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IFAD
Investing in rural people

President's report

Proposed loan to the Kingdom of Cambodia for the Accelerating Inclusive Markets for Smallholders Project

Note to Executive Board representatives

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Executive Board — 119th Session
Rome, 14-15 December 2016

For: Approval

Contents

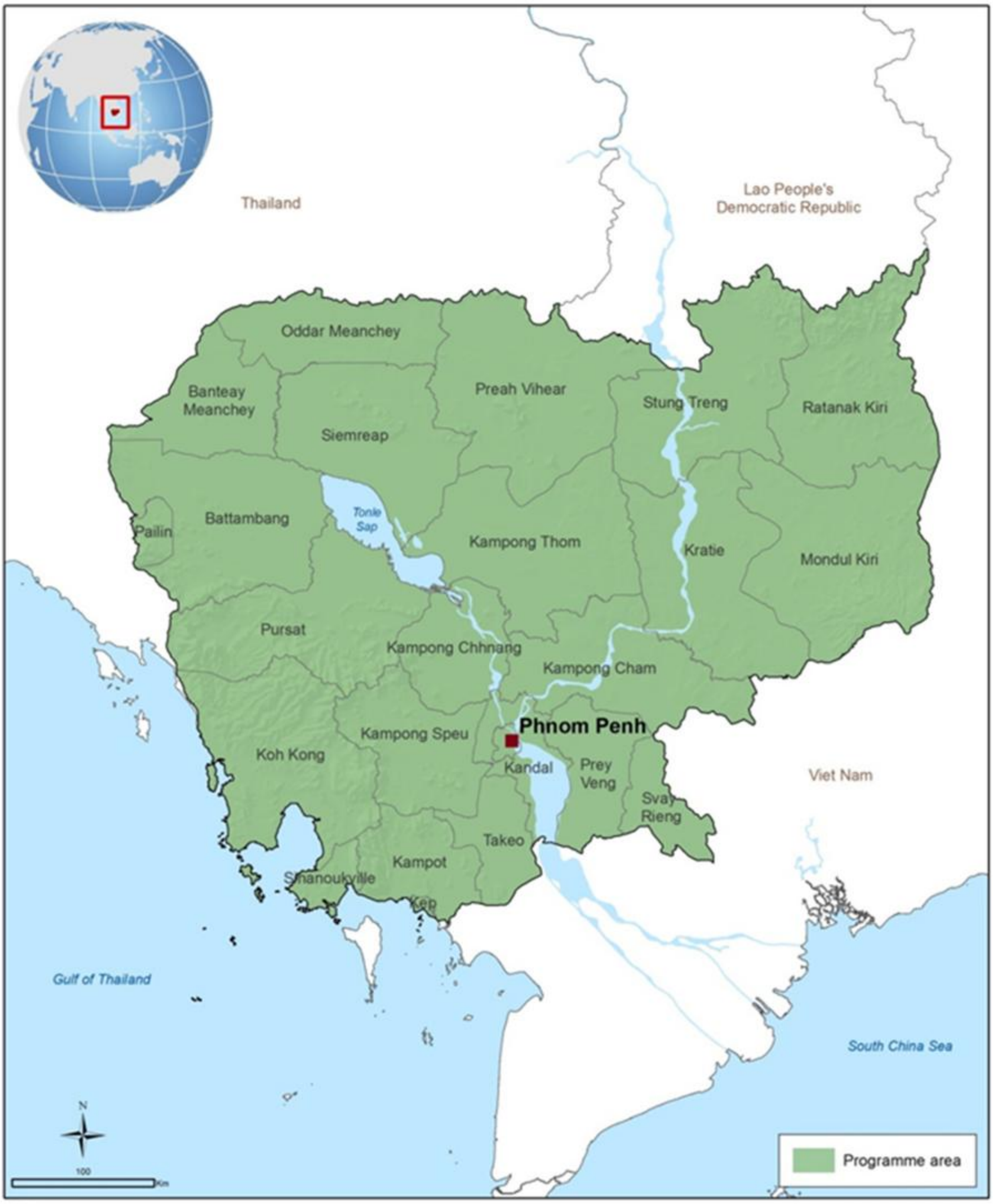
Appendices

Abbreviations and acronyms

AIMS	Accelerating Inclusive Markets for Smallholders
M&E	monitoring and evaluation
MEF	Ministry of Economy and Finance
MOC	Ministry of Commerce
PMO	project management office
RIMS	IFAD's Results and Impact Management System
SME	small and medium-sized enterprises
VCIF	value chain innovation fund

Kingdom of Cambodia

Map of the project area



IFAD

The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.

Map compiled by IFAD | 10-12-2015

Kingdom of Cambodia

Accelerating Inclusive Markets for Smallholders Project

Financing summary

Initiating institution:	IFAD
Borrower:	Kingdom of Cambodia
Executing agency:	Ministry of Commerce
Total project cost:	US$61.6 million
Amount of IFAD loan:	US$36.3 million
Terms of IFAD loan	Highly concessional: Maturity period of 40 years, including a grace period of 10 years, with a service charge of 0.75 per cent per annum
Cofinanciers:	Private businesses
Amount of cofinancing:	US$8.6 million
Terms of cofinancing:	Private investment through value chain innovation fund
Contribution of borrower:	US$8.65 million
Contribution of beneficiaries:	US$8.1 million
Appraising institution:	IFAD
Cooperating institution:	Directly supervised by IFAD

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed loan to the Kingdom of Cambodia for the Accelerating Inclusive Markets for Smallholders Project as contained in paragraph 39.

Proposed loan to the Kingdom of Cambodia for the Accelerating Inclusive Markets for Smallholders Project

I. Strategic context and rationale

A. Country and rural development and poverty context

1. Cambodia has made dramatic progress in reducing poverty over the last decade. Between 2004 and 2012, poverty was reduced from 53 per cent to 17.5 per cent, surpassing all expectations and exceeding the Millennium Development Goal poverty target. More than 4.3 million people have moved out of poverty during this period – mostly in rural areas – with the number of poor people dropping from almost 7 million in 2004 to below 2.5 million in 2012 (World Bank, 2015). The country’s vibrant and pro-poor agricultural growth was the key driver of this dramatic reduction in poverty. More than 60 per cent of Cambodia’s poverty reduction was attributed to the agriculture sector: higher rice prices stimulated greater rice production, which helped to increase farm wages (World Bank, 2013). Between 2004 and 2012, the annual growth in gross agricultural production was 8.7 per cent and agricultural value added grew by 5.3 per cent during this period.

