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REPORT AND RECOMMENDATION OF THE PRESIDENT

TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO

THE KINGDOM OF CAMBODIA

FOR THE

AGRICULTURAL DEVELOPMENT SUPPORT PROJECT TO *SEILA*



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CURRENCY EQUIVALENTS

Currency Unit	=	Cambodian Riel (KHR)
USD 1.00	=	KHR 3 800
KHR 1.00	=	USD 0.00026

WEIGHTS AND MEASURES

1 kilogram (kg)	=	2.204 pounds (lb)
1 000 kg	=	1 metric tonne (t)
1 kilometre (km)	=	0.62 miles (mi)
1 metre (m)	=	1.09 yards (yd)
1 square metre (m ²)	=	10.76 square feet (ft ²)
1 acre (ac)	=	0.405 ha
1 hectare (ha)	=	2.47 acres

ABBREVIATIONS AND ACRONYMS

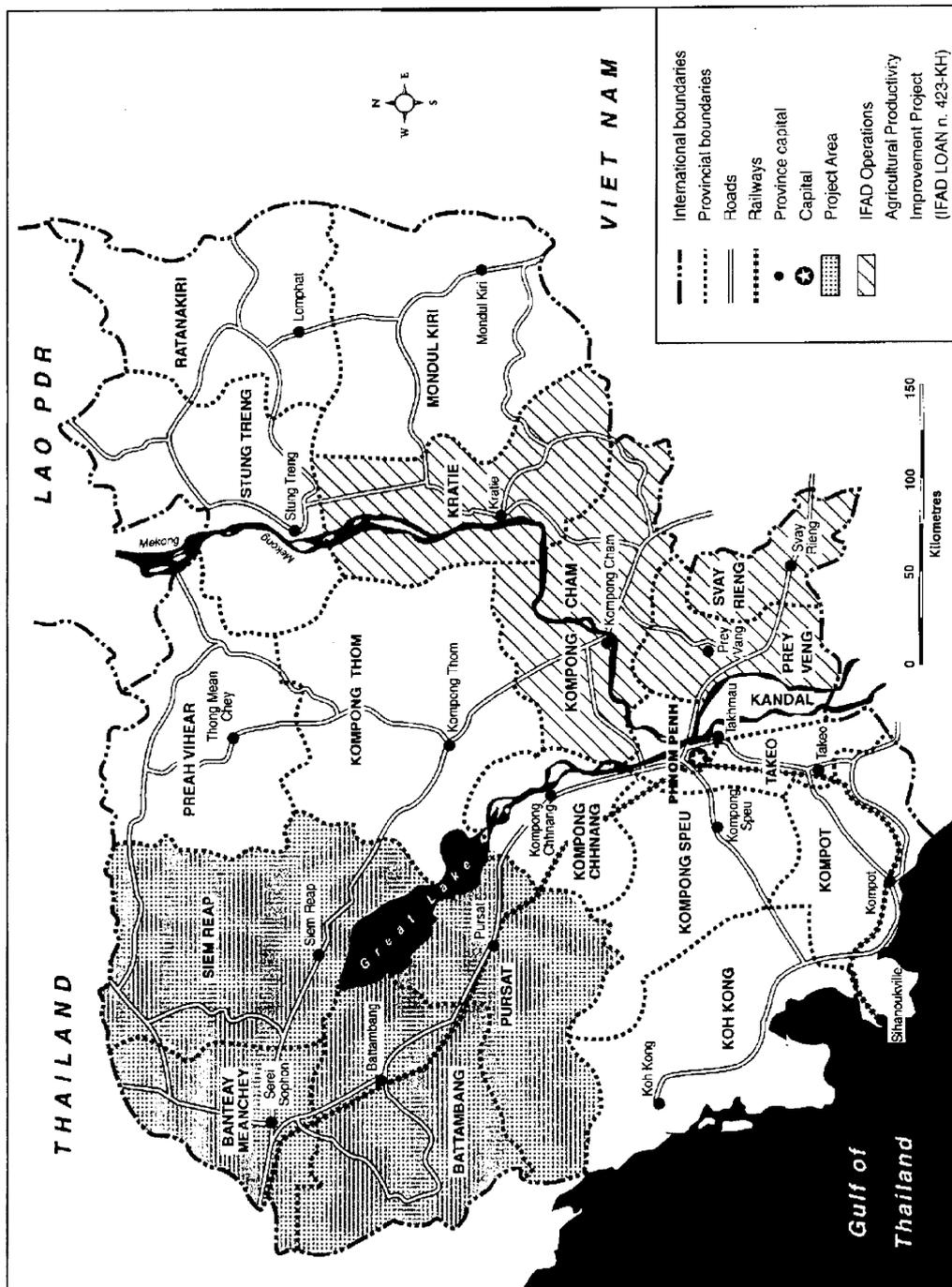
AIP	Agricultural Improvement Programme
AusAID	Australian Agency for International Development
CAAEP	Cambodia-Australia Agricultural Extension Project
CARERE	Cambodia Area Rehabilitation and Regeneration Project
ExCom	Executive Committee of the PRDC
IDP	Internally Displaced Person
IFIs	International Financial Institutions
IPM	Integrated Pest Management
M&E	Monitoring and Evaluation
MAFF	Ministry of Agriculture, Forestry and Fisheries
NGO	Non-Governmental Organization
ODA	Official Development Assistance
PDAFF	Provincial Department of Agriculture, Forestry and Fisheries
PRDC	Provincial Rural Development Committee
PSP	Production Start-Up Programme
PSU	Project Support Unit
RDB	Rural Development Bank
<i>Seila</i>	A Khmer word meaning foundation stone and the name given to the Government's approach to decentralized planning and development
SIDA	Swedish International Development Agency
STF	<i>Seila</i> Task Force
TA	Technical Assistance
UNDP	United Nations Development Programme
VLA	Village Livestock Assistant
WUG	Water Users' Group

GOVERNMENT OF THE KINGDOM OF CAMBODIA

Fiscal Year

1 January - 31 December

MAP OF IFAD OPERATIONS IN CAMBODIA AND THE PROJECT AREA

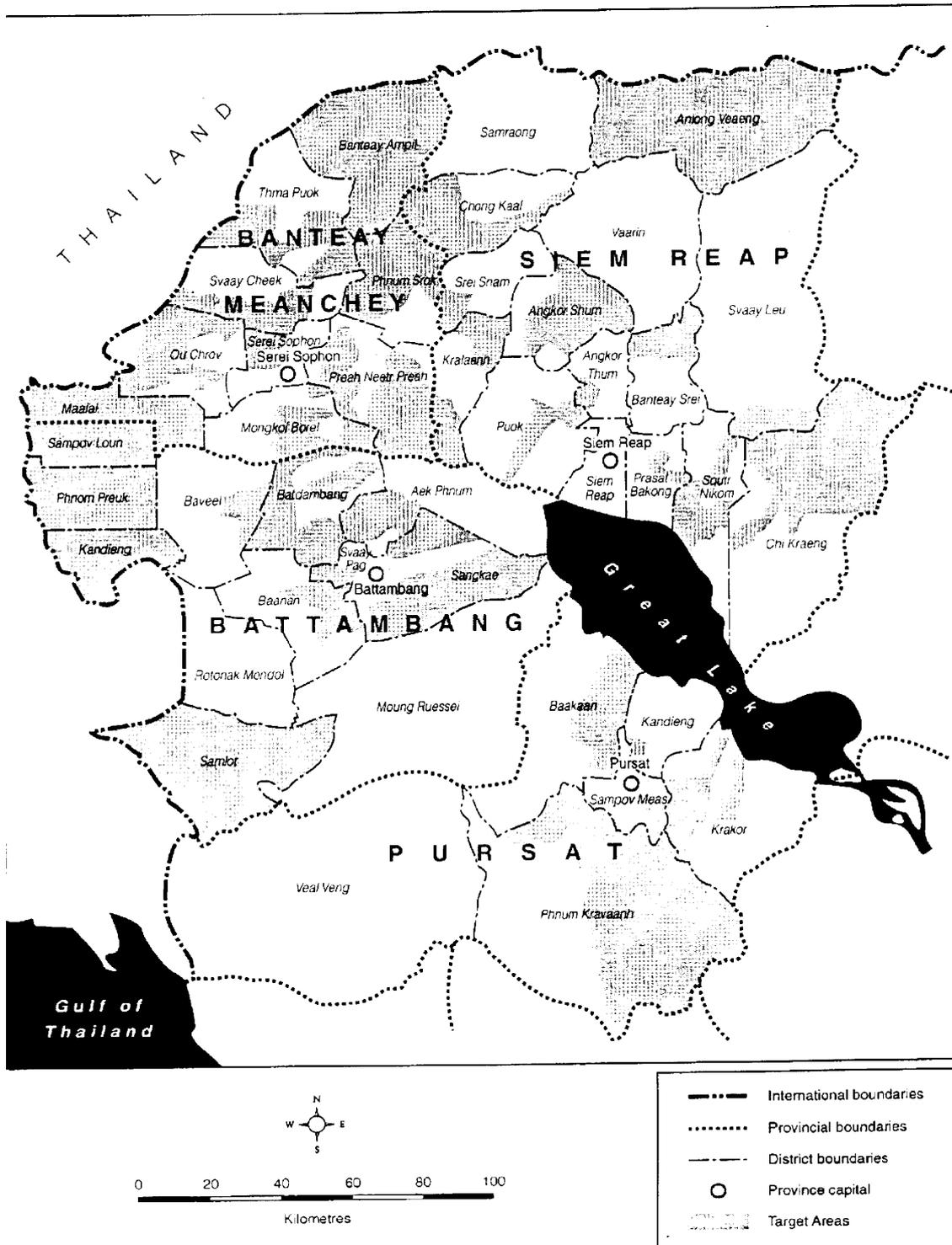


Source: IFAD Appraisal Report

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 OF THE PROJECT AREA



Source: IFAD Appraisal Report

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KINGDOM OF CAMBODIA

AGRICULTURAL DEVELOPMENT SUPPORT PROJECT TO *SEILA*

LOAN SUMMARY

INITIATING INSTITUTION:	IFAD
BORROWER:	Kingdom of Cambodia
EXECUTING AGENCY:	Ministry of Agriculture, Forestry and Fisheries
TOTAL PROJECT COST:	USD 11.55 million
AMOUNT OF IFAD LOAN:	SDR 6.35 million (equivalent to approximately USD 8.60 million)
TERMS OF IFAD LOAN:	40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum
COFINANCIERS:	United Nations Development Programme (UNDP) and the Australian Agency for International Development (AusAID)
AMOUNT OF COFINANCING:	USD 1.78 million
TERMS OF COFINANCING:	Grant
CONTRIBUTION OF BORROWER AND BENEFICIARIES:	USD 1.17 million
APPRAISING INSTITUTION:	IFAD
COOPERATING INSTITUTION:	United Nations Office for Project Services (UNOPS)



PROJECT BRIEF

Who are the project beneficiaries? The project beneficiaries comprise about 64 500 poor and very poor households (341 500 people) in the four provinces of north-western Cambodia who are food insecure and live below the national poverty line of KHR 35 500 per capita per month (USD 112 per year). The target group includes families with less than 1.2 ha of land, unemployed rural youths, mine victims who are able to participate in productive activities, families of returnees from the border and internally-displaced persons (IDPs) who often lack access to rice land. Given the important role they play in on- and off-farm activities, women will be an important part of the target group.

