

Document: EB 2011/104/R.20/Rev.1
Agenda: 10(c)(i)
Date: 13 December 2011
Distribution: Public
Original: English

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Enabling poor rural people
to overcome poverty

President's memorandum

Proposed supplementary financing to the Kingdom of Cambodia for the

Rural Livelihoods Improvement Project in Kratie, Preah Vihear and Ratanakiri

Note to Executive Board representatives

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Executive Board — 104th Session
Rome, 12-14 December 2011

For: Approval

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed supplementary financing in the form of a loan and grant to the Kingdom of Cambodia for the Rural Livelihoods Improvement Project in Kratie, Preah Vihear and Ratanakiri, as contained in paragraph 11, and the modifications to the financing agreement, as contained in paragraph 10.

President's memorandum

Proposed supplementary financing to the Kingdom of Cambodia for the Rural Livelihoods Improvement Project in Kratie, Preah Vihear and Ratanakiri

I. Background

1. The Rural Livelihoods Improvement Project in Kratie, Preah Vihear and Ratanakiri was approved by the Executive Board in April 2007 (EB 2007/90/R.16/Rev.1). The project, whose total cost is US\$11.51 million, is funded by: (i) IFAD, with a grant of SDR 6.40 million (equivalent to approximately US\$9.52 million) under the Debt Sustainability Framework (DSF); (ii) the United Nations Development Programme (UNDP), with a contribution of US\$1.29 million; and (iii) the Government of the Kingdom of Cambodia, with a contribution of US\$0.71 million.
2. Cambodia is eligible under the DSF to receive 50 per cent grant assistance from IFAD and 50 per cent loan assistance on highly concessional terms.
3. The project's goal is to improve the livelihoods of rural poor people in the target communes of Kratie, Preah Vihear and Ratanakiri provinces. Its specific objectives are to assist 22,600 poor households in the project area (84 poor communes in 16 districts in the three provinces) in achieving positive and sustainable impact on agricultural development. The salient features of the project are the creation of farmers' groups, the capitalization of group revolving funds and the provision of technical training to group members.
4. Although scheduled to be completed in September 2014, the project has already disbursed 79 per cent of the grant; and, based on current annual workplan and budget projections, funds will be fully disbursed by early 2012. The higher-than-projected disbursement rate is due, among other factors, to: the exceptionally high inflation rates early in the project (25 per cent in 2008); the inclusion of additional, and originally unforeseen, support to assist the most vulnerable households in target villages; the non-delivery by UNDP of the level of support for agricultural technical assistance originally envisaged under the Government's Project in Support of Democratic Development through Decentralization and Deconcentration; and increases in staff numbers above appraisal levels.
5. This memorandum seeks approval for supplementary financing for the project in the form of a grant of SDR 0.85 million (equivalent to approximately US\$1.25 million) and a highly concessional loan of SDR 0.85 million (equivalent to approximately US\$1.25 million).

II. Justification and rationale

6. The mid-term review mission, which took place in June 2011, recommended that the project be granted the necessary funds to consolidate key project achievements. It concluded that the greatest impact could be achieved by investing

in longer and more in-depth training of farmers while strengthening existing groups. It also recommended simplifying or dropping minor or non-performing activities; improving animal health protection; rationalizing project staffing; keeping a proper balance between recurrent and investment costs; and focusing management on impacts and outcomes with a corresponding improvement of monitoring and evaluation systems.

III. Total project costs

7. With these additional resources, the total project cost will increase from US\$11.51 million to US\$14.01 million. The proposed financing falls within the total country allocation for Cambodia and it has been agreed with the Government.
8. The expenditure categories for this supplementary financing will be: (i) training (48 per cent); and (ii) contracts and studies (52 per cent).

IV. Project financing

9. The total revised project cost will be US\$14.01 million. The sources of financing will be: (i) IFAD, with an initial financing of a DSF grant of SDR 6.4 million (equivalent to approximately US\$9.52 million) and a supplementary financing of SDR 1.7 million (equivalent to approximately US\$2.5 million), consisting of a loan (50 per cent) on highly concessional terms and a DSF grant (50 per cent); (ii) the UNDP, with a contribution of US\$1.29 million (as previously); and (iii) the Government, with a contribution of US\$0.71 million (as previously).

V. Proposed modifications to the financing agreement

10. Upon approval by the Executive Board, the existing financing agreement will be amended to reflect the supplementary financing. The proposed modifications to the financing agreement will imply a revision of the allocation of grant proceeds to include the supplementary financing. This supplementary financing does not imply any modification of the project description and implementation arrangements.

VI. Recommendation

11. I recommend that the Executive Board approve the proposed supplementary financing in terms of the following resolution:

RESOLVED: that the Fund shall make a loan on highly concessional terms to the Kingdom of Cambodia in an amount equivalent to eight hundred and fifty thousand special drawing rights (SDR 850,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

RESOLVED FURTHER: that the Fund shall provide a grant to the Kingdom of Cambodia in an amount equivalent to eight hundred and fifty thousand special drawing rights (SDR 850,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze
President