2. Despite this significant reduction in poverty, many of the 4.3 million people that have moved out of poverty are still vulnerable. This is because the majority of them are still "near-poor" and are therefore extremely susceptible to slipping back into poverty if shocks occur. Indeed, almost all of the gains of the last decade could be reversed by an average loss of KHR 1,200 per day (US$0.30), which would return 3 million near-poor people into poverty and raise Cambodia’s poverty rate to 40 per cent (based on 2011 poverty data; World Bank, 2013).

3. Additional poverty reduction will depend on the success of agriculture in the coming years since this sector involves a large share of the labour force and has a major role in exports. Farmers are among the country’s poorest and most vulnerable people, and the factors that drove Cambodia’s growth – especially higher rice prices and expansion of production – are unlikely to drive significant further growth. Continued poverty reduction will depend on finding new ways to expand Cambodia’s agricultural sector in terms of overall agricultural growth, higher returns (especially returns on labour) and inclusiveness of growth.

B. Rationale and alignment with government priorities and RB-COSOP

4. Since Cambodia’s dramatic poverty reduction was largely driven by agriculture, most poverty reduction occurred in rural areas. Given the importance of agriculture in the rural economy, continued agricultural growth is crucial to promote further poverty reduction and economic growth in rural communities. If farm incomes are to keep pace with non-farm wages, returns on agricultural labour need to rise dramatically; however agricultural growth has stalled. In order to continue Cambodia’s poverty reduction and inclusive growth, there is a need to restart agricultural growth through intensification, diversification and commercialization.

5. Fortunately, there are currently market opportunities for higher-return agricultural growth and a number of important developments are enabling Cambodian farmers and agribusinesses to capitalize on these opportunities. These include a rapidly improving rural finance sector, promising market-support and production

initiatives, and farmers' increasing interest in market opportunities for agribusiness. However: many smallholders still cannot access financing for investments in their farms; value chains are highly fragmented, leading to high transaction costs; many small and medium-sized enterprises (SMEs) are informal, which limits their capacity to invest and their understanding of new markets; many agribusinesses struggle to aggregate supply from several smallholder farmers; and major capacity gaps exist in competitive on-farm production and post-harvest management. Tackling these challenges is vital if Cambodian agriculture is to compete in both export markets and against imports from neighbouring countries.

6. The rationale for the Accelerating Inclusive Markets for Smallholders (AIMS) Project is to: (i) identify a portfolio of promising growth opportunities; and (ii) work with actors in the value chain to identify and address bottlenecks to faster growth. This requires filling gaps in networks, skills and resources to forge a practical pathway to growth.

7. The project design is consistent with the strategic objectives of the 2013-2018 country strategic opportunities programme (COSOP), specifically its first strategic objective to enable poor smallholders to take advantage of market opportunities. It is closely aligned with the Government's policies for rural development, including the Rectangular Strategy's resolve to make agriculture a leading sector in the nation's economy and source of sustainable economic growth, and to increase food security and reduce poverty. The project is also aligned with the Cambodia Trade Integration Strategy 2014-2018, which addresses issues of trade-sector competitiveness, job and income creation, and sustainable human development.

II. Project description

A. Project area and target group

8. Project area. The project will be implemented in all parts of the country, with actual locations determined by the selection of priority value chains. AIMS will initially work in 15 provinces based on the section of five flagship commodities to be supported by five multistakeholder platforms and three inter-regional technical hubs.

9. The project's primary beneficiaries will be smallholder farm households, including poor and near-poor farmers, and women-headed households participating in the supported value chains and voluntarily collaborating in project activities. Secondary target groups include other value-chain actors such as agricultural cooperatives, farmer organizations, SMEs, agribusinesses, service enterprises and industry associations. The project will aim to make agriculture and value-chain integration more attractive to the younger generation as a profitable business.

B. Project development objective

10. The project's development objective is to increase returns from farming for smallholders, including poor farmers and youth, through efficient public-sector investment. There are expected to be 75,000 direct household beneficiaries of the project with increased assets of at least 25 per cent.

C. Components/outcomes

11. The project will have two technical components and one project management component:

- Component 1: Value chain development will focus on brokering, facilitation, innovation and capacity-building to support the inclusive growth of five high-value product value chains covering crops and livestock. Value chain brokering and facilitation through a cluster approach will form the core of the component's approach. This cluster approach will geographically group key actors along the value chain in the same geographic areas. For AIMS, value-chain actors will typically be defined by zones of production, which form discrete buying zones that include a number of competing buyers and traders.

IFAD's public-private-producer partnership models will be drawn upon for the supported contract farming arrangements. Building on both existing and emerging production clusters, the project will: (i) follow a consistent process to develop and promote links between buyers, producers and service providers through multistakeholder platforms and contract farming mechanisms; (ii) give priority to innovation in local value chains, especially through a value chain innovation fund (VCIF) and; (iii) promote the development of local markets for private-sector support services.

- Component 2: Value chain financing will aim to increase private investment in priority value chains by farmers, SMEs, agricultural cooperatives, agribusinesses, service providers and others. Priorities for the investment agenda in each value chain will be driven by the private value-chain actors via the brokerage and facilitation process supported through component 1. The value chain financing component will employ a two-pronged approach to stimulate private investment in priority value chains. This approach will be implemented through two sub-components:

  (i) 2.1 Value chain investment support. AIMS will provide direct financial support to stimulate private investment through the VCIF and a credit line for policy-based financing to be administered by the Rural Development Bank or a third-party fund administrator. The total value of investment support will be approximately US$18 million. The total value of support grants and loans available to each value chain through the VCIF and line of credit should be broadly proportionate to the expected development outcomes of that value chain (including the number of farmers benefiting and each farmer's increased profit). Only investments assessed as commercially feasible will be eligible.