Why are they poor? The beneficiaries are poor because they have to contend with: (i) lack of access to sufficient land, draught animals and other productive resources; and (ii) no access to improved technology, extension services, or capital to invest in improved technology.

How to benefit the target group? The project has been designed to overcome the above-mentioned constraints through: (i) transfers of technology and productive resources to “jump-start” the very poor and enable them to benefit from social and economic development opportunities; (ii) demonstrations and extension activities with regard to alternative crops, livestock and technology to increase the target group’s farm income and productivity; (iii) use of the participatory planning approach to empower local communities and beneficiaries to manage their productive resources in an efficient and sustainable manner; (iv) provision of rural savings and credit services through non-governmental organizations (NGOs) to facilitate capital formation at the household level and diversify the beneficiaries’ income-earning opportunities; and (v) provision of technical and management training to strengthen the capacity of local institutions to deliver services to the target group in a participatory manner.

How will they participate in the project? The beneficiaries will participate in the development and planning process and in a wealth-ranking exercise to define the poor and very poor on the basis of their own criteria for targeting project assistance. In cooperation with local communities, the beneficiaries will select technically-feasible and financially-attractive activities that are best suited to tackling their constraints; participate in field demonstrations, farmer training sessions, extension, water users’ groups (WUGs), savings and credit associations and field schools and in rice seed production; contribute labour and material for the construction of community facilities; and participate in training programmes for village extension workers and livestock assistants. One male and one female beneficiary representative from each targeted village will participate in annual monitoring and assessment workshops to discuss their experience with the project and its impact on household food and income security; report on the performance of project staff; and make recommendations for programme improvement.

Innovative features are that: (i) the project will be implemented in areas where social mobilization of beneficiaries, participatory planning and local capacity-building have been initiated under the Cambodia Area Rehabilitation and Regeneration Project (CARERE). IFAD financing will be focused on agricultural investments that will have a rapid impact on household food and income security and benefit the maximum number of rural poor; (ii) provision of physical and financial inputs to very poor households organized as joint liability groups; (iii) implementation will be decentralized to the villages, communes, districts and provinces so that project assistance reaches the intended beneficiaries and brings them into the development process; (iv) the project will help institutionalize the Government’s policy of decentralized planning and development and involve regular participatory planning, monitoring and beneficiary impact assessment to feed back lessons learned to provincial and national-level policy makers; (v) project activities will be implemented by provincial and district-level agricultural staff under output-oriented contracts to ensure accountability and transparency; and (vi) the project will pilot a new mechanism for international financial institutions (IFIs) to provide rural financial services with the Rural Development Bank (RDB) acting as credit wholesaler.

**REPORT AND RECOMMENDATION OF THE PRESIDENT OF IFAD
TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO
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AGRICULTURAL DEVELOPMENT SUPPORT PROJECT TO *SEILA***

I submit the following Report and Recommendation on a proposed loan to the Kingdom of Cambodia for SDR 6.35 million (equivalent to approximately USD 8.60 million) on highly concessional terms to help finance the Agricultural Development Support Project to *Seila*. The loan will have a term of 40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum. It will be administered by the United Nations Office for Project Services (UNOPS) as IFAD's cooperating institution.

PART I - THE ECONOMY, SECTORAL CONTEXT AND IFAD STRATEGY¹

A. The Economy and the Agricultural Sector

1. Cambodia is still recovering from decades of war and internal strife. This agonizing history has made Cambodia the 22nd poorest country in the world in terms of gross national product (GNP) per capita (USD 300 in 1997), with 40% of the population, or 4 million people, living below the poverty line. The Human Development Index of the United Nations Development Programme (UNDP) ranks Cambodia as 140th out of 175 countries.

2. Cambodia covers an area of 177 000 km². The population of 10.5 million (1997 estimates), or 2.19 million households, about 85% of which lives in the rural areas, is growing at the rate of 2.8% per annum. The number of young people (49% of the population is under 15 years of age) is unusually high. Child malnutrition affects 38% of the 0-5 age group and infant mortality rates (103/1000) are among the highest in East Asia. Education attainments and skill levels are low, health services cover barely half the population, and safe drinking water and sanitation are available to only 36% and 14% of the population, respectively. The rate of HIV/AIDS infection is the highest in the region and there are between 17 000 and 25 000 new cases every year. Women now outnumber men in the labour force (52% vs. 48%), due to male deaths in of the wars, and one in every 250 Cambodians has a missing limb or eye.

3. Today, Cambodia is making the transition to a market economy. While annual gross domestic product (GDP) growth averaged more than 5.5% in 1990-97, political disturbances, uncertainties and the financial crisis in the region reduced the economic growth rate to 1% in 1997 and to 0% in 1998. In 1997, the country's debt service payments represented only 1.1% of goods and service exports and its net foreign currency reserves were USD 182 million, enough to cover 2.8 months of imports. The Government's economic management is beset by a weak revenue system, inefficient expenditure allocation, inadequate institutional capacity and large numbers of poorly-paid staff.

4. Agriculture is the Cambodian economy's largest primary sector. In 1997, agriculture contributed 51% of GDP, of which rice accounted for 12.4%, all crops for 21.8%, livestock for 11.7%, forestry for 6.2% and fisheries for 3.1%. The cultivated area is approximately 2.0 million ha, or about 11% of the total land area. Rice is by far the most important crop and accounts for about 90% of the total cropped area but for less than one third of sector GDP. The area planted to other crops is less than 300 000 ha, and rubber (60 000 ha) and maize (50 000 ha) are the next most important crops after rice. Yields remain low at about 1.7 t/ha (Viet Nam, 3.6 t/ha), mainly due to limited use of inputs, poor water

¹ See Appendix I for additional information.



control and inadequate technical support and extension services. Moreover, agricultural and rural development is constrained by the presence of 4-6 million land mines, nearly one for each rural Cambodian.

5. Agricultural production is generally carried out on individual household holdings with farm sizes varying from 1-5 ha, the larger holdings being in the uplands and in the northwest. Many of the 1 million farm families derive part of their subsistence requirements and income from non-farm activities such as fishing, sugar palm production, wood cutting, and agricultural and off-farm wage labour. Households without land are mostly returnees and internally-displaced persons (IDPs). The market determines the prices of agricultural inputs/outputs.

6. Livestock is an important subsector and provides draught power both for cultivation and for meat. Most production is integrated into the farming system, and there are few specialized producers. Improved animal health and production is a priority for achieving higher livestock productivity and for increasing the incomes of small farmers. The potential for fisheries is large given the extensive water bodies in the area, especially in the Tonle Sap. In 1995, 56% of the country was under forest but illegal logging started by the different warring factions to finance their war efforts has been widespread. The Government is now trying to enforce its forestry regulations and policy.

B. Lessons Learned from Previous IFAD Experience

7. With one project in the country (which got under way only in early-1999), IFAD's experience in Cambodia is very limited. However, the Fund has learned a number of lessons from development projects financed by other donors and from the design and start-up of the first IFAD-financed project. The following lessons have been taken into account both in project design and in the implementation arrangements: (i) focus should be placed primarily on overcoming rural poverty by providing direct assistance to farmers to help increase their food and income security; (ii) IFAD should seek links with other development activities and programmes at both the national and local levels; (iii) project design should be as simple and flexible as possible, with clear objectives, procedures and responsibilities for implementation; (iv) the technology to be promoted should be easy to use and adopt among the target group, appropriate to local conditions and specific to the technical constraints to be addressed; (v) careful phasing is needed to allow for uncertainties during project implementation; (vi) projects should be designed to balance the medium and long-term objective of strengthening institutional capacity and the short-term need to make a rapid impact on the poverty situation; (vii) project beneficiaries should be fully mobilized and directly involved in project design, planning and implementation; (viii) NGOs with proven experience should be involved in project implementation; (ix) project activities and services should be sustainable, with full or partial cost recovery where feasible and beneficiary responsibility for operation and maintenance; (x) grant financing should be secured from other donors to provide technical assistance (TA) required to support project activities; and (xi) a staff incentives structure should be developed and linked to responsibility and accountability for work output.

C. IFAD's Strategy for Collaboration with Cambodia

8. **Cambodia's policy for poverty eradication.** As indicated in its representative's statement to the Consultative Group meeting in February 1999, the Government of Cambodia is committed to promoting poverty alleviation and equitable development within an overall strategy based on a market economy and external investment. The intention is to "focus on the alleviation and eventual eradication of poverty by the extension and acceleration of economic growth, as well as by the implementation of social support programmes for the poorest families and various social and economic activities with a rapid impact for the improvement of living conditions for poor people."

9. **The poverty eradication activities of other major donors.** During the period 1993-96, official development assistance (ODA) flowed to the country at the rate of USD 500 million a year but after the events of July 1997, it dropped from USD 518 million in 1996 to USD 375 million in 1997 and did not



improve in 1998. However, the total ODA pledged to Cambodia at the February 1999 Consultative Group meeting amounted to USD 475 million. In 1996, about USD 90 million, or 17.4% of total ODA, went to agriculture and rural development. Major donors to Cambodia's agriculture and rural development sector include: Australia, Denmark, European Union (EU), France, Germany, Japan, Sweden, United States of America, Asian Development Bank (AsDB), World Bank, UNDP, other United Nations agencies and NGOs. Relevant donor-funded agricultural interventions in the project area include CAREERE 1 and 2 funded by UNDP, the Swedish International Development Agency (SIDA), the United Nations Capital Development Fund and Netherlands Development Assistance; the Cambodia-Australia Agricultural Extension Project (CAAEP); the Special Programme for Food Security piloted by the Food and Agriculture Organization of the United Nations (FAO); the Cambodia-International Rice Research Institute-Australia Project; and the Participatory Natural Resource Management Programme in the Tonle Sap Region funded by the Government of Belgium and executed by FAO.

10. **IFAD's strategy in Cambodia.** IFAD's country strategy for Cambodia is to expand and build on the successful experience in the country of other like-minded donors and NGOs and to follow a community-based approach that will: (i) focus on poor people's household food and income security; (ii) promote economic growth at the household and community levels by enabling local communities to efficiently and sustainably manage their productive resources; (iii) promote a mechanism through which lessons learned and best practices become important agenda items for policy formulation at the provincial and national levels; and (iv) develop an implementation mechanism that adds value to development approaches by drawing on IFAD's experience in agricultural and rural development in many parts of the world. The design of the project incorporates the major thrusts of the above country strategy.

11. The project has the following linkages with IFAD's corporate strategy and lending programme for Asia. These include: (i) full beneficiary participation and decentralized project implementation; (ii) improved portfolio management and project implementation follow-up with the field presence of UNDP, the Australian Agency for International Development (AusAID) and UNOPS; (iii) the forging of strong partnerships with NGOs both for the provision of savings and credit services and for other activities; (iv) improved household food security; (v) provision of income-generating opportunities for women, unemployed youths and landless; and (vi) a focus on rainfed and upland agriculture, participatory trials of new crops, development of ecologically-sustainable farming systems, natural resources management, community forestry and gender issues.

