</p>

⁵ Of 88 ground truthing points, 67 (76 percent) matched with the image interpretation results. Misclassifications were all among the deciduous, other forest and non-forest categories. No errors were detected within the evergreen and semi-evergreen types.

No	Issue	Para No.	Comment/Action
	<p>consistent with laws and regulations, was a significant event.</p> <p>Bank's participation in discussions about mechanisms to allow logs already cut to be transported to processing plants was appropriate and consistent with policy.</p> <p>Supervision of Borrower's actions related to log transport ban could have been better performed to ascertain whether Borrower implemented Project with due diligence.</p>		<p>suspension of sawmilling operations by concessionaires had a reinforcing effect.</p> <p>Management has also strongly conveyed its concern about the fate of forests and land resources following concession cancellation and, in various communications with the Government, has highlighted the urgent need to establish a robust system for planning, management, and protection of post-concession areas.</p> <p>Management notes the Panel's findings with regard to discussions about transporting felled logs. This activity was carried out under the oversight of the Independent Monitor and no problems were reported.</p> <p>Action: No action to be taken.</p>
22.	<p>Independent Monitoring</p> <p>Panel notes importance of having independent monitor, which was a Project objective.</p> <p>Panel is concerned, however, that provisions of the TOR preventing the monitor from independently initiating field investigations, and making the release of the monitor's report subject to Government verification, conflict with the objective stated in the PAD to have "<i>an independent monitor to provide a check on the accuracy of Government reporting.</i>"</p> <p>The Panel observes that information about SGS was readily available from various sources at the time that SGS was appointed. However, Panel could not find in the Project documents evaluation or discussion on whether SGS fulfills criteria related to independence for independent forest monitor. This is not consistent with OP 13.05.</p>	381, 387	<p>Comment: Management concurs with the Panel's view on the importance of an independent monitor. A Bank mission reviewed the forest law enforcement and governance situation in Cambodia in March 2006 (see Item 4). This mission examined the TOR for the Independent Monitor and recommended changes to ensure greater independence, and new reporting arrangements to ensure increased transparency and avoid conflict of interest.</p> <p>The decision to select SGS as the Independent Monitor was made by the Government, which was executing the project. The Government selected SGS through an international competitive process. The Bank issued its no objections to the TOR for the Independent Monitor, the shortlist, and the bid evaluation report.</p> <p>Management is currently reviewing the performance and independence of the Independent Monitor, including the process by which monitors are contracted.</p> <p>Lessons Learned: The role of an independent monitor is particularly demanding. Management will continue to work with other donors to maintain and improve the functioning of an independent monitor in Cambodia.</p>
23.	<p>Supervision Structures</p> <p>Many issues raised by Requesters might not have arisen if Project had received better supervision. Consistent picture emerged of Project management perceived as narrowly focused and not seeing big picture. Multi-level nature of Management structure appears not to have functioned effectively in engaging skills, expertise and oversight needed for</p>	393-394, 19	<p>Comment: As stated in Item 10, Management agrees that more direct engagement in social aspects of forest management planning by Bank staff could have improved project outcomes. Such an approach would have helped to address a number of the issues raised in the Request and to maintain broader support for the operation and the sectoral reform process.</p> <p>Management notes the Panel's observations with regard to deteriorating relationships during project implementation. Management believes, however, that good faith efforts were made to maintain relationships and open communications with other partners throughout the project period, although there were some</p>