  (ii) 2.2 Financial service provider partnerships. Private investment in high-value agriculture can only be accelerated with significantly increased financing from banks and microfinance institutions to farmers, agricultural cooperatives, SMEs, agribusinesses and service providers. AIMS will initially partner with three major microfinance institutions with substantial agricultural portfolios and the internal capacity to lend for agriculture (for example having dedicated agricultural finance officers).

III. Project implementation

A. Approach

12. The project design is based on the following principles:

(a) Only commercially viable value chains and investments will be supported. This is essential for supported value chains to sustain long-term competitiveness and self-sufficiency after project implementation without public subsidies.

(b) To attract IFAD support, value chains must have real potential for inclusive growth and involve significant numbers of poor farmers who are able to earn profits from the growing value chains along with other enterprises.

(c) From the start, AIMS will promote the development of critical business-support services and input markets, which are a vital to sustaining a competitive industry that strengthens the primary value chain.

(d) AIMS will build the capacity of individuals, institutions, networks and systems while delivering project results.

(e) The project will promote learning from best practices elsewhere, refining and adapting approaches that work well in the Cambodian context.

B. Organizational framework

13. Project implementation will be primarily decentralized, with overall project coordination provided by the Ministry of Commerce (MOC) as lead implementation

agency (LIA). MOC will support project activities through three regional hubs and the Ministry of Economy and Finance (MEF) will collaborate with the contracted fund administrator for the VCIF and the Rural Development Bank or a qualified private bank for the line of credit.

14. MOC will be the lead executing agency for the project and will lead component 1, with the responsibility of coordinating business development and agriculture marketing. This ministry will host a project management office (PMO), which will include the component 1 management team led by the AIMS project director. The PMO will be responsible for overall financial management, reporting and administration in collaboration with the MOC Directorate General for Domestic Trade. The Department for International Cooperation of MOC will be responsible for financial management, procurement, monitoring and evaluation (M&E), communication and reporting.

15. MEF will be the implementing agency for component 2 (value chain financing). The component 2 team will establish a management office within this ministry, which will supervise the appointed VCIF fund administrator and Rural Development Bank or a qualified private bank in relation to the line of credit. Overall, as per its borrower’s representative role, MEF will also be responsible for: (i) inter-agency coordination; (ii) providing government fiduciary oversight and management; (iii) providing sufficient and timely counterpart contributions to finance project activities, including payment of government staff salaries; and (iv) timely processing of withdrawal applications, procurement approvals and other necessary documents according to standard operating procedures.

C. Planning, M&E, and learning and knowledge management

16. *Planning and M&E.* Planning processes and schedules within AIMS will be harmonized with the regular planning processes of MEF and MOC. A major focus for M&E will be the establishment of a highly effective management information system (including online and offline, Internet and mobile devices) to provide project managers and value chain teams with timely and reliable information on developments in each priority value chain. This will allow intervention plans to be assessed and information and networks from neighboring provinces and countries to be integrated.

17. The M&E system will utilize regularly updated results chains and M&E frameworks for each priority value chain to compliment IFAD’s Results and Impact Management System (RIMS), and the project logframe. The use of results chains for individual value chains will enable the identification and tracking of change indicators for each value chain and cluster. The results chains will also be powerful tools for communication among value-chain stakeholders regarding opportunities, bottlenecks and joint action

18. *Learning and knowledge management.* Effective and efficient learning, knowledge management and communication are central to meeting the project’s objective through communities of practice, social networks and online systems. AIMS will invest in high-quality, evidence-based knowledge management in order to contribute to policy development. The project will also seek to strengthen institutional capacity related to policy-based financing for sector development, trade research and facilitation. In this context, AIMS will support targeted institutional strengthening activities and project management will integrate effective knowledge management and communication. The knowledge management and communication strategy will play an important role in ensuring that the project achieves its indented outcomes. This strategy will be coordinated by the Department for International Cooperation on behalf of the PMO and will include a full-time knowledge management and communications officer from this department.

D. Financial management, procurement and governance

19. *Financial management.* The project’s financial management will be in line with the standard operating procedures for externally funded projects (used by all

donor-funded programmes in Cambodia) and supervised by IFAD to ensure that: (i) funds are used efficiently and for intended purposes; (ii) disbursements of project funds facilitate rapid implementation; (iii) funds are well managed and flow smoothly; (iv) accurate financial reports are issued in a timely manner; (v) a robust flow of reliable information on project activities ensures accountability; and (vi) project assets and resources are safeguarded. The Ministries of Commerce and Economy and Finance will be authorized to manage all project-related bank accounts, including those utilized for government counterpart funding.

20. Flow of funds. As lead executing agency, MOC shall open and maintain a designated account in United States dollars at the National Bank of Cambodia to receive the loan proceeds from the account maintained by IFAD and an account in United States dollars to receive and manage the government counterpart funds for the project. MOC shall open a project bank account for the implementation of component 1. MEF shall open a project bank account for the implementation of component 2 and coordination activities.

21. Procurement. Procurement shall be carried out in accordance with the updated standard operating procedures promulgated under the law on public procurement for implementing all externally funded projects. The standard operating procedures detail the procedures, processes, good governance framework and controls as established in the procurement manual. Government rules and procedures will be applied and as long they are consistent with IFAD's procurement guidelines.

22. Internal control and external audit. All procedures for project implementation and management will be documented in the project implementation manual and consistently applied. The manual shall include provisions regulating the establishment of internal controls, monitoring and review of transactions, and accounting software requirements. An independent private auditor will be hired for the annual audit of consolidated financial statements (including those prepared by both MEF and MOC). Proper terms of reference for audits will be an important safeguard for all stakeholders. These terms of reference will include visits to implementing partners and service providers, and field visits when appropriate. The audited financial statements and audit reports will be submitted to IFAD within the six months following the close of each fiscal year.

23. Governance. A project level good governance framework will cover procurement, financial management, disclosure, civil society participation, ethical conduct, sanctions and project-specific issues. The project will support the strengthening of national financial management and procurement capacity.

E. Supervision

24. AIMS will be jointly supervised by the Government and IFAD. Joint supervision missions will be conducted at least once per financial year with additional implementation support missions mobilized as necessary. A mid-term review shall be conducted jointly by the borrower and IFAD at the end of the third project year to: assess the progress, achievements, constraints, emerging impacts and sustainability of the project, and make recommendations and necessary adjustments for the remainder of the disbursement period.