D. Project Rationale

12. The project strategy is, first and foremost, to scale up the successful experience and development initiatives of CAREERE, CAAEP, NGOs and other organizations involved in poverty alleviation and decentralized development, and the empowerment of local communities through community mobilization and participation in investment activities. Second, the project will target agricultural development activities to poor villages where much of the necessary groundwork has been laid by CAREERE 1 and 2 in terms of social mobilization, participatory planning and the capacity-building of local institutions. Third, the project will develop linkages with other development projects and programmes, including complementary funding provided under CAREERE for rural infrastructure, local planning, project management support, institutional development and operationalization of agricultural extension guidelines developed by CAAEP. Fourth, the project will use a "menu approach", allowing communities and individuals to choose technically-feasible and financially-attractive activities that address their specific problems.

13. The project rationale is based on the following considerations. First, considerable synergy exists between the participatory development, decentralized planning and financing and local capacity-building activities financed by CAREERE; the agricultural extension guidelines developed by CAAEP; and the proposed IFAD financing for productive activities at the farm level. Under those circumstances, the IFAD-financed activities are expected to rapidly improve food and income security at the household



level and to benefit the maximum number of rural poor. Secondly, available technology and agricultural extension guidelines will contribute significantly to increasing the agricultural productivity of poor households that have access to the necessary resources. Thirdly, some technology has been successfully piloted by development programmes in the project area. Finally, despite the absence of a formal banking system, a mechanism exists, using the RDB as the wholesaler and eligible NGOs as the retailers, to assist in capital formation at the household level through savings mobilization and the use of loans for investment in productive activities.

PART II - THE PROJECT

A. Project Area and Target Group

14. The project area comprises the four provinces of Banteay Meanchey, Battambang, Pursat and Siem Reap in the north-west of the country. The four provinces are made up of 37 districts, 272 communes and 2 451 villages. The total population of the project area is 2.425 million (1997), or 455 473 households, of which 2.01 million people and 379 705 households (83%) are in the rural areas.

15. As elsewhere in Cambodia, rice completely dominates the cropping pattern and farming systems in the project area, with 581 000 ha of rice grown in 1996, almost all in the wet season. This represents a 42% drop since 1967. The average yield of about 1.3t/ha has been stagnant for 30 years due to limited use of fertilizer, poor quality of land preparation, water management and seeds, and lack of extension services. Deterrents to agricultural development are the uncleared minefields that cover 2.6% of the total land area of the four provinces.

16. Rice-based lowland farming systems are the most widespread in the project area, with variations depending on land and labour availability. The typical farm has some fruit trees around the house, 1-2 ha of paddy that is cultivated with traditional husbandry techniques and almost no purchased inputs. Some 80-85% of families own one or more draught animal and nearly all have pigs and/or poultry that scavenge for food. In the dry season, farmers often fish, harvest sugar palm, collect forest products or seek urban employment whereas in the wet season, those with little land may also seek employment on larger holdings. Farmers may also grow other crops, e.g. mung bean or sweet potato. Small pumps are used to provide supplementary irrigation. Other farming systems include upland mixed farming, slash and burn, river levees and seasonal flooding.

17. Rice yields could be increased by an average of 0.5-1.0 t/ha and there is the possibility of doubling cropping either before or after the rice crop. Improved rice varieties, fertilizer, integrated pest management (IPM), animal health technology and technical advice are all available, and the market for fruit, vegetables and crops other than rice is expanding. With an annual rainfall of 1 200-1 600 mm, good rainfed production should be possible with proper land development, improved water control, judicious variety selection and timely planting. Upland crop production technologies available from areas of Thailand with similar agro-ecological conditions could be introduced after on-farm testing. Livestock production in the project area, while below potential levels, has grown over the last 15 years partly because ownership is open to all and because veterinary services are available to control infectious diseases.

18. The structure of the Provincial Department of Agriculture, Forestry and Fisheries (PDAFF) mirrors that of the Ministry of Agriculture, Forestry and Fisheries (MAFF) in Phnom Penh. There are 1 656 staff in the four PDAFFs in the project area, of which 1 286 are based in the provincial offices and 371 in the districts (an average of ten per district). The PDAFFs have far too many staff at the provincial level but better trained and more capable staff are needed at the district level.

19. Many NGO projects are under way in the four provinces, including several livestock development interventions. The NGO concern has undertaken pioneering work in the development of community forestry, whereas others support aquaculture and crop diversification. In the absence of a formal banking sector in the rural areas, NGOs have become active in the field of rural savings and



credit, often with targeted programmes both for the poor in general and for women. At the end of 1998, six NGOs were operating savings and credit schemes in Pursat and Siem Reap, 11 were active in Banteay Meanchey and, a year earlier, there were at least 18 in Battambang. By November 1998, the supply of NGO credit in the project area totalled about USD 8.93 million, with 53 170 borrowers (around 14% of all households in the project area), with an average loan size of USD 170. The estimated unmet demand in the project area is of the order of USD 11-28 million.

20. **Target group.** The four project provinces are among the poorest in Cambodia. The target group includes all poor and very poor households (man- and women-headed), as identified by the villagers. The groups most likely to be included as target beneficiaries are families with less than 1.2 ha of land, unemployed youths, mine victims who are able to participate in productive activities, and families of returnees and IDPs. The four groups represent 243 000 households, or 64% of the rural population in the four provinces. Women constitute an important part of the target group because of their major role in on- and off-farm activities. The project will enable about 64 500 households to benefit directly from project activities over the period of implementation.

21. Targeting will be conducted in two stages: (i) area targeting (communes and villages based on poverty ranking); and (ii) within villages based on wealth-ranking exercised undertaken by the villagers following criteria decided by themselves. Project assistance under the production start-up programme (PSP) component will target villages with the greatest degree of food insecurity, regardless of location, whereas activities under the agricultural improvement programme (AIP) component will respond to demand from communes/villages, as expressed during the participatory planning process and district integration workshops.

22. **Gender situation.** Women-headed households in the project area comprise 23% of all households and about 53% of the adult labour force. Although Cambodian women are economically more active at a younger age than men, they work for lower wages and women and girls do most of the domestic work. Girls are often removed from school before boys to help their parents and, in extreme cases, they are sold into prostitution. The project area does not have the rigid divisions of labour and income sources often found elsewhere. This may be a reflection of the events in Cambodia over the last 25 years, including the death of many men and the absence of others fighting in the jungle. In terms of farm labour, the responsibility for various crop production activities cannot be classified as falling to either men or women. The same applies to sources of income and other activities. Both men and women collect firewood, look after livestock and attend the same training courses, and membership of credit groups often includes both men and women. It is estimated that women provide 30%-40% of farm labour.

B. Objectives and Scope

23. The strategic goal of the project is to increase food and income security for target group households. The objective is to bring about a sustained increase in farm incomes for about 64 500 poor households in the project area and to introduce a more diversified pattern of crop and livestock production. Expected project outputs are: (i) implementation of the PSP and AIP components; (ii) empowerment of local communities and beneficiaries to efficiently and sustainably manage their productive resources; (iii) strengthened capacity of local institutions, particularly PDAFFs, to target and manage investment programmes in a participatory manner; (iv) NGOs and multilateral financial institutions being enabled to retail savings and credit services for the benefit of the target group, leading to capital formation at the household and local levels; and (v) strengthened capacity of RDB as an effective wholesaler of credit.

24. The project will focus on financing agricultural activities that have a rapid impact in terms of improving agricultural productivity and household food and income security. Through the demonstration and extension of appropriate technology under the AIP component and transfer of productive resources to the very poor households under PSP, the project will assist poor and very poor households to increase their agricultural productivity and to manage their natural resources in a



sustainable manner. The project will assist the beneficiaries to generate more income from their limited land and labour resources through crop intensification, diversification of crop and livestock production and community forestry, and by creating additional on- and off-farm income-earning and employment opportunities. The project will also undertake participatory trials of upland crop technologies and pilot a package of activities for use by landless households for subsequent inclusion in the PSP. Participation in project activities will bring local communities and beneficiaries into the social and economic development process. In addition, the project will strengthen the capacity of the PDAFFs to deliver good-quality services to the beneficiaries in a demand-driven and participatory manner. It will also include regular participatory monitoring and beneficiary impact assessments, the results of which will guide future project activities and the formulation of provincial and national policies.

C. Components

25. The project will have three components: (a) agricultural development; (b) rural microfinance; and (c) project support and coordination.

Agricultural Development

26. The **production start-up programme** will target about 16 630 very poor households, including those without access to cropland, in lowland and upland villages with high levels of food insecurity. The project will provide agricultural inputs, revolving funds and services over a three-year period to members of joint liability groups made up of 30 very poor households. The PSP has three elements: (i) agricultural inputs such as seed, fertilizer, poultry, etc.; (ii) revolving funds for household income-generating and group activities; and (iii) training, extension and financial management support. Members will repay the value of most of the inputs to the group at the end of the season in order that they may acquire inputs required for the following season. The groups will determine the interest rates to be paid. Each group will include one man and one woman who are trained as farmer extension workers. A commune-based project extension officer will provide planning, training and technical services backed up by district and provincial technical staff. NGOs will provide financial training and audit the groups' financial records. By PY 4, members should be able to obtain additional funds through an NGO credit programme. In each province, the PDAFF will implement this subcomponent under an annual contract from the Provincial Rural Development Committee (PRDC) which will cover the costs of the inputs, farmer training, operating costs and supervision.

27. The **agricultural improvement programme** will assist about 30 000 poor and food-insecure households (with up to 1.5 ha of land in the lowlands and up to 2 ha in the uplands) who may have adequate land but lack the knowledge, access to improved technology and inputs, and the financial or labour resources to exploit the land fully. The AIP will promote crop and livestock intensification and diversification using crop and livestock technology from domestic and international sources, through a programme of demonstrations, group extension activities and vaccinations/parasite control performed by village livestock assistants (VLAs) on a "user-pays" basis. Extension activities will follow the national guidelines prepared by CAAEP, while the use of VLAs will follow the approach currently under development by the IFAD-assisted Agriculture Productivity Improvement Project. To support the extension programme, the project will finance seed production and IPM and disseminate information by means of the radio and television. The PDAFF will implement the AIP under an annual contract from the PRDC which will include financing for all subcomponent costs, participation in the planning process and supervision.

28. The crop technology demonstrations most likely to be requested by the beneficiaries include: (i) rice intensification; (ii) production of other field and vegetable crops; (iii) commercial production of fruits; (iv) improved on-farm water control; (v) community forestry; and (vi) training in natural resources management. Following the demonstrations, the project will finance the provision of extension services to groups of interested farmers. The subject matters will be selected on the basis of beneficiary demand but will include topics of particular interest to women, including home vegetable



production and nutrition, crop storage and post-harvest losses. A WUG will be established wherever on-farm water control demonstrations, extension groups or pump schemes are operated.

29. The project will finance livestock demonstrations and extension in response to requests by beneficiaries. Women are expected to request demonstrations on pig and poultry production, including vaccination, parasite control, improved nutrition and feed management. The project will finance the cost of refresher courses for 450 operational VLAs, training courses and start-up kits for 250 new VLAs, a revolving fund for vaccines and medicines, and the cost of establishing a VLA association in each district. Women will account for at least 50% of the beneficiaries of the livestock programme.