No	Issue	Para No.	Comment/Action
	<p>Project of this nature.</p> <p>Region recognized existence of significant problems and requested a Quality Enhancement Review. Management is to be commended for taking this step.</p> <p>Supervision should have aimed at ensuring that the unraveling of relationships that became apparent during the early years of the Project's implementation was addressed explicitly and quickly. In particular, supervision should have aimed at ensuring that the Project had the capacity throughout its life to develop a broadly based constituency, embracing donors, Government and NGOs, to advance forest sector reform.</p> <p>Panel appreciates effort by Management, in its Response, to identify lessons learned, and considers that this effort contributes constructively to promoting effective design and implementation of development projects.</p>		<p>strong differences of opinion among the stakeholders, including the Government counterparts, NGOs, and other donors, on project design and consultation processes. The Bank's participation in the IFSR was in part to endorse others in the donor community taking a greater leadership role. Overall, the project was intensively supervised by the country and project team and received management attention not only from the Country and Sector management but also from EAP regional and senior management as well.</p> <p>During implementation, supervision ratings reflected the Task Team's and Management concerns about faltering project performance and diminishing prospects for lasting development impact. Significant problems were first observed in the Forest Crime Monitoring and Prevention Component in the first half of 2002. During the balance of 2002, conditions seriously deteriorated and were reflected in a downgrading of the project ratings for both development objectives and implementation progress to "unsatisfactory." until December 2003.⁶</p> <p>Both the MTR (February 2003) and QER (October 2003) also recognized the serious problems that had arisen during implementation and recommended actions to improve the Government's efforts at forest sector reform and overall management of the project. The Bank also recognized its own difficulties in preparing a coherent strategy, not only to address concession management, but also independent monitoring, community forestry, and environmental protection; and the role of lending, including conditionality, in addressing the forest governance agenda.</p> <p>In December 2003 the development objectives rating was upgraded to "satisfactory" in view of the restoration of an independent monitoring arrangement, agreement by FA to reinstate the compartment planning requirement, and agreement on a partial restructuring to incorporate activities on post-concession management to be implemented in collaboration with NGOs (WCS). Implementation progress, however, continued to be rated "unsatisfactory" and remained so until Project Closing. Development objectives were once again downgraded to "unsatisfactory" in June 2005 and remained so until Closing.</p> <p>Throughout implementation Management was frequently and intensively engaged at the country and sector level with the Borrower, including through the placement of senior sectoral staff in the country and the work of the Bank's external affairs unit in Cambodia. The current status and outcome of the project is certainly not due to a lack of effort or level of engagement by the team and Management. (See Annex 3 – List of Supervision and Other Missions).</p>

⁶ The supervision ratings for the SAC were also downgraded in August 2002 and May-November 2003, due to forestry issues and one other issue.

No	Issue	Para No.	Comment/Action
			Lessons Learned: Management acknowledges that the entire forestry program should have been consolidated under a framework document to ensure coherence and consistency in approach, although this would not have addressed all the problems encountered in the project, given the very difficult environment in which the Bank was, and still is, operating.

CONSIDERATIONS RELATED TO PROJECT OUTCOMES

24.	<p>Concession Reform Twenty-six concessions, covering 6.5 million hectares, were cancelled prior to commencement of Project, and thirteen concessions, covering 2.7 million hectares, were current as of November 2005. Some observers claimed that almost all the concessions cancelled no longer had a significant volume of commercial timber attractive to concessionaires.</p> <p>Natural attrition has been taking place, and it is arguable whether Project played a significant role in reducing the number of concessions.</p>	397-398	<p>Comment: Management notes the Panel's findings with regard to the stalled process of concession reform, but the degree to which "natural attrition" drove the process of concession cancellation is open to debate. The concessions in Cambodia were granted prior to Bank engagement in the sector and without any assessment of the standing stock of timber. Only after concession agreements were signed did concessionaires (and donors) come to realize the limited scope for sustainable timber management in many of these areas. In this context, the closure of a large number of concessions was inevitable and anticipated. Data generated through the Forest Cover Survey indicated that substantial resources remained in both cancelled and ongoing concessions as of 2002, by which time logging had been suspended.</p> <p>The Bank has been engaged, along with other donors, in the dialogue on reducing the number of forest concession for nearly ten years. This has been a difficult process. In recent years, the stalled concession reform process has been a real concern to Management, and the Bank has urged the Government repeatedly to pursue its prerogatives in conformity with existing contracts (see also Items 1 and 17 above).</p> <p>Management also wishes to clarify that the data presented in Table 4 on page 110 of the Panel report includes 13 concessions labeled as "current." The list of "current" concessions includes: (i) 7 concessions that were recommended for closure by the Government's own TRT (the Government has yet to act on these recommendations); and (ii) 6 concessions that were recommended with explicit reservations by the TRT to continue the planning process. As noted under Item 17 above the Bank has repeatedly advised Government to demand appropriate performance from all concessionaires. Indeed, as noted in Item 4, the most positive impact made through the project was securing the agreement of Government to suspend concession logging from January 1, 2002 until concessions had submitted satisfactory plans.</p> <p>Lessons Learned: See Item 17 above.</p>
25.	<p>Assessing the Project Bank's willingness to become involved in forestry sector at a time when others would not was commendable. Panel recognizes dedica-</p>	409-411, 413	<p>Comment: Management appreciates the Panel's acknowledgment of staff dedication and willingness to take risks by engaging in the forestry sector at a time when others would not.</p> <p>Management also notes the Panel's concerns about lost opportunities to address a broader set of issues due to the project's focus</p>