IV. Project costs, financing, and benefits

A. Project costs

25. The total project cost is estimated at US$62.1 million. Indicative costs for each component are detailed in table 1. Indicative project costs by expenditure category and financier are provided in table 2.

Table 1
Project costs by component and financier
(Thousands of United States dollars)

	IFAD loan		*Other cofinanciers*		*Beneficiaries*		*Borrower/ counterpart*		*Total*
Component	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*
1. Value Chain development	13 994	66.4	-	-	273	1.3	6 810	32.3	21 077
2. Value Chain financing	20 721	54.9	8 586	22.7	7 843	20.8	602	1.6	37 751
3. Project Coordination and knowledge management	1 542	55.4	-	-	-	-	1 243	44.6	2 785
Total	36 257	58.8	8 586	13.9	8 116	13.2	8 654	14	61 613

B. Project financing

26. AIMS is to be financed by an IFAD loan, a private-sector contribution (by beneficiaries and businesses) and the Government. IFAD will finance US$36.3 million (58.8 per cent) of project costs as a loan to the Government. The Government will finance US$8.65 million (14 per cent of total costs). Project beneficiaries are expected to contribute US$8.1 million (13.2 per cent) and private businesses are expected to contribute US$8.6 million (13.9 per cent).

Table 2
Project costs by expenditure category and financier
(Thousands of United States dollars)

	IFAD loan		*Other cofinanciers*		*Beneficiaries*		*Government counterpart*		*Total*
Expenditure category	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*
1. Consultancies	2 284	60	-	0	-	0	1 522	40	3 806
2. Equipment and material	-	0	-	0	-	0	721	100	721
3. Training	3 544	50	-	0	-	0	3 544	50	7 088
4. Credit and guarantee funds	8 967	100	-	0	-	0	-	0	8 967
5. Grants and subsidies	18 594	52.7	8 586	24.3	8 116	23	-	0	35 296
6. Salaries and allowances	2 867	50	-	0	-	0	2 867	50	5 734
Total	36 257	58.8	8 586	13.9	8 116	13.2	8 654	14	61 613

C. Summary benefit and economic analysis

27. AIMS will generate financial and social benefits by introducing improved agricultural practices, commercial farming of high-value crops and improved post-harvest management in rain-fed and irrigated crop and livestock production. Financial benefits will include greater incomes for households targeted by the project. Social benefits will include reduced poverty in the targeted project areas as a result of increased household income and improved employment opportunities in the agriculture sector.

28. The economic rationale for AIMS is based on: (i) improved agricultural productivity and reduction of post-harvest losses as a result of the introduction of improved technologies; and (ii) increased cropping intensity and cultivation of high-value crop varieties and livestock with drip irrigation to expand dry-season production. With a potential increase in yields of between 50 per cent and 100 per cent from drip-irrigation, these improved production practices and integrated soil fertility measures are expected to significantly improve household incomes.

29. The economic analysis of the project indicates that AIMS is robust in economic terms. The overall economic internal rate of return is estimated at 31.9 per cent, which is above the opportunity cost of capital in Cambodia. The economic internal rate of return was estimated based on the assumption that 70 per cent of target

farmers will adopt the improved technology promoted by the project, and will expand the use of drip-irrigation cultivation.

D. Sustainability

30. Financial sustainability is at the core of the AIMS approach, which seeks to catalyze profitable private-led investments by farmers and businesses into value chains and associated private service enterprises. The project is expected to facilitate the successful operation of farmer groups, agribusinesses and other enterprises in each value chain. Institutional sustainability of critical value-chain facilitation activities will be achieved by building strong and mutually beneficial relationships among farmers, private businesses and government agencies, especially via multistakeholder platforms and regional hub teams.

E. Risk identification and mitigation

31. The main identified risks include: (i) ineffective targeting of poor smallholders; (ii) a lack of market opportunities, which may limit the scale of impact; (iii) unfamiliar approaches to market-oriented agriculture development; (iv) insufficient flexibility in resource allocation and action plans; and (v) a lack of coordination between national and sub-national agencies, and the private sector. To mitigate these risks, the project will: (i) ensure rigorous and objective value chain assessment and selection; (ii) select and screen five initial products targeted to the domestic and export markets for market demand and profitability; (iii) provide intensive and sustained technical assistance (including social mobilization) and mainstream value chain activities, taking into account previous experiences in the region; and (iv) ensure that managers have up-to-date information on each value chain through M&E systems based on current best practices (e.g. the Donor Committee for Enterprise Development Standard). In addition, MEF will: (i) ensure overall coordination; (ii) implement the project through field-based hub offices; and (iii) directly involve stakeholders in project delivery as members of regional hub teams and in project governance via the project steering committee.

V. Corporate considerations

A. Compliance with IFAD policies

32. The design of AIMS complies with IFAD policies and strategies on targeting, gender, indigenous peoples, environmental and natural resource management, and private-sector engagement. Consideration has been given in project design to gender in the division of labour within selected value chains and to the barriers women face in project participation. Most of the activities related to environmental impact fall under category B.

B. Alignment and harmonization

33. The multistakeholder platform that will be implemented by AIMS in each value chain cluster will provide a sub-national forum for all stakeholders to harmonize their support of local value chains, including other development actors. AIMS will be harmonized with other major projects including the Agriculture Services Programme for Innovation, Resilience and Extension implemented by the Ministry of Agriculture, Forestry and Fisheries, which will strengthen public and private extension services and decentralize investment budgets through programme-based budgeting. This will enable provincial departments of agriculture to respond to local priorities identified through multistakeholder platforms. AIMS will also be harmonized with the Boosting Food Production Project, implemented by the Ministry of Agriculture, Forestry and Fisheries General Directorate of Agriculture, which will complement AIMS activities in the rice sector and share joint multistakeholder platforms for vegetables in common provinces. In addition, AIMS will build on the progress of a project supported by the French Development Agency in the rice sector and planned value chain infrastructure investments in the forthcoming Asian Development Bank Value Chain Project, which will also support value chains and provinces targeted by AIMS.