30. The **technical support and capacity-building** subcomponent will involve around 330 of the approximately 1 600 staff of the four PDAFFs. Training of provincial and district staff will consist of initial and annual refresher courses, with emphasis on upgrading the skills of district staff, training in natural resources management, environment and gender awareness and yearly refresher courses for key provincial staff. To support the capacity-building process, the project will finance international and national TA, facilities and equipment for the district and provincial agricultural offices and PSP extension officers, additional vehicles and motorcycles, and beneficiary monitoring and impact assessment.

Rural Microfinance

31. The project will provide a line of credit to eligible NGOs through RDB for onlending to members of IFAD's target group. An assessment of the demand for credit indicates that USD 1.235 million of incremental funds will be required over five years (PYs 2 - 6) based on an overall 95% repayment rate. Lending will consist of: (i) seasonal loans (USD 38-79) to 30 000 farmers for an average of six months to finance farm inputs and AIP technologies; (ii) 11 625 short-term loans (USD 18-38) for farm and off-farm income-generation, to be repaid within one year; and (iii) 6 250 medium-term loans for farm and off-farm activities repayable over two years (e.g. USD 72 for a share in a pump). Interest rates will be determined on the basis of market demand. The project will provide NGOs with specialist training, e.g. targeting the poor, group establishment and dynamics, importance of savings mobilization and managing defaulters, and to staff of RDB. It will also finance the monitoring of project activities, project start-up activities and of supervision for two years before the interest income builds up. The interest rate spreads will finance all other costs. The proposed AsDB Rural Savings and Credit Project is expected to provide TA to establish a viable financial system in rural Cambodia.

Project Support and Coordination

32. In providing for national and interprovincial coordination, technical support, project monitoring and donor liaison, the project will finance the establishment of a small project support unit (PSU) in MAFF, including the salaries of six professionals and four support staff, office refurbishment, equipment, TA and operating costs. The project will also provide support to the *Seila* Task Force (STF) secretariat (liaison officer, equipment and operating costs).

D. Costs and Financing

33. **Project costs.** Total project costs, including contingencies, duties and taxes, are estimated at USD 11.55 million, including a 28% foreign exchange element, based on April 1999 prices. Physical and price contingencies add about 6% to the total base costs. Taxes and duties, calculated at prevailing rates, amount to USD 0.53 million, about 5% of total project costs. Table 1 summarizes the project costs.

TABLE 1: SUMMARY OF PROJECT COSTS^a
(USD)

Components	Local	Foreign	Total	% of Foreign Exchange	% of Base Costs
A. Agricultural Development					
1. Production start-up programme	2 554 638.0	758 898.0	3 313 536.0	23	30
2. Agricultural improvement programme	1 598 375.0	19 125.0	1 617 500.0	1	15
3. Technical support and capacity-building	1 920 202.1	1 858 814.9	3 779 017.0	49	35
Subtotal Agricultural Development	6 073 215.1	2 636 837.9	8 710 053.0	30	80
B. Rural Microfinance	1 272 173.2	46 433.8	1 318 607.0	4	12
C. Project Support and Coordination					
1. PSU in MAFF	447 269.5	299 173.0	746 442.5	40	7
2. Liaison in STF Secretariat	44 264.0	55 638.0	99 902.0	56	1
Subtotal Project Support and Coordination	491 533.5	354 811.0	846 344.5	42	8
Total base costs	7 836 921.8	3 038 082.7	10 875 004.5	28	100
Physical contingencies	46 542.5	31 783.8	78 326.3	41	1
Price contingencies	437 136.0	157 323.0	594 459.0	26	5
Total project costs	8 320 600.3	3 227 189.4	11 547 789.8	28	106

^a Discrepancies in totals are due to rounding up of figures.

34. **Project financing.** The proposed IFAD loan of USD 8.60 million will finance 74% of total project costs. AusAID and UNDP will provide a total of USD 1.78 million, or 15% of total project costs, in grant form to finance TA. The Government will contribute USD 1.16 million as counterpart funding to finance duties and taxes, staff salaries and building maintenance. The project beneficiaries will contribute USD 16 200 in the form of labour for the construction of farmers' training centres. The project will be implemented over a period of six years. Table 2 shows the proposed financing plan.

35. **Retroactive financing.** Before the effective date of the loan agreement but after 31 May 1999, the Government may make payments for eligible expenditures not exceeding: (i) USD 15 000 for office equipment and furniture; (ii) USD 3 600 for office operating costs; and (iii) USD 2 400 for domestic travel. Total eligible expenditures for retroactive financing will not exceed USD 21 000.

TABLE 2: FINANCING PLAN^a
(USD '000)

Components	IFAD		AusAID/ UNDP		Beneficiaries		Government		Total		Foreign Exchange	Local (excl. Taxes)	Duties and Taxes
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%			
A. Agricultural Development													
- Production start-up programme	3 428	97.3	-	-	16	0.5	79	2.3	3 523	30.5	812	2 631	79
- Agricultural improvement programme	1 647	95.0	-	-	-	-	88	5.0	1 734	15.0	20	1 627	88
- Technical support and capacity-bldg.	1 580	39.1	1 587	39.2	-	-	877	21.7	4 044	35.0	1 959	1 811	275
Subtotal Agricultural Development	6 665	71.5	1 587	17.1	16	0.2	1 044	11.2	9 302	80.6	2 791	6 069	442
B. Rural Microfinance	1 310	99.1	-	-	-	-	12	0.9	1 322	11.4	48	1 261	12
C. Project Support and Coordination	546	67.1	189	23.3	-	-	79	9.7	814	7.1	327	433	55
- PSU in MAFF	89	81.2	-	-	-	-	21	18.8	109	0.9	61	31	18
- Liaison in STF Secretariat													
Subtotal Project Support and Coordination	635	68.7	189	20.5	-	-	99	10.8	924	8.0	387	463	73
Total Disbursement	8 599	74.5	1 777	15.4	16	0.1	1 156	10.0	11 548	100.0	3 227	7 793	527

^a Discrepancies in totals are due to rounding up figures.

E. Procurement, Disbursement, Accounts and Audit

36. **Procurement.** The procurement of goods and services financed by the Fund will be undertaken in accordance with IFAD's Procurement Guidelines. There are no items suitable for procurement under international competitive bidding procedures. Contracts for PSP and AIP activities will be subject to a selection and review process approved by IFAD and its cooperating institution prior to award of the contracts. Procurement of all other items costing more than USD 20 000 equivalent will follow local competitive bidding procedures open to international suppliers. Items costing USD 60 000 equivalent or more will require prior review by IFAD or its cooperating institution prior to purchase. Purchases of items costing less than USD 20 000 equivalent, including equipment and materials under the contracts for agricultural development, will follow local shopping procedures.

37. **Disbursement.** Two Special Accounts in United States dollars will be opened in a bank acceptable to IFAD, with an authorized allocation of USD 600 000 for Special Account A and USD 150 000 for Special Account B. Special Account A will be used to finance all activities other than the credit line which will be financed from Special Account B. Disbursements for civil works, vehicles and equipment and contracts costing in excess of USD 20 000 will require detailed documentation. Disbursements for contracts costing less than USD 20 000 equivalent, including incremental credit, expenditures for materials and training, and incremental operating costs may be made against statements of expenditure. Disbursements against the IFAD loan will be made in accordance with the financing plan presented in Appendix V. Separate project accounts will be maintained in Cambodian riels into which counterpart funds will be deposited in accordance with annual workplans and budgets.

38. **Accounts and audits.** Immediately upon loan effectiveness and prior to receipt of the initial deposits into the Special Accounts, the project will set up its accounting and internal control systems. The PSU, STF secretariat, each secretariat of the PRDC Executive Committee (ExCom) and PDAFF and RDB will maintain separate financial records in accordance with sound accounting principles to reflect the progress of the project and to identify its resources, operations and expenditures. The project accounts will be audited annually by an independent external auditor acceptable to IFAD, in accordance with generally acceptable auditing standards. The PSU will appoint the auditor within 90 days of loan effectiveness. The audited financial statements, in a format agreed with IFAD and including a separate opinion on the statements of expenditure and the operations of the Special Accounts and Project Accounts, will be submitted to IFAD no later than six months after the close of each fiscal year, until completion of the project.

F. Organization and Management

39. The project will be implemented within the *Seila* framework established by the Government for decentralized development. The project organization structure will consist of the PSU in MAFF and the STF and its secretariat at the national level. The provincial governments will be responsible for the implementation of project activities in their respective provinces. In each of the four provinces, the structure will involve: (i) the provincial government's PRDC, the PRDC ExCom, the ExCom secretariats and the PDAFFs; (ii) at the district level, the district development committees; and (iii) in the communes, the commune development committees (CDCs). At the village level, the beneficiaries, village development committees, extension groups, WUGs and savings and credit groups will play a major role in project planning and implementation as part of the decentralized development approach. The participating NGOs will implement the rural microfinance component and undertake other contracts, e.g. farmer training.

40. **Beneficiary participation.** The beneficiaries will participate in the participatory development and planning process and in the wealth-ranking exercise that will define the poor and very poor on the basis of their own criteria for targeting project assistance. In cooperation with the local community, the beneficiaries will select technically-feasible and financially-attractive activities that are best suited to tackling their constraints; participate in field demonstrations, farmer training sessions, extension, WUGs, savings and credit associations, field schools and in rice seed production; contribute labour and local



material for the construction of community facilities; and participate in training programmes for village extension workers and livestock assistants. One male and one female beneficiary representative from each targeted village will participate in yearly beneficiary monitoring and assessment workshops to discuss their experience with the project and its impact on household food and income security, to report on the performance of project staff, and make recommendations for improvement.

41. **Monitoring and evaluation (M&E).** Data collected during the participatory rural appraisals will be used as baseline material to measure project impact against key project indicators. In cooperation with the ExComs, PDAFFs and the project support offices of CARERE, the PSU will establish a project M&E system from the village to the provincial and national level, no later than six months after loan effectiveness. The system will include participatory monitoring and beneficiary assessment of project impact, its benefits and performance. The ExCom secretariat and RDB will follow regular reporting procedures and submit quarterly progress reports to the PSU. The PSU will consolidate and submit six-monthly project progress reports to IFAD and the cooperating institution.

G. Economic Justification

42. Increased crop and livestock production, improved household food security and nutrition, and increased incomes amongst the poor and very poor households are the main benefits expected to be derived from the project. Three additional major benefits will come from the project's capacity-building programme. First, at the end of the project, staff of the PDAFFs are expected to be able to target and manage agricultural investment programmes in a participatory manner. Secondly, men and women from the poor and very poor groups are expected to be empowered and mainstreamed in the social and economic development process. Finally, RDB will be operating as an effective wholesaler of rural credit to enable NGOs to target their services for the benefit of the target group.

43. **Beneficiaries and benefits.** The expected number of beneficiaries comprises 64 505 households in all, including: (i) 16 630 households under PSP; (ii) 30 000 households under AIP; and (iii) an additional 17 875 households under the savings and credit programme for farm and off-farm income-generating activities. Together, these households are equivalent to 17% of all rural households in the project area. Households not directly targeted by the project will also benefit from the expanded agricultural extension services and improved livestock performance as a result of the activities of the VLAs and farmer-field days. At full development in PY10, annual incremental rice production is expected to reach 10 000 t per annum, maize 11 600 t, sugar cane 20 800 t, sweet potatoes 6 250 t, mung bean 5 500 t, cassava 7 500 t, vegetables 20 800 t and fruit 15 000 t. The annual incremental production of pigs and poultry is expected to be 2 870 t and 3 612 t, respectively.