No	Issue	Para No.	Comment/Action
	<p>tion of Staff and risks they took.</p> <p>However, in design and implementation of Project, Panel detected a nearly exclusive focus on reforming forestry concessions, a view that this could be done effectively on a technical basis, and a reduced emphasis on compliance with safeguard policies. Thus the necessary national strategic policy discussion that Bank policy requirements would have triggered did not occur. This may have unintentionally contributed in the long run to prolonging a bad situation and to some degree served to legitimize the concessions.</p> <p>Panel finds that LIL was not designed for the kind of forestry project for which it was used in Cambodia, and use of LIL, while enabling funds to be disbursed quickly, facilitated Project classification as Category B and lesser attention to Bank safeguard policies and procedures, which in the long run proved costly. The Panel would like to note that no Project could have produced perfect outcomes in the extremely difficult environment in Cambodia.</p> <p>There may now be important opportunity for Bank involvement in the forestry sector with a different and more diverse range of activities. The Panel considers that Bank letter to Government of November 2005 outlined productive ways of Bank support for the forestry sector which are consistent with the findings of Panel's Report.</p>		<p>on concession management reform. Management would like to point out that in this particular case there was a need to focus on what was a very critical issue—concessions operating without effective government oversight—and that by doing so the project was responding to a specific request from the Borrower. As explained in Item 1, the primary purpose of the LIL was to assist the Government in regulating effectively the forestry sector; as well, the Bank was engaging in concert with other donors and the broader stakeholder community on a number of forest-related discussions and projects, including the livelihoods of forest communities, the environmental, social, and cultural aspects of forests, and reform in the sector.</p> <p>The Panel's finding that the use of the LIL as an instrument was not correct and that this facilitated classification of the project as a Category B are addressed under Items 2 and 9 above.</p> <p>Action: See Action Plan in Management Response. Also See Annex 4 – November 2005 Letter.</p>

ANNEX 2

SUB-DECREE ON FOREST CONCESSION MANAGEMENT

ANNEX 3

INFORMATION ON SUPERVISION

Dates	Role/ Expertise
November 2000 – Supervision	<ul style="list-style-type: none"> • Task Team Leader/Lead Natural Resource Economist • Environment/Forestry Specialist • Procurement Specialist • Financial Management Specialist
March/April 2001	<ul style="list-style-type: none"> • Task Team Leader/Lead Natural Resource Economist
June 2001 – Supervision	<ul style="list-style-type: none"> • Task Team Leader/Lead Natural Resource Economist • Environment/Forestry Specialist
December 2001 – Policy Dialogue with Secretary of State	<ul style="list-style-type: none"> • Sector Director • Lead Natural Resource Economist
November-December 2001 – Supervision	<ul style="list-style-type: none"> • Task Team Leader/Lead Natural Resource Economist • Environment/Forestry Specialist
March 2002 – Supervision	<ul style="list-style-type: none"> • Task Team Leader/Lead Natural Resource Economist
July 2002 – Supervision	<ul style="list-style-type: none"> • Task Team Leader stationed in Phnom Penh until December 2003; supervision conducted in field
January 2003 – Policy Dialogue with Minister of Agriculture	<ul style="list-style-type: none"> • Country Director • Senior Operations Officer
February 2003 – MTR Supervision Mission	<ul style="list-style-type: none"> • Cancelled due to lack of progress in project implementation
March 2003 – Dialogue on donor coordination in forest sector	<ul style="list-style-type: none"> • Country Director • Country Manager • Lead Natural Resources Economist
May 2003 – Replacement for February MTR Supervision Mission	<ul style="list-style-type: none"> • Task Team Leader/Lead Natural Resource Economist • Procurement Specialist
October 2003 – Supervision	<ul style="list-style-type: none"> • Task Team Leader/Lead Natural Resource Economist • Environment/Forestry Specialist • Financial Management Specialist
April 2004 – Supervision	<ul style="list-style-type: none"> • Task Team Leader/Lead Natural Resource Economist • Sr. Forestry Specialist • Communications Officer (EACTF)-Bangkok • Communications Associate (EACSF)- Phnom Penh • Sr. Social Scientist (Social Development)
October 2004 – Supervision	<ul style="list-style-type: none"> • Task Team Leader/Sr. Forestry Specialist • Sr. Social Scientist (Social Development) • Forest Conservation Management Specialist, FAO • Social Forestry Specialist • Communications Associate
May 2005 – Final Full Supervision	<ul style="list-style-type: none"> • Task Team Leader/Sr. Forestry Specialist • Sr. Social Scientist • Rural Development Officer • Financial Management Specialist • Country Sector Leader (part-time)
November 2005 – Policy Dialogue with Technical Working Group and Forest Administration	<ul style="list-style-type: none"> • Country Director • Sector Manager • Country Sector Coordinator • TTL/ Sr. Forestry Specialist • Rural Development Officer
March/April 2006 – ICR Mission	<ul style="list-style-type: none"> • Mission Leader, FAO Forestry Consultant • Economist, FAO • Environmental & Social Forestry Consultant, FAO • Local Consultant