C. Innovations and scaling up

34. The review of the 2008-2012 COSOP identified the need for a more pragmatic approach to maximize synergies between projects, improve knowledge management, harmonize with development partners and ensure sustained improvements in the capacity of public extension services. The scaling up study also emphasized the importance of improved knowledge management and the identification of opportunities. AIMS responds to the recommendation of this study that IFAD [in Cambodia] rebalance its operational goals with more of an emphasis on becoming truly a learning and scaling-up organization. This will be operationalized through the project’s multistakeholder value chain initiatives and its explicit focus on learning, knowledge management and communication.

D. Policy engagement

35. AIMS will invest in high-quality, evidence-based knowledge management in order to contribute to policy development. The project also seeks to strengthen institutional capacity related to policy-based financing for sector development and trade research and facilitation. In this context, AIMS will support targeted institutional strengthening activities. The knowledge management and communication strategy will ensure that evidence-based policy analysis reaches key decision makers in a useable form while facilitating broad-based stakeholder engagement policy dialogue.

VI. Legal instruments and authority

36. A project financing agreement between the Kingdom of Cambodia and IFAD will constitute the legal instrument for extending the proposed financing to the borrower. A copy of the negotiated financing agreement is attached as appendix I.

37. The Kingdom of Cambodia is empowered under its laws to receive financing from IFAD.

38. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD Financing.

VII. Recommendation

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

> RESOLVED: that the Fund shall provide a loan on highly concessional terms to the Kingdom of Cambodia in the amount of thirty-six million three hundred thousand United States Dollars (US$36,300,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze
President

Negotiated financing agreement

Accelerating Inclusive Markets for Smallholders (AIMS)

(Negotiations concluded on 1 December 2016)

Loan Number: __________

Project Title: Accelerating Inclusive Markets for Smallholders (AIMS) (the "Project")

The Kingdom of Cambodia (the "Borrower")

and

The International Fund for Agricultural Development (the "Fund" or "IFAD")

(each a "Party" and both of them collectively the "Parties")

hereby agree as follows:

Section A

1. The following documents collectively form this Agreement: this document, the Programme Description and Implementation Arrangements (Schedule 1) and the Allocation Table (Schedule 2).

2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, amended as of April 2014, and as may be amended hereafter from time to time (the "General Conditions") are annexed to this Agreement, and all provisions thereof shall apply to this Agreement. For the purposes of this Agreement the terms defined in the General Conditions shall have the meanings set forth therein.

3. The Fund shall provide a Loan to the Borrower (the "Financing"), which the Borrower shall use to implement the Project in accordance with the terms and conditions of this Agreement.

Section B

1. The amount of the Loan is thirty six million three hundred thousand United States dollars (USD 36 300 000).

2. The Loan shall be free of interest but bear a service charge of three fourths of one per cent (0.75%) per annum payable semi-annually in the Loan Service Payment Currency, and shall have a maturity period of forty (40) years, including a grace period of ten (10) years starting from the date of approval of the Loan by the Fund's Executive Board.

3. The Loan Service Payment Currency shall be the US Dollar.

4. The first day of the applicable Fiscal Year shall be 1st of January.

5. Principal and service charge shall be payable on each 1st of April and 1st of October.

6. There shall be two bank accounts denominated in USD (referred to as the "Designated Accounts") opened by the Borrower in the National Bank of Cambodia,

through which the proceeds of the IFAD Financing shall be channelled. One opened for Ministry of Commerce (MOC) and the other one opened for Ministry of Economy and Finance (MEF). The Borrower shall inform the Fund of the officials authorized to operate the Designated Account. The Borrower shall open a bank account denominated in USD (referred as the “RGC Counterpart Account”) in the National Bank of Cambodia, through which the proceeds of the RGC Counterpart Financing shall be channelled.

7. There shall be one Project Account denominated in USD (the “Project Account”), opened by MOC. The Project Account shall receive and hold the proceeds of the Financing transferred from the MoC Designated and RGC Counterpart Account. The MOC Project Account financial resources shall be used for the implementation of component 1 and the overall project’s coordination activities. The Designated Account managed by MEF shall be used for the implementation and coordination activities related to component 2 and shall transfer funds to two additional Sub-Project Accounts for the management of the credit line and the Value Chain Innovation Fund (VCIF) by the Rural Development Bank (RDB) or a qualified private bank. The Borrower shall inform the Fund of the officials authorized to operate the Project and Sub-Projects Accounts.

8. The Borrower shall provide counterpart financing for the Project in an approximate amount of eight million six hundred and fifty thousand US dollars (USD 8 650 000). The counterpart financing provided by the Borrower shall include the payment of duties and taxes related to the Financing.

Section C

1. The Lead Project Agency shall be the Borrower’s MOC.

2. The following are designated as additional Project Party: MEF.

3. The Project Completion Date shall be the sixth anniversary of the date of entry into force of this Agreement.

Section D

The Loan will be administered and the Project supervised by the Fund.

Section E

1. The following are designated as additional conditions precedent to withdrawal:

(a) The Project Management Office (PMO) and the Project Steering Committee (PSC) shall have been duly established and staffed in accordance with Section II, Schedule 1 to this Agreement;

(b) The Project key staff , including a Project director and a Finance Officer at MOC, acceptable to the Fund have been duly appointed;

(c) By MOC Ministerial order the Department of International Cooperation (DICO) has been entrusted as financial administrator for component 1 and the overall project for coordination purposes;

(d) A computerized accounting system acceptable to the Fund shall have been procured at PMO;

(e) A Project Implementation Manual (PIM) shall have been prepared in form and substance satisfactory to the Fund, and

(f) For disbursements related to component 2.1, a Subsidiary Agreement between the Borrower and RDB or a qualified private bank as outlined in section I of Schedule 1 to this Agreement has been signed, in form and substance satisfactory to the Fund.

2. The following is designated as additional condition for suspension:

The PIM, or any provision thereof, has been waived, suspended, terminated, amended or modified without the prior consent of the Fund, and the Fund has determined that such waiver, suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the Project.

3. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Borrower:

Senior Minister, Minister of Economy and Finance
Ministry of Economy and Finance
392 Sangkat Wat Phnom, Khan Daun Penh,
Phnom Penh, Cambodia

Facsimile Numbers: (855 23) 427-798

For the Fund:

President
International Fund for Agricultural Development
Via Paolo di Dono, 44
00142 Rome, Italy
Fax: (+39) 06 5043463

This Agreement, dated 1 December 2016, has been prepared in the English language in two (2) original copies, one (1) for the Fund and one (1) for the Borrower.