44. **Gender and household food security.** The project is expected to have a positive impact on women and to improve household nutrition and food security. The labour analysis shows that a household headed by one woman will have sufficient time to participate in the PSP, which will focus on an immediate increase in food production to improve household food security. The proposed production of small livestock, fruit trees and vegetables will be undertaken around the house, making it easier for women to participate, thus leading to potential income and nutrition benefits. The project will also encourage women to participate in training with payment of allowances in the form of rice in PY 1, which will help improve household food security. The AIP menu will include subjects of concern to women, including reduction in post-harvest losses and extension groups for small livestock and other activities of interest to them. In addition, 50% of the farmer extension workers and 50% of those attending the annual district beneficiary monitoring and impact assessment will be women, while all staff training programmes will include gender-awareness issues.

45. **Financial analysis.** Seven farm models have been prepared to analyse the impact of the project on target group household incomes. All models show a significant increase in cash income and in returns to labour. For all seven models, the returns per labour day exceed those for unskilled labour (KHR 2 500-3 800 per day, depending on the season), while the incremental returns per incremental



labour day range from KHR 8 118 to KHR 13 139, indicating that farmers should have adequate financial incentives to adopt the improved technology and practices in crop and livestock production.

46. **Economic analysis.** The economic viability of the project has been evaluated over a 20-year period. Benefit streams have been calculated on the basis of the net annual value of the incremental output based on the five main farm models. These models represent the average size of farms and the expected adoption of the PSP inputs and improved crop and livestock husbandry practices following the AIP demonstrations and extension activities. Economic benefits assume that 80% of households adopting PSP will be able to sustain the improved income levels. Cost streams have been adapted from the annual project costs and include: (i) all investment and recurrent project costs; (ii) the cost of support services for 20 years; and (iii) an estimate of the costs of CARERE support for decentralized planning and development now and in the future. The overall economic rate of return is 17.9%. Switching values at a discount rate of 10%, the assumed opportunity cost of capital in Cambodia indicates that the project can sustain a 16% reduction in benefits and a 19% increase in project costs before becoming uneconomic. However, this analysis excludes a number of benefits that have not been quantified, including benefits from the credit provided for off-farm income-generating activities and livestock benefits to households outside the AIP.

H. Risks

47. Under the agricultural development component, the near landless households participating in the PSP must first of all have the potential to benefit from participation. Selection of the participants from amongst the very poor by the villagers themselves and a trial programme in PYs 1-2 should counter that risk. In addition, upland households with cropland will only be included following the successful outcome of the participatory crop trials in PYs 1-2. Secondly, the AIP places emphasis on crops other than rice. Linkages with ongoing projects that include seed production and extension guidelines should counter that risk. Thirdly, staff of the district offices who have received little training and are not well qualified will implement project activities. That risk is countered by the inclusion of an intensive staff training and capacity-building subcomponent that focuses on district staff with technical backstopping from the provincial and MAFF staff.

48. The rural microfinance component faces three risks. The first is that RDB will engage again in retail banking and operate as a government-owned rural development bank. That has been overcome by the Prime Minister's statement (28 December 1998) that RDB will: (i) function as a wholesaler of credit; (ii) encourage the participation of private sector investment; and (iii) be further strengthened through the appointment of banking professionals to its board of directors and at senior staff levels. RDB has recently demonstrated a significant degree of autonomy. There will be an assurance in the loan agreement that restricts RDB to wholesaling credit and will require subsequent compliance by RDB. An associated risk concerns RDB's lack of experience in wholesaling credit, but the forthcoming AsDB Rural Savings and Credit Project will provide the TA needed by the bank. The third risk is that NGOs will not participate in the project. According to a recent RDB survey, 25 NGOs wish to have immediate access to USD 3.2 million in RDB loans. RDB has already started identifying NGOs that will be eligible for, and interested in, participating in the component.

I. Environmental Impact

49. Uncontrolled legal and illegal forest exploitation in the project area by large-scale operators, including the military, is the major cause of forest degradation. Similarly, large commercial fishing companies are reportedly having a negative effect on the fish stocks in the Tonle Sap. Overall, the project is not expected to have an adverse impact on the environment as the development proposals are sustainable and do not involve widespread use of large quantities of fertilizer or agrochemicals, removal of large quantities of water or construction of reservoirs. The project will promote the use of compost, improve the use of existing supplies of water, mostly rainfall, and increase the production of vegetative by-products and manure, all of which are expected to have a positive impact on the environment. The

average use of fertilizer by the project beneficiaries at full project development is estimated at 104 kg/ha compared with an average of 214 kg/ha in Viet Nam at present.

50. The project has been classified as “High B” because the project area borders the Tonle Sap with its large areas of wetlands, inundated forests and fish-breeding grounds, and includes the temples of Angkor - a world heritage site. Prior to appraisal, UNDP, SIDA and IFAD undertook an initial environmental examination. The recommendations of that mission have been incorporated into the project design, including: (i) natural resources management training as an element of all project training programmes; (ii) community forestry as an activity on the AIP menu; (iii) a participatory trials programme for upland crop technology in PYs 1 and 2; (iv) a PSP for upland farmers following the successful completion of the participatory trials programme; and (v) a doubling of the IPM farmer-field schools to four per district per year, with emphasis on vegetables, mung beans and safe use of chemicals.

J. Innovative Features

51. The project’s innovative features include: (i) implementation in areas where social mobilization and awareness-raising of the beneficiaries, participatory planning and local capacity-building has already started, with IFAD’s financing focusing on agricultural investment to produce a rapid impact on household food and income security and benefit the maximum number of rural poor; (ii) provision of physical and financial inputs to very poor households organized as joint liability groups to “jump start” those people so that they will be able to benefit from the resultant social and economic development opportunities; (iii) implementation decentralized to the villages, communes, districts and provinces so that project assistance reaches the intended beneficiaries and brings them into the development process; (iv) the project will help institutionalize the Government’s policy of decentralized planning and development and include regular participatory planning, monitoring and beneficiary impact assessments that will feed back the lessons learned to provincial and national policy-makers; (v) project activities will be implemented by the provincial and district agricultural staff under output-oriented contracts to ensure accountability and transparency; and (vi) a new mechanism will be piloted for IFIs to provide rural financial services, with RDB acting as credit wholesaler.

PART III - LEGAL INSTRUMENTS AND AUTHORITY

52. A loan agreement between the Kingdom of Cambodia and IFAD constitutes the legal instrument for extending the proposed loan to the borrower. A summary of the important supplementary assurances included in the negotiated loan agreement is attached as an Annex.

53. The Kingdom of Cambodia is empowered under its laws to borrow from IFAD.

54. I am satisfied that the proposed loan will comply with the Agreement Establishing IFAD.

PART IV - RECOMMENDATION

55. I recommend that the Executive Board approve the proposed loan in terms of the following resolution:

RESOLVED: that the Fund shall make a loan to the Kingdom of Cambodia in various currencies in an amount equivalent to six million three hundred and fifty thousand Special Drawing Rights (SDR 6 350 000 million) to mature on and prior to 1 September 2039 and to bear a service charge of three fourths of one per cent (0.75%) per annum, and to be upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented to the Executive Board in this Report and Recommendation of the President.

Fawzi H. Al-Sultan
President



SUMMARY OF IMPORTANT SUPPLEMENTARY ASSURANCES INCLUDED IN THE NEGOTIATED LOAN AGREEMENT

(Negotiations concluded on 4 August 1999)

1. **Availability of loan proceeds.** The Government of the Kingdom of Cambodia (the Government) will make available the proceeds of the loan for the purpose of carrying out the project, as follows:
 - (a) to the STF Secretariat and the PSU, as a grant, by disbursement from Special Account A into the appropriate project account on a quarterly basis in advance in accordance with the project annual workplans and budgets (AWPBs), to carry out the project support and coordination component;
 - (b) to the ExComs, as a grant, by disbursement from Special Account A into the appropriate project account on a quarterly basis in advance in accordance with the project AWPBs, to carry out the agricultural development component; and
 - (c) to RDB, as a grant, by disbursement from Special Account A into the appropriate project account to finance institutional support to RDB and training for participating microfinance institutions (MFIs) and NGOs, and, as a loan, by disbursement from Special Account B to make sub-loans under the rural microfinance component, in both cases in accordance with a subsidiary loan agreement (SLA) on terms and conditions satisfactory to IFAD and the project AWPBs.
2. **Subsidiary financing agreements.** RDB will enter into a subsidiary financing agreement (SFA), on terms and conditions acceptable to IFAD, with each eligible participating MFI or NGO for the purpose of on-lending to the participating MFIs or NGOs.
3. **Availability of additional resources.** The Government will make available to the provincial governments during the project implementation period counterpart funds from its own resources in an approximate aggregate amount of USD 1 160 000 in accordance with its customary national procedures. For such purpose, as soon as practicable but in no event later than 90 days after the effective date of the project loan agreement, the Government will make available counterpart funds in an initial amount of USD 280 000 to assist in financing the first 12 months of project implementation in accordance with the AWPB therefor:
 - (a) to the STF Secretariat and the PSU, as a grant, by deposit into the appropriate project accounts. Thereafter, the Government will replenish such project accounts by depositing the counterpart funds called for in the AWPB for the relevant project year, from time to time upon request by the person or persons authorized to operate the relevant project account; and
 - (b) to the ExComs, by deposit into the provincial treasuries. Thereafter, the Government will replenish the provincial treasuries by depositing counterpart funds called for in the AWPB for the relevant project year on a quarterly basis in advance. The chairpersons of the ExComs will be fully authorized to access such counterpart funds as may be required from time to time to finance the project activities in the relevant province in accordance with the AWPBs.