Supervision - Studies Commissioned by The World Bank

Discussion Paper. Forest Law Enforcement and Independent Monitoring of Forest Crime in Cambodia , February 2006. Richard Grandalski
Discussion Paper. Assessment of Community Consultations carried out during the preparation of Strategic Forest Management Plans (SFMPs) in Cambodia, Preliminary findings, Briefing Notes for the ICR Mission April 2006. A plan for the assessment of community consultations carried out in the following three concession areas: Everbright, Cherndar, and Colexim. Based on a desk assessment of FAs own review of consultations, and on relevant studies, including <i>Focusing on Cambodia's High Value Forest: Livelihoods and Management</i> , November 2004, Cambodia Development Research Institute and Wildlife Conservation Society. Jurgen Fichtenau
Community Consultation Guidelines. Prepare and test a Draft Guidelines/manual for community/public consultation in the planning process at the Forest Concession Management plans. The focus of the consultancy is on Compartment level planning. The consultant was expected to provide training for selected DFW and Concession staff in carrying out meaningful community consultations. In addition, the Consultant initiated a compilation of brief case descriptions of good practice in community consultation and collaboration. Karin Augustat
Forest Asset Security Overview in Cambodia. A report on findings of the forest asset security situation in Cambodia. (Expected May, 2006). Mike Dyson

Implementation Status and Results Ratings History

ISR Date	DO	IP	Implementation Progress Component Rating - Specific Aspects			Implementation Progress Component Rating			
			Compliance w/Agreed Procurement Schedules	Financial Performance	M&E	Forest Inventory & Planning	Concession Reg & Control	Forest Crime Monitoring & Prevention	Project Mgmt
06/15/2000	S	S	NR	---	NR	NR	NR	NR	NR
12/27/2000	S	S	S	---	S	S	S	S	S
06/25/2001	S	S	S	---	S	S	S	S	S
12/20/2001	S	S	S	---	U	S	S	S	S
06/19/2002	S	S	S	S	S	S	S	U	S
12/20/2002	U	U	U	NR	U	U	S	U	U
06/17/2003	U	U	S	NR	S	S	S	U	S
12/31/2003	S	U	S	NR	U	S	S	S	S
06/15/2004	S	U	S	S	U	S	S	U	S
06/29/2004	S	U	S	S	U	S	S	U	S
12/21/2004	S	U	S	S	U	S	S	U	S
06/24/2005	U	U	U	---	U	S	S	U	U
06/30/2005	U	U	U	---	U	S	S	U	U

NA - Not Applicable
 S - Satisfactory
 U - Unsatisfactory
 NR - Not Rated
 MU - Moderately Unsatisfactory

ANNEX 4

NOVEMBER 2005 LETTER ON FOREST MANAGEMENT IN CAMBODIA

The World Bank

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

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November 22, 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 con-

tracts (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 Environ-

ment 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 Mondulhiri 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,

[original signed by]
Mark D. Wilson
Sector Director
Rural Development and Natural Resources
Sector Unit
East Asia and Pacific Region

cc: H.E. Keat Chhon, Senior Minister, Ministry of Economy and Finance
H.E. Ty Sokhun, Head, Forestry Administration
Technical Working Group on Forest and Environment

ANNEX 5

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Additional Papers:

Aide-Memoires Supervision Mission – October 23-29, 2003
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