KINGDOM OF CAMBODIA

____

Authorized Representative
(name and title)

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

____
Kanayo F. Nwanze
President

Schedule 1

Project Description and Implementation Arrangements

I. Project Description

40. Target Population. The Project shall benefit to smallholder farm households, including poor and near poor farmers, participating in the supported value chains who voluntarily collaborate in project activities, including as well, agricultural cooperatives; farmer organisations, Micro Small and Medium Enterprises (MSMEs), agribusinesses, service enterprises, and industry associations. The project shall operate in all parts of the country, with actual locations determined by the selection of priority value chains and the associated areas engaged in the value chains from production to the market. The Project will initially work in around 15 provinces based on the 5 flagship commodities selected supported by the same number of multi-stakeholder platforms and 3 inter-regional technical hubs (the "Project Area").

2. Goal. The Project goal is to enhance prosperity of Cambodian smallholder farmers through increasingly profitable links to agri-businesses and markets.

3. Objective. The objective of the Project is to increase returns from farming for smallholders, including poorer farmers and youth, through efficient public sector investment. There are expected to be 75,000 direct household beneficiaries from the Project within increased household assets of at least 25 per cent.

4. Components. The Programme shall consist of the following two components:

4.1. Component 1. Value Chains Development (VCs). The objective of this component is to focus on brokering, facilitation, innovations development and capacity building support to inclusive growth initially of five higher value product value chains - covering food and non-food crops and livestock through (i) Clusters grouping the key actors along the value chain in the same areas, (ii) Multi Stakeholder Platforms (MSP) bringing together all the actors and stakeholders in the VCs for shared understanding and joint actions to address constraints and maximize opportunities in VCs for mutual benefits, market, processing and business linkages (iii) Market-oriented social mobilizers working with the Regional Hubs Offices to mobilize farmers and youth into the local VCDs (vi) Sector Development Facility (SDF) focusing on public goods addressing specific bottlenecks to the VCs development identified by the VCs actors themselves through the MSP dialogue processes at the regional hub and cluster levels.

4.2. Component 2. Value Chain Financing. The objective of this component is to stimulate increased private investment into the priority VCs by farmers, MSMEs, agricultural cooperatives, agribusinesses, services providers and others, and by providing them better knowledge to take on their own investment decision, through the following sub-components:

4.2.1. Sub-component 2.1. Value chain investment support. The Project will provide direct financial support to stimulate private investment through the following two instruments for policy-based financing:

(i) a Value Chain Innovation Fund (VCIF) providing targeted investment incentives to first mover private investors (farmers, agricultural co-operatives, MSMEs, agribusinesses) along the selected value chains in order to foster potential adopters of new technologies or business models with unknown risks and economic benefits to actually adopt these and test their validity. This VCIF will initially operate three Windows targeting a particular scale of investment (Smallholder farm investments, Small enterprise investments and Medium business investments) and linked to the function along the value chain. Investment incentives will be implemented via partial matching grants to private investors, based on selected investment plans through a competitive process targeted specifically at the identified bottlenecks in each VC that emerge through the multi-stakeholder platforms.

(ii) a Credit Line providing RDB or qualified private bank with liquidity for lending along the VCs supported under the Project, and to refinance up to 80% of the loans granted by the Partner Financial Institutions (PFIs) linked to the VCIF to permit PFIs respect asset-liability matching in the case of term loans with a duration of more than 2 years. To this end, MEF and RDB or qualified private bank will sign a subsidiary agreement in the form and substance provided in the PIM. The draft subsidiary agreement shall be approved by the Fund and the Lead Project Implementation Agency prior to its signature. RDB or qualified private bank will require targeted Technical Assistance (TA) in strategy development and capacity development. Loans provided through this credit line will be targeted towards investments addressing specific bottlenecks in the VC.

4.2.2. Sub-component 2.2. Financial service provider partnerships. The objectives of this sub-component are mainly to create, test and widen partnerships between investors in the agricultural sector, in particular into commodities and VCs selected under the Project, and the financial sector, with a view to increase the volume of finance flowing into the sector, and to create sustainable and profitable models for financial service delivery to the agricultural sector. The Project will initially start partnering with three mainstream Micro Finance Institutions (MFIs) having: (i) substantial existing portfolios in agriculture (ii) taken specific steps to strengthen their internal capacity to lend to agriculture. These three MFIs will require some additional TA during the second half of the Project in both strategy development and overall building of capacity.

II. Implementation Arrangements

A. Organization and Management

1. Project Steering Committee (“PSC”)

1.1. Establishment and Composition. The PSC shall be co-chaired by MEF and MOC and will be composed of members representative of MAFF, MIH, MOE, MOWA , partner institutions such as, Provincial Chambers of Commerce from Regional Hubs , PFIs (MFIs plus RDB or qualified private bank), National network of Farmer Organizations, Technical Working Group on Agriculture and Water - Development Partner Lead Facilitator. Representatives of other major related projects and donors in agriculture value chains will be invited to attend Steering Committee meetings as observers.

1.2. Responsibilities. The PSC is responsible for Project oversight and strategic guidance, as detailed in the PIM, including inter alia: (i) provision of strategic guidance to Programme management; (ii) be informed of the approved Annual Work Plan and Budget (iii) be informed on the progress of the implementation of supervision and audit recommendations.

2. Lead Executing Agency (“LEA”).

2.1. The LEA shall be MOC, who shall have the overall responsibility for the Programme implementation on behalf of the Steering Committee. Since the implementation of the Project is on a decentralized basis, MOC shall coordinate activity in the field. MEF shall support in coordination at institutional level between other Ministries and DPs.

3. Project Management Office (“PMO”)

3.1. Establishment and Composition. A PMO shall be established within the MOC, with structure, functions and responsibilities in accordance with the PIM and acceptable to the Fund. The PMO will be led by a Project Director (PD), expected to be at the Director General of Domestic Trade of MOC. The PMO team will be composed of staff from Directorate General of Domestic Trade (DGDT) and Directorate General of International Trade (DGIT) with additional externally recruited project staff as required. The finance unit of PMO will be headed by a Finance Officer.

