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Investing in rural people

The Kingdom of Cambodia

Accelerating Inclusive Markets for Smallholders

Negotiated financing agreement

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

For: Information

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

1. 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.