4. **Revolving funds.** RDB and each MFI or NGO participating in the rural microfinance component will establish and maintain a revolving fund into which all net revenues from credits extended to the members of the target group financed by the loan will be deposited. RDB and each participating MFI or NGO will use the revolving fund to fund further credits to the members of the target group at least until such date as will be specified in the SLA and SFAs or, if no date is so specified, until all loan service payments have been made in full. For purposes of this paragraph, the term “net revenues” means all repayments of principal and all payments of interest, *less* reasonable profits and operating and other costs. The use and terms and conditions of the proceeds of the loan in the revolving funds by RDB and each participating MFI or NGO will be periodically reviewed by IFAD, in consultation with the Ministry of Economy and Finance (MEF), RDB and the participating MFIs or NGOs.
5. **Operation and maintenance.** The Government will ensure that adequate human and financial resources will be provided to support the operation and maintenance of project-financed investments and the recurrent costs of project operations both during and after the project implementation period, at least for the useful life of such investments.
6. **Pest management practices.** As part of maintaining sound environmental practices as required by the General Conditions, the Government will maintain appropriate pest management practices under the project and, to that end, will ensure that pesticides procured under the project do not include any pesticide, either proscribed by the International Code of Conduct on the Distribution and Use of Pesticides of the Food and Agriculture Organization of the United Nations (FAO), as amended from time to time, or listed in Tables 1 (Extremely Hazardous) and 2 (Highly Hazardous) of the World Health Organization (WHO) Recommended Classification of Pesticides by Hazard and Classification 1996-97, as amended from time to time.
7. **Tax exemption.** The Government will exempt from taxes the importation, procurement and supply of all goods, civil works and services financed by the loan. The value of such exemptions will be credited against the obligation of the Government to provide counterpart funds for the project.
8. **Insurance of project personnel.** The Government will insure project personnel against health and accident risks, from the proceeds of the loan, in accordance with its customary practice in respect of its national civil service.
9. **Authorizations.** The Government will provide any entity participating in project implementation with such delegations of authority or other authorizations as may be required under its national procedures to implement the project.
10. **Coordination.** The Government will make effective arrangements to coordinate with other international agencies operating in the project area to ensure that: (a) uniform policies are adopted for the same sector or activity, such as credit, extension methodology and staff incentives; (b) project activities financed by different donors in the same province/district are carefully phased to avoid constraints on the available human and financial resources; (c) the policy of decentralized development planning and financing will continue throughout the project implementation period without any change which would have a material adverse effect on project implementation; and (d) consideration is given to the lessons learned from the implementation of decentralized planning and development under the project and feedback from the beneficiary impact assessments in future policy formulation at the provincial and national level.
11. **Natural resources.** The Government will ensure that effective policies and measures will be enforced to safeguard forest and fishery resources and endangered species in the project area.



12. **Ownership and governance structure of financial institutions.** The Government will ensure that changes in the ownership and governance structure of RDB will not affect the terms and conditions of the SLA and that changes in the ownership and governance structure of the participating MFIs or NGOs will not affect the terms and conditions of the SFAs. Annually, RDB and the participating MFIs and NGOs will review the performance of the participating MFIs and NGOs, and the on-lending terms and conditions of the SFAs to reflect any changes that might be necessary, subject to review by IFAD.
13. **Financial Institutions Law.** The Government will ensure that the Financial Institutions Law, substantially in the form of the draft dated 8 November 1997, will be adopted by the National Assembly and that it will enter into force no later than 31 December 2000. The Government will cause the National Bank of Cambodia (NBC) to ensure that: (a) RDB conforms fully to the Financial Institutions Law and banking regulations of the Government at all times; (b) with the adoption of the Financial Institutions Law, satisfactory regulations for MFIs, NGOs and credit operators and procedures for their supervision will be established by 31 December 2000; (c) NGO credit programmes registered with NBC will not be subject to the same regulation and supervision as MFIs, and the NGOs will continue to operate their savings and credit programmes effectively under the supervision of the NBC; and (d) the Supervision Office of Decentralized Banking System of NBC will comprise at least five staff and will staff the on-site supervision section of the office.
14. **Savings and credit activities.** The Government will ensure that RDB and the participating MFIs or NGOs will develop their savings and credit activities and maintain their banking disciplines in accordance with the provisions of the project loan agreement.
15. **Rural Development Bank.** The Government will ensure that RDB: (a) itself neither provides loans directly to farmers nor to credit schemes operated by government agencies or donor-assisted projects, but only to MFIs or NGOs who register with the NBC and which meet project eligibility criteria; and (b) follows a business development plan acceptable to IFAD.
16. **Removal of project staff.** The Government will not remove the National Project Coordinator, the Deputy National Project Coordinator, the Liaison Officer, any ExCom Secretary or any Provincial Project Coordinator until at least the completion of the mid-term review, except on grounds of unsatisfactory job performance. The Government will not remove any such project staff member without prior consultation with IFAD at least three months in advance.
17. **Suspension.** IFAD may suspend, in whole or in part, loan disbursements to the Government in accordance with the General Conditions, upon the occurrence of any of the events set forth therein or any of the following events:
- (a) at any time during the project implementation period, UNDP fails or ceases to provide its non-reimbursable financing of international technical assistance and national professional project personnel as required for the timely implementation of the project, or manifests its intention to do so;
 - (b) AusAID fails to confirm its grant financing of international technical assistance in writing on or before 31 March 2000; or, at any time during the project implementation period after such confirmation, AusAID fails or ceases to provide such financing as required for the timely implementation of the project, or manifests its intention to do so;
 - (c) the CARERE 2 or any future phase of UNDP's support to *Seila* ceases to finance (i) the local planning process (LPP), the operations of the ExComs or associated technical assistance, (ii) small-scale village/commune projects identified during LPP; or (iii) such



technical assistance and associated costs as are required to support the implementation of the project and are not financed by AusAID financing;

- (d) any competent authority has taken any action for the dissolution of the RDB or the suspension of its operations, or any action or proceeding has been commenced for the distribution of any assets of the RDB among its creditors; and
- (e) the Financial Institutions Law, or the regulations promulgated thereunder, have been amended, suspended or otherwise modified, and IFAD determines that such amendment, suspension or modification has had, or is likely to have, a material adverse effect on the rural microfinance component or the project as a whole.

18. **Conditions precedent to effectiveness.** The project loan agreement will become effective subject to the fulfilment of the following conditions:

- (a) the National Project Coordinator and the Deputy National Project Coordinator shall have been duly appointed by the MAFF;
- (b) the Liaison Officer of the STF Secretariat shall have been duly appointed by the STF Secretariat;
- (c) the PSU shall have been duly established ;
- (d) the Provincial Project Coordinator of each province shall have been duly appointed by the MAFF ;
- (e) the Government shall have duly opened the project accounts and the special accounts;
- (f) the Government shall have confirmed to IFAD that counterpart funds will be available in the national budget for transfer to the MAFF, the STF Secretariat and the provincial governments to assist in financing the first 12 months of project;
- (g) the project loan agreement shall have been duly signed, and the signature and performance thereof by the Government shall have been duly authorized and ratified by all necessary administrative and governmental action;
- (h) a memorandum of understanding among MEF, the Department of Agriculture, Forestry and Fisheries (DAFF), the provincial governments and RDB in respect of project implementation shall have been approved by IFAD in draft; a copy of the signed memorandum, substantially in the form so approved and certified as true and complete by a competent officer of the Government, shall have been delivered to IFAD; the signature and performance thereof by the MEF, the MAFF, RDB and the provincial governments shall have been duly authorized or ratified by all necessary corporate, administrative and governmental action; and
- (i) a favourable legal opinion, issued by the Ministry of Justice of the Government or other legal counsel acceptable in form and substance to IFAD, shall have been delivered by the Government to IFAD.



19. **Conditions precedent to withdrawals.** No withdrawals will be made in respect of incremental credit until:

- (a) the SLA shall have been approved by IFAD in draft; a copy thereof, as signed by the MEF and RDB, substantially in the form so approved and certified as true and complete by a competent officer of the Government, shall have been delivered to IFAD; the signature and performance thereof by the Government and RDB have been duly authorized or ratified by all necessary corporate, administrative and governmental action; and any conditions precedent to the effectiveness thereof shall have been fulfilled; and
- (b) with respect to any participating MFI or NGO, a SFA shall have been approved by IFAD in draft; a copy of such SFA, as signed by the RDB and such MFI or NGO, substantially in the form so approved and certified as true and complete by a competent officer of RDB, shall have been delivered to IFAD; the signature and performance thereof by the RDB and such MFI or NGO have been duly authorized or ratified by all necessary corporate, administrative and governmental action; and any conditions precedent to the effectiveness thereof shall have been fulfilled.

COUNTRY DATA

CAMBODIA

Land area (km² thousand), 1996 1/	177	GNP per capita (USD), 1997 2/	300
Total population (million), 1997 1/	10.5	Average annual real rate of growth of GNP per capita, 1990-97 2/	2.7
Population density (people per km²), 1996 1/	58	Average annual rate of inflation, 1990-97 2/	37.8
Local currency	Riel (KHR)	Exchange rate (April 1999): USD 1 =	KHR 3 800
Social Indicators		Economic Indicators	
Population (average annual population growth rate), 1980-97 1/	2.8	GDP (USD million), 1997 1/	3 044
Crude birth rate (per thousand people), 1997 1/	34	Average annual rate of growth of GDP 1/	
Crude death rate (per thousand people), 1997 1/	12	1980-90	n.a.
Infant mortality rate (per thousand live births), 1997 1/	103	1990-97	5.5
Life expectancy at birth (years), 1997 1/	54	Sectoral distribution of GDP, 1997 1/	
Number of rural poor (million) (approximate) 1/	3.3	% agriculture	51
Poor as % of total rural population 1/	40.1	% industry	15
Total labour force (million), 1997 1/	5.4	% manufacturing	6
Female labour force as % of total, 1997 1/	52	% services	34
Education		Consumption, 1997 1/	
Primary school gross enrolment (% of relevant age group), 1996 1/	110	General government consumption (as % of GDP)	9
Adult literacy rate (% of total population), 1995 3/	65	Private consumption (as % of GDP)	87
Nutrition		Gross domestic savings (as % of GDP)	
Daily calorie supply per capita, 1995 3/	1 996	Balance of Payments (USD million)	
Index of daily calorie supply per capita (industrial countries=100), 1995 3/	63	Merchandise exports, 1997 1/	621
Prevalence of child malnutrition (height for age % of children under 5), 1992-97 1/	n.a.	Merchandise imports, 1997 1/	1 112
Prevalence of child malnutrition (weight for age % of children under 5), 1992-97 1/	38	Balance of merchandise trade	- 490
Health		Current account balances (USD million)	
Health expenditure, total (as % of GDP), 1990-97 1/	7.2	before official transfers, 1997 1/	- 398
Physicians (per thousand people), 1990-97 1/	0.1	after official transfers, 1997 1/	- 210
Percentage population without access to safe water, 1990-96 3/	64	Foreign direct investment, 1997 1/	203
Percentage population without access to health services, 1990-95 3/	47	Government Finance	
Percentage population without access to sanitation, 1990-96 3/	86	Overall budget surplus/deficit (including grants) (as % of GDP), 1996 1/	n.a.
Agriculture and Food		Total expenditure (% of GDP), 1996 1/	n.a.
Food imports as percentage of total merchandise imports, 1997 1/	n.a.	Total external debt (USD million), 1997 1/	2 129
Fertilizer consumption (hundreds of grams per ha of arable land), 1995-97 1/	30	Present value of debt (as % of GNP), 1997 1/	53
Food production index (1989-91=100) 1995-97 1/	124.8	Total debt service (% of exports of goods and services), 1997 1/	1.1
Land Use		Nominal lending rate of banks, 1997 1/	18.4
Arable land as % of land area, 1996 1/	21.1	Nominal deposit rate of banks, 1997 1/	8.0
Forest area (km ² thousand), 1995 1/	98		
Forest area as % of total land area, 1995 1/	55.7		
Irrigated land as % of cropland, 1994-96 1/	4.5		

n.a. not available.

Figures in italics indicate data that are for years or periods other than those specified.