3.2. Responsibilities. PMO will be responsible for overall project financial management, reporting and project administration activities. DICO (under DGIT) as part of the MOC will provide project administration services, financial management, procurement, M&E, communication and reporting. PMO will manage the agreements and coordinate the relationships with the Farmers Organizations, Chambers of Commerce and Social Mobilizer service providers.

4. Implementing Agency (IA)

4.1 Establishment and Composition. Within MEF, a Project Implementation Unit (MEF-PIU will be established within the General Department of International Cooperation and Debt Management (GDICDM) as the Management Team of Component 2. The composition will be in line with the provision of the Standard Operation Procedures (SOP) adopted by RGC for the administration of the externally funded projects.

4.2 Responsibilities. MEF through the PIU will (i) be responsible for the implementation of activities under Component 2 and (ii) supervise the performance of the appointed VCIF Fund Administrator and RDB or qualified private bank in relation with the line of credit. Administration of the Line of Credit under RDB or a qualified private bank and the VCIF will be done strictly in accordance with the relevant guidelines for the VCIF and Line of Credit that will be finalized as part of the PIM.

5. Project Implementing partners (IPs).

5.1 Establishment and Composition. In addition to government agencies, IPs will be (i) the national network of Farmer Organizations, (ii) the Provincial Chambers of Commerce (PCC) in the three provinces hosting the hub offices, the social mobilization (SM) service provider organizations and the PFIs (3 MFIs and RDB or a qualified private bank). The IPs relationships and agreements will be managed by the PMO for the most relevant components.

5.2 Responsibilities. IPs will bring specialist expertise as well as legitimate representation of key stakeholders into the Project, and will have broader roles in the Project, including in the Steering Committee (except the SM service providers).

B. Implementation of Components

6. Component 1: Value Chain Development

6.1 Project Director: Project activities will be led by MOC. The PD will lead the overall component delivery, supported by a team focusing on all technical and project management issues and on the delivery and performance of the three Regional Hub offices.

6.2 Regional Technical Hub Offices. Three Regional Technical Hub Offices, hosted in the Provincial Department of Commerce (PDC) with staff from PDC, Provincial Chambers of Commerce, Farmers Organizations, SM service providers and contract technical advisors on value chain development and organized into VCs teams, will be composed of representatives from government, private businesses (Chamber of Commerce) and farmers (farmer associations) plus necessary TA and other contracted staff to ensure wide acceptance as honest brokers among VC actors. These Hubs will coordinate field activities in the selected VCs and will have market-oriented social mobilization teams in order to mobilize and support farmers to successfully participate in the expanding value chains.

6.3 Technical and business development services to agribusinesses and farmers. Will be primarily delivered by private service providers with costs paid by service users in order to move toward self-sufficiency within market-oriented VCs.

7. Component 2: Value Chain Financing

7.1 Management Team. Under MEF the Management Team will be composed of the following staff:

(a) A Financial Relationship Manager (FRM), (senior government officer) appointed by MEF will: (i) coordinate activities, including managing the relationships with Rural Development Bank (RDB) or qualified private bank and the partner financial institutions and supervising the PIAs, and (ii) act as Secretary Member of the Central Investment Committee for VCIF grant appraisal and award decisions. The FRM will be assisted by a recruited National VC finance Specialist. The FRM will be responsible for the preparation of all financial reports to be submitted to MoC on a regular basis.

(b) An appointed Financial Investment Officer (FIO) to analyse and document the financial and commercial performance of the different investments supported under the VCIF and credit line in order to communicate to other potential investors and FIs as to the actual returns and risk from the different investments prioritised by MSPs. FIO will be assisted by a recruited National Financial Investment Specialist.

(c) Six Private Investment Advisors (PIAs), reporting to the FRM will be assigned by two to each hub and hosted by the Provincial Department of Economy and Finance (PDEF). The PIAs will: (i) have the responsibility for managing the grant application process under the VCIF, (ii) be available to provide pre-investment advice to potential grant applicants, (iii) carry out field validation visits to all grant applicants as part of the initial application review process, and (iv) be responsible for communicating directly with the grant applicants to keep them informed of the progress of their application and award.

C. Programme Implementation Manual (“PIM”)

8. Preparation. The Borrower shall prepare, in accordance with terms of reference acceptable to the Fund, a PIM, which shall include, among other arrangements: (i) institutional coordination and day-to-day execution of the Programme; (ii) Programme budgeting, disbursement, financial management, procurement monitoring, evaluation, reporting and related procedures; (iii) detailed description of implementation arrangements for each Programme component; and (iv) such other administrative, financial, technical and organizational arrangements and procedures as shall be required for the Programme.

9. Approval and Adoption. The LPA shall forward the draft PIM to the Fund for comments and approval. The LPA shall adopt the PIM, substantially in the form approved by the Fund, and the LPA shall promptly provide copies thereof to the Fund. The Recipient shall carry out the Programme in accordance with the PIM and shall not amend, abrogate, waive or permit to be amended, abrogated, or waived, the aforementioned manual, or any provision thereof, without the prior written consent of the Fund.

D. Monitoring and Evaluation

10. The Project will focus on the set up of a highly effective management information system providing project managers and VC teams with timely and reliable information on developments in each of the priority VCs. The Project will follow a system of rolling baselines in which baseline data on each cluster is collected at the time that interventions begin in the particular value chain in each cluster area.

E. Supervision

11. Annual joint supervision by the Borrower and the Fund will be conducted.

12. A first MTR shall be conducted at the end of the second Project Year and a second one in fourth Project Year, to assess the progress, achievements, constraints and emerging impact and likely sustainability of the Project and make recommendation and necessary adjustments for the remaining period of disbursement. The MTR shall be carried out jointly by the Borrower and the Fund.

Schedule 2

Allocation Table

1. Allocation of Loan Proceeds. (a) The Table below sets forth the Categories of Eligible Expenditures to be financed by the Loan and the allocation of the amounts of the Loan to each Category and the percentages of expenditures for items to be financed in each Category:

Category		Loan Amount Allocated (expressed in USD)	Percentage of eligible expenditures to be financed
I.	Consultancies	2 100 000	60%
II.	Training	3 200 000	50%
III.	Credit	8 100 000	100%
IV.	Grants	16 800 000	50%
V.	Operating Costs	2 600 000	50%
	Unallocated	3 500 000	
TOTAL		36 300 000	

(b) The terms used in the table above are defined as follows:

(i) “Consultancies” financed by IFAD includes studies, national and international technical assistance;

(ii) “Training” financed by IFAD includes facilitation, workshops, training material, training services;

(iii) “Credit” financed by IFAD includes loans channelled through a third party fund administrator;

(iv) “Grants” financed by IFAD includes grants channelled through a third party fund administrator;

(v) “Operating cost” financed by IFAD includes cost of project staff and DSA. Excludes any other operating costs financed by RGC.

2. Start-up Costs. Withdrawals in respect of expenditures for start-up costs in Categories I, II, and V incurred before the satisfaction of the general conditions precedent to withdrawal shall not exceed an aggregate amount of USD 500 000.

Schedule 3

Special Covenants

In accordance with Section 12.01(a)(xxiii) of the General Conditions, the Fund may suspend, in whole or in part, the right of the Borrower to request withdrawals from the Financing Account if the Borrower has defaulted in the performance of any covenant set forth below, and the Fund has determined that such default has had, or is likely to have, a material adverse effect on the Project:

1. Gender. The Borrower shall develop a gender strategy for the Programme to ensure that gender concerns shall be reflected in all Project activities throughout the implementation period, in order to offer equal opportunities under the Project to men, women, women headed households and youths.

2. Project audits. The external audit will be carried out by private audit firms hired among those already preselected by others international IFIs. Only these firms will be invited to submit expression of interest and selected through a competitive process acceptable to the Fund.

Logical framework

Results Hierarchy	Indicators[1]				Means of Verification			Assumptions
	Name	Base-line	Mid-Term	End Target	Source	Frequency	Responsibility	
***Goal*:** Enhance prosperity of Cambodian smallholder farmers through increasingly profitable links to agri-businesses and markets	1. 80% of total of 75,000 direct beneficiaries increased real net farming income by >30% (Unit = No. of households)	0	20,000	60,000	RIMS+ Survey	Baseline Mid-term End line	PMO	Assumes continued social, political and economic stability in the country and neighbouring ASEAN region.
Development Objective: To increase returns from agriculture value chains for smallholders, including poorer farmers and youth, through efficient public sector investment	2. Number of beneficiaries' increased return on labour in farming by 50% (Unit = No. of households)	0	13,500	40,000	RIMS+ Survey	Baseline Mid-term End line	PMO	80% (60,000 smallholders) of direct beneficiaries including poor and near poor[2], in priority value chains will increase their real net farming income through project interventions
	3. Public return on investment (ROI) (Unit = Percentage)	0	-	20%	Annual VC Tracking Survey	Annual		
	4. Aggregate value of products sold in target locations in AIMS priority value chains in real terms[3] (Unit = Percentage increase)	0	10%	30%	PCR	End of project	PMO	
Outcome 1: Profits to farmers and businesses from Inclusive value chains increased for multiple higher value products.	5. Adoption rate of production and postharvest technologies[4] of participating farmers (Unit = Percentage)	0	40%	60%	Annual VC Tracking Survey	Annual	PMO	There are no prolonged collapses in export/local demand or prices for agricultural products.
	6. Agri-business investment in priority value chains and production clusters (Unit = Percentage increase)	0	10%	30%	RIMS+ Survey; Annual VC Tracking	Base/Mid/ End line; Annual	PMO	For AIMS value chains substantial improvements in production and post-harvest are necessary and feasible as foundations of growth.
Outcome 2: Private investment increased in priority value chains from smallholders	7. Smallholder investment in priority value chains and production clusters (Unit = Percentage increase)	0	10%	30%	Annual VC Tracking Survey	Annual	PMO	Sufficient numbers of banks and MFIs continue to show commercial interest and commitment to expanding agricultural lending

[1] Data for all household related indicators to be disaggregated by poverty status, ethnicity and gender of household head.
[2] "near poor" defined as living on <USD3.10 (2011 PPP) per capita per day
[3] calculation of "real terms" should include correction for changes in wider reference market prices for the particular product so that any gain/loss from general market price fluctuations are discounted.
[4] "Adoption Rate" in the production/post-harvest practices to be defined for each target product by the M&E team with technology experts at the start of the project. At the farm level, this is typically expected to include farmers adopting at least 2/3 of the components of an improved technology package for production a specific crop/livestock. Each of the technology components will be clearly defined and objectively verifiable, similar to what is already practiced in PADEE and ASPIRE projects

Results Hierarchy	Indicators[1]				Means of Verification			Assumptions
	Name	Base-line	Mid-Term	End Target	Source	Frequency	Responsibility	
and agri-businesses	8. Participating smallholder farmers with increased financial literacy (FL) levels (Unit = percentage)	0	50%	50%				portfolio to smallholder and agribusiness sectors.
	9. Partner Financial Institutions (PFIs) continue financing VCs after end of project (Unit = FIs)	0	4	5	Pre-/post FL training assessment	Annual	PMO	Participating smallholders have sufficient interest to improve their financial literacy.
					Project reports	Annually	PMO	Positive framework conditions for investment into agriculture
Outcome 3:. Substantially increased capacity of national and sub-national institutions to design and deliver inclusive agriculture market development initiatives	10. MSPs that are active, well attended and positively regarded by participants of target VC cluster locations (Unit = percentage)	0	90%	90%				External socio-political factors do not disrupt MSPs. Sufficient interest from Private sector in MSPs across all priority VCs of AIMS.
	11. Farmers receive training or advice on improved technologies for production or post-harvest practices (Unit = people)	0	45,000	60,000	Project reports; MSP Participant surveys	Annual Annual	PMO PMO	Assumes 80% of total direct project beneficiaries.
Outputs:	12. Farmers receiving financial and business literacy training (Unit = people)	0	35,000	50,000	Project reports	Annual	PMO	Assumes 66% of total direct project beneficiaries.
	13. PPPs or similar partnerships with large and small agri-businesses and service enterprises (Unit = No. of partner and/or supported agri-businesses)	0	100	250	Project reports	Annual	PMO	Sufficient interest and involvement of Private Sector in partnering government.