1/ World Bank, *World Development Report*, 19992/ World Bank, *Atlas*, 19993/ UNDP, *Human Development Report*, 1998



PREVIOUS IFAD LOANS/GRANTS IN CAMBODIA

Project Name	Initiating Institution	Cooperating Institution	Lending Terms	Board Approval	Loan Effectiveness	Current Closing Date	Loan/Grant Acronym	Currency	Approved Loan/ Grant Amount	Disbursement (as % of approved amount)
Agriculture Productivity Improvement Project – Special Operations Facility (SOF)	IFAD	N.A.	Grant	13 Sep 96	13 Sep 96	31 Dec 97	G - I - 14 - KH	USD	50 000	91.5%
Agriculture Productivity Improvement Project	World Bank: IDA	World Bank: IDA	HC	11 Sep 96	22 Sep 97	30 Jun 04	L - I - 423 - KH	SDR	3 300 000	06.5%

LOGICAL FRAMEWORK

Project Description	Performance Indicators	Means of Verification	Assumptions/Risks
Strategic Goal Increased food and income security of the targeted households in the project area.	Per capita income and food availability in relation to the poverty line of KHR 35 500 per capita per month by end of the project (EOP).	Periodic household income and expenditure surveys.	Political stability and security.
Project Objective: 64 500 poor households in the project area able to sustain an increased level of farm income from intensified and diversified crop and livestock activities.	By EOP, 16 630 very poor households increase their paddy yields by an average of 0.5-1 ton/ha; 47 875 households increase their per unit output, value of production and offtake of livestock and diversify varieties of crops.	Provincial surveys and statistics (poverty incidence, agricultural production, incomes, etc.) and M&E data.	Access and security and no other internal or external shocks to the economy.
Outputs: 1. Agricultural Start-up Programme (PSP) and Agricultural Improvement Programme (AIP) executed for the purpose of increasing farm productivity and diversifying crop and livestock production.	By EOP, 16 630 households under PSP increase their paddy yields by an average of 0.5-1 ton/ha; 30,000 households under AIP successfully use seasonal credit to increase their per unit output, value of production and offtake of livestock and diversify varieties of crops; 17 875 households increase agricultural and/or livestock production by investing in productive enterprises using short- or medium-term loans.	Household and farm surveys; line agency reports; group records; village-level data; extension reports; and M&E reports.	Extension, TA and NGO training effective, and birth control or spacing practised.
2. Local communities and beneficiaries empowered to efficiently and sustainably manage their productive resources, including, if so desired, community forest.	Higher project implementation and participation rates by EOP, disaggregated by gender; Beneficiary participation in the local planning process (LPP), decision-making and project activities.	LPP and problem census in the villages.	Participatory development, technical and management training undertaken.
3. Capacity of local institutions, particularly provincial and district agricultural departments, strengthened to target and manage investment programmes in a participatory manner.	Work efficiency, transparency and accountability of ExCom project management and implementing agencies, and quality of service delivery and technical competence of PDAFF and DDAFF staff improved by EOP.	Clients (PDRC, CDC and VDC) and beneficiary satisfaction, problem census and M&E reports on project management.	Decentralization policy continued and staff training provided.
4. NGOs and MFIs able to retail the savings and credit services to the target group with strengthened capacity of RDB as an effective wholesaler of credit. Local capital formation from savings mobilization, and productive use of loans leading to asset creation.	Quality services of NGOs and MFIs to the 47 875 targeted sub-borrowers by EOP and effective wholesale services of RDB to the participating NGOs and MFIs.	LPP and problem census in the villages; M&E reports; progress reports and NGO surveys.	No unfavourable change of Government's policy and banking laws for the operation of RDB as a wholesaler of credit; and NGO participation in the rural savings and credit services.
Activities 1.1. Production Start-up Programme (PSP) <ul style="list-style-type: none"> • Select target villages for PSP on basis of household food security. • Carry out social mobilization and participatory planning exercise and wealth ranking in targeted villages to select poorest households. • Provide PSP inputs, training and extension services. • Maintain extension support to farmers already in the minimum package programme (MPP) and in the Special Programme for Poverty Alleviation (SPPA) of CARERE 2. • Develop and test PSP option 2 for near-landless and PSP option 3 for upland households to start implementation in PY 3. • Revolving funds associated with PSP are managed effectively to allow inputs to be purchased in second and 	Poor villages are targeted and included in district and project annual workplans and budgets (AWPBs). Quality services provided to 9 000 very poor farm households with less than 0.75 ha rice land, 3 000 near-landless households and 1 440 very poor upland households, for three consecutive years. Quality services provided to the 3 190 households for two consecutive years. Technical and financial viability of PSP options 2 and 3 demonstrated. Turnover of the revolving funds and repayment rates. Effectiveness of selected NGOs. Number and quality of savings and credit groups organized and functional, number of sub-borrowers and volume of lending and	Seila village data bases and district and project AWPBs. Numbers and location of extension workers engaged full-time on PSP training and support activities. Annual beneficiary evaluations. mid-term review (MTR) and project completion report (PCR). Analysis of results of first 120 households (option 2) and of participatory field trials (option 3). Group records; NGO reports. Project progress reports. Audit of records/ reports of participating	Consultation with the beneficiaries undertaken. The activities implemented in targeted villages and communes respond to priorities identified in the VDP and CDP. Suitable upland technology is available and its adoption is financially attractive to poor farm households. NGOs working in the project area are willing to provide





APPENDIX III

Project Description	Performance Indicators	Means of Verification	Assumptions/Risks
<ul style="list-style-type: none"> subsequent years. NGOs are selected according to eligibility criteria and oriented on PSP. Selected NGOs train group members and then advise/supervise group self-management of revolving fund for three consecutive years. Repayment problems are addressed and reported. 	<p>turnover and repayment rates.</p> <p>Total cost estimate USD 3.53 million</p>	<p>NGOs.</p> <p>Participatory monitoring.</p>	<p>training in group self-management and supervision.</p>
<p>1.2. Agricultural Improvement Programme (AIP) – Rice Production</p> <ul style="list-style-type: none"> Rice extension: training and demonstration of new seed varieties, fertilizer use, pest control and management, and soil management. Rice seed production. Small-scale water management demonstration on 310 ha. Farmer-field days. Link NGO providers of credit to extension programme to allow farmers to finance recommended inputs/activities. 	<p>310 clusters (four groups) given rainfed and irrigated rice crop demonstrations and assessment of participation rates by villagers and number and quality of training programmes.</p> <p>165 groups supported with seed production and output of rice seeds produced and marketed.</p> <p>310 clusters of farmers organized on field days; attendance data by gender and by month.</p> <p>Total cost estimate USD 0.43 million</p>	<p>Village records.</p> <p>PD AFF reports.</p> <p>Copies of contracts with district agriculture staff.</p> <p>Supervision reports, physical inspection and payment records.</p>	<p>Paddy seed certification / regulation properly in place (through World Bank/IFAD-financed seed component in Agriculture Productivity Improvement Project (APIP)).</p>
<p>1.3. Agricultural Improvement Programme (AIP) – Crop Diversification</p> <ul style="list-style-type: none"> Demonstration and training of alternative field crops. Demonstration and training on fruit. Extension on fruit trees and vegetables for both home consumption and the market. Extension on other crops. Intensive training on IPM, fruit trees and vegetables Training and extension on home vegetables and nutrition. Additional extension and training for women. Water management extension and demonstration of dry-season cropping. 	<p>1 550 demonstrations given on alternative field crops by EOP and 4 650 associated farmer-field days.</p> <p>20 demonstrations on fruit trees by EOP and 60 associated field days.</p> <p>155 groups provided with training and demonstrations and field days by EOP, and attendance data by gender and by month.</p> <p>155 groups of selected households provided with extension services on other crops by EOP.</p> <p>Training for 80 IPM schools, 40 fruit trees and 40 vegetables by EOP.</p> <p>155 groups provided with home vegetable and nutrition training by EOP.</p> <p>155 groups of women provided with extension and training by EOP.</p> <p>Water management training provided on 310 ha. and 930 associated field days by EOP.</p> <p>Total cost estimate USD 0.476 million</p>	<p>Village records, PD AFF reports, copies of contracts with district agriculture staff, supervision reports, physical inspection and payment records, beneficiary evaluations, MTR and PCR.</p>	<p>Seed certification / regulation properly in place (through World Bank/IFAD-financed seed component in APIP).</p>
<p>1.4. Agricultural Improvement Programme (AIP) – Livestock</p> <ul style="list-style-type: none"> Initial and on-the-job (ongoing) training of new VLAs. Refresher training of existing VLAs. Facilitation of VLA associations. Demonstration of poultry and pigs and associated field days, including feed management. Extension to women in care and health of pigs and poultry. Improve the cold chain to provide effective vaccination services. Link NGO providers of credit to extension programme to allow farmers to borrow for livestock activities. 	<p>Initial training of 250 VLAs and refresher training for 450 existing VLAs by EOP for a total of 17 250 training days.</p> <p>120 VLA associations by EOP.</p> <p>1 860 training and demonstration sessions and 5 580 field days by EOP, attendance data by gender and by month.</p> <p>310 clusters of women for care and health of small animals by EOP.</p> <p>Cold chain established in 360 communes by EOP.</p> <p>High repayment rates on short-term loans for livestock.</p> <p>200 operative VLAs in Slem Reap and Battambang provinces and 150 operative VLAs in Pursat and Banteay Meanchey provinces (a total of 750 VLAs) by EOP.</p> <p>Total cost estimate USD 0.633 million</p>	<p>Village records.</p> <p>PD AFF reports.</p> <p>Copies of contracts with district agriculture staff.</p> <p>Supervision reports.</p> <p>Physical inspection and payment records.</p> <p>Beneficiary evaluations.</p> <p>MTR and PCR reports.</p>	<p>Livestock remains an attractive marketable enterprise to farmers. VLA system regulated and gains strength.</p>
<p>1.5 Agricultural Improvement Programme (AIP) – Natural Resources Management and Community Forestry</p> <ul style="list-style-type: none"> Participatory upland trials of new crops and sustainable production methodologies. Findings and results reflected in PSP (option 3, upland) and AIP. 	<p>Two farmer-managed trial sites (different locations) in four provinces established and monitored. Provincial results analysed and compared.</p> <p>Decision taken on PSP option 3; if results are positive, option 3</p>	<p>PD AFF reports.</p> <p>Copies of contracts with district agriculture staff.</p> <p>Supervision reports.</p>	<p>Villages are prepared to manage local forest and woodland as a common property resource.</p>



APPENDIX III

Project Description	Performance Indicators	Means of Verification	Assumptions/Risks
<ul style="list-style-type: none"> Selection of suitable experienced agency to implement Community forestry subcomponent. Community sensitization on common property resource (forest and woodlands). Establishment of community forests. 	<p>designed and implemented. Experienced NGO or government agency undertakes to implement community forestry subcomponent. Establishment of 10 000 ha of community forest in 100 villages in response to expressed need. Total cost estimate USD 0.195 million</p>	<p>Physical inspection and payment records. Beneficiary evaluations. MTR and PCR.</p>	<p>Continued support from CAREERE and other financiers to LPP.</p>
<p>2. Empowerment of local communities and beneficiaries</p> <ul style="list-style-type: none"> Carry out village participatory rural appraisals (PRAs) in targeted villages to select poorest households for inclusion in the project. Beneficiary participation in LPP and consultations and problem census for targeted villages. 	<p>Number and quality of PRAs and implementation and participation rates by village and by gender and responsiveness of LPP to the demand and priorities of beneficiaries. Costs covered by CAREERE.</p>	<p>Village records, PDAFF reports, MTR and PCR.</p>	<p>Project staff prove to be retainable.</p>
<p>3.1. Capacity-building for provincial and district agricultural staff and support to PSU in MAFF and STF secretariat</p> <ul style="list-style-type: none"> Training provincial and district agricultural staff on technical subjects, detailed work planning of PSP and AIP programmes, implementation and management. Initial and ongoing training of all agriculture staff in natural resource management issues and (for provincial and district staff) on integration of women in training and extension (gender awareness). Study tours and cross visits for agricultural staff. Intensive training for PSP extension officers (provincial extension officers (PEOs)). Planning and integration workshops and participation in PRAs. Support to PSU in MAFF for interprovincial and overall project coordination. Support to STF secretariat for coordination. 	<p>9 486 training days for agricultural staff by EOP, including 1 167 days on natural resource management and 845 on gender awareness. Quality of extension and demonstration contracts. Client satisfaction. 32 study tours by EOP. 90 PEOs trained and PSP effectively implemented. 48 provincial planning and integration workshops, and 205 district integration workshops by EOP attended by PDAFF and DDAFF staff. PSU in MAFF and STF secretariat able to coordinate and support the project by EOP. Total cost estimate - technical support & capacity-building (excluding monitoring) USD 3.97 million Total cost estimate - support & coordination USD 0.924 million</p>	<p>Village records, PDAFF reports, copies of contracts with district agriculture staff, supervision reports, physical inspection and payment records, beneficiary evaluations, MTR and PCR.</p>	
<p>3.2 Monitoring</p> <ul style="list-style-type: none"> Identify parameters in the <i>Seila</i> data base (1999) to use as baseline indicators for project monitoring. Set up system to monitor changes in gender balance. Contract a team of staff from other provincial departments, including the Provincial Department of Women's Affairs (PDWA), to monitor project implementation and beneficiary participation rates, disaggregated by gender. Beneficiary monitoring workshops and participation in decision making. Feed findings back into next year's AWPB. 	<p>Project M&E system. Participation rates of men and women by project activities. 155 beneficiary impact assessment workshops at the district level and 20 at the provincial level during project period. Number of recommendations incorporated into future AWPBs; Number of policy initiatives Total cost estimate USD 0.075 million</p>	<p>Beneficiary evaluations Project progress reports, reports to PRDC ExCom.</p>	<p>Training provided to project staff and staff of other provincial departments, including PDWA.</p>
<p>4. Rural Microfinance Services</p> <ul style="list-style-type: none"> Selection of qualified NGOs to participate in the project according to eligibility criteria. Provide training to contracted NGOs in group formation, loan management, record keeping and supervision. NGOs promote and supervise savings and credit group activities. NGOs lend to target group households for agricultural inputs, livestock activities and off-farm income-generating activities Training and support to RDB. 	<p>Number of registered NGOs. Number of credit groups established. Number of households taking seasonal loans: target, 6 000 from PY2. Loan (seasonal and medium-term) uptake: target, 17 875 Repayment rates: target, 95% Coverage (district/ commune/village). IFAD credit line disbursement. Total cost estimate USD 1.32 million</p>	<p>NGOs and RDB monthly records and reports of credit activities. Project progress reports. Ongoing monitoring (also by PDWA) reports with information disaggregated by gender.</p>	<p>Sufficient numbers of NGOs are able and willing to register (satisfy RDB conditions to operate as an MFIs); NGOs are able and willing to access IFAD credit line to lend to target group households for agricultural activities; and AsDB provided TA to RDB.</p>

QUANTITATIVE INPUTS, TARGETS AND KEY PROJECT FACTORS

1. Quantitative Inputs	PY1	PY2	PY3	PY4	PY5	PY6	PY7	Total			
Agricultural Development Component											
Production Start-up Programme											
Option 1 (inputs, cash and training) for very poor lowland households	3 000	3 000	3 000	-	-	-	-	9 000			
Option 2 for landless households	hh 120	-	1 440	1 440	-	-	-	3 000			
Option 3 for very poor upland households	hh -	-	720	720	-	-	-	1 440			
Farmer Training in Agriculture (yrs 1.2 & 3)	group training days 2 912	3 184	4 648	3 360	1 064	144	-	15 312			
Farmer Training in Revolving Fund Management (yrs 1.2 & 3)	group training days 1 800	2 260	2 900	3 080	2 440	720	-	13 200			
Group Leader Training (initial & follow-up)	sessions 78	153	204	183	54	-	-	672			
Farmer Extension Worker Training	group training days 208	200	344	144	-	-	-	896			
PSP Extension Officers (PEOs)	months 840	936	1 080	984	624	192	-	4 656			
Agricultural Improvement Programme											
Field & Tree Crop Demonstrations	no 770	1 140	1 330	1 330	1 330	-	-	5 900			
Farmers Field Days (Crops)	days 450	660	770	770	770	-	-	3 420			
Extension Groups (Crops)	groups 330	480	560	560	560	-	-	2 490			
Field Crop Demonstrations	no 280	420	490	490	490	-	-	2 170			
Livestock Demonstrations	no 240	360	420	420	420	-	-	1 860			
Farmers Field Days (Livestock)	days 720	1 080	1 260	1 260	1 260	-	-	5 580			
Extension Groups (Livestock)	groups 160	240	420	420	420	-	-	1 660			
Participatory Trials of Upland Crops	trial site 8	8	8	-	-	-	-	24			
Rice Seed Quality Control	ton 375	638	864	1 056	1 177	-	-	4 110			
Specialist Intensive Farmer Field Schools	no 32	32	32	32	32	-	-	160			
Vaccination & Parasite Control (3 yr thrust)	commune 20	30	35	35	-	-	-	120			
Community Forestry (establish 100 ha.)	village 20	20	20	20	20	-	-	100			
Technical Support and Capacity Building											
International Technical Assistance	person months 24	27	28	3	-	-	-	82			
National Technical Assistance (NPPPs)	person months 108	108	108	108	108	48	-	588			
Provincial Staff	person years 64	64	64	64	64	16	-	336			
District Staff	person years 100	150	175	175	175	-	-	775			
Planning and Integration Workshops	no 38	43	43	43	43	4	-	214			
Rural Micro-Finance Component											
Incremental Credit Funds	USD 349 000	551 150	185 800	84 950	64 331	-	-	1 235 231			
Provincial Workshops	no 2	-	-	-	-	-	-	2			
NGO / MFI Training	person days 600	-	600	-	-	-	-	1 200			
Project Support and Co-ordination Component											
International Technical Assistance	person months 1	2	4	2	-	-	2	11			
National Technical Assistance (NPPPs)	person months 12	12	12	-	-	-	-	36			
Professional and Support Staff (PSU & STF)	person years 11	11	11	11	11	11	6	72			
Co-ordination Workshops	no 3	3	3	3	3	3	-	18			
2. Project Cost Summary (Incl. Contingencies) and Financing (USD '000)											
Agricultural Development											
	<u>Total</u>	<u>IFAD</u>	<u>UNDP/Aus Aid</u>	<u>Beneficiaries</u>	<u>Government</u>	<u>% of Total</u>					
Production Start-Up Programme	3 523	3 428	-	16	79	30.5%					
Agricultural Improvement Programme	1 734	1 647	-	-	88	15.0%					
Technical Support and Capacity Building	<u>4 045</u>	<u>1 580</u>	<u>1 587</u>	<u>-</u>	<u>877</u>	<u>35.0%</u>					
Subtotal Agricultural Development	9 302	6 655	1 587	16	1 044	80.6%					
Rural Micro-Finance	1 322	1 310	-	-	12	11.4%					
Project Support and Coordination	<u>924</u>	<u>635</u>	<u>189</u>	<u>-</u>	<u>99</u>	<u>8.0%</u>					
Total	11 548	8 599	1 777	16	1 156	100%					
3. Economic Rate of Return and Sensitivity Analysis (%)											
Basic Case	17.9%		4. Financial Analysis of Farm Models				Incremental Family Income:				
Costs increase by 20%	13.5%		1. PSP <1 ha				44%				
Benefits reduced by 20%	13.1%		1A. PSP <1 ha no draught animal				54%				
Costs up 10% & Benefits down 10%	8.7%		2. PSP < 0.25 ha				120%				
Net Benefits lagged by one year	11.8%		2A. PSP < 0.25 ha severe labour constraint				75%				
Net benefits lagged by two years	7.8%		3. PSP < 1.5 upland				87%				
			4. AIP - lowland < 1.5 ha				90%				
			5. AIP - upland < 2.0 ha				99%				
5. Benefits and Targets											
(By the End of the Project)											
Improved lowland cultivation	45,780 ha	Existing PSP households		3 190							
Improved upland cultivation	12,300 ha	PSP lowland households		9 000							
(Annual Incremental at PY 10)											
Incremental Paddy Production	12,498 tons	PSP landless households		3 000							
Incremental Maize Production	15,306 tons	PSP upland households		1 440							
Incremental Mung bean Production	6,750 tons	subtotal		16 630							
Incremental Vegetable Production	27,722 tons	AIP lowland households		25 000							
Incremental Sweet Potato Production	6,250 tons	AIP upland households		5 000							
Incremental Cassava Production	9,228 tons	subtotal		30 000							
Incremental Fruit Production	18,939 tons	Other credit sub-borrowers		17 875							
Incremental Pig (liveweight) Prod'n.	3,310 tons	Total direct beneficiaries		64 505							
Incremental Chicken (liveweight) Prod'n.	4,264 tons	Total households targeted in Extension Groups		126 600							
6. Beneficiaries											
7. Project Objectives:											
64,500 poor households in the project are able to sustain an increased level of farm income from intensified and diversified crop and livestock activities.											
8. Project Area:											
Four Northwest Provinces of Cambodia: Banteay Meanchey, Battambang, Pursat and Siem Reap.											
9. Project Target Group:											
All poor and very poor households as identified by the villagers themselves, estimated at 243,000 households, equivalent to 64% of the rural population in the four provinces. These includes: (i) 224 300 families with less than 1.2 ha of land; (ii) 3 089 unemployed youths; (iii) those among the 13 917 mine victims who are able to participate in project activities; and (iv) 3 361 families of returnees and IDPs.											
10. Project Strategy:											
a. To build upon the successful CARERE experience in (i) community mobilisation and participation and (ii) local and decentralised planning and funding within the institutional framework of Seila.											
b. To transfer productive resources to very poor rural households to enable them to engage in productive agricultural activities sustainably.											
c. To demonstrate and extend available technology to poor farm households and facilitate their access to credit											
d. To sensitise staff, farmers and village communities as to the importance of protecting the natural environment and to demonstrate and implement appropriate technologies, including community forestry.											
e. To empower women to participate fully in project activities and development process.											
f. To provide savings and credit services through NGOs / MFIs supported and supervised by RDB											
g. To provide training, equipment and logistical support to enable the PDAFFs to become efficient providers of targeted and responsive agricultural services to rural communities.											
h. To strengthen the linkages and flow of information and to enable MAFF to provide technical and policy advice to PDAFFs.											
i. To co-finance with UNDP, AusAID and other donors and collaborate with other programmes and projects.											
11. Project Instruments:											
a. Provision of Production Start-up Packages and intensive training to very poor households.											
b. Provision of technology demonstration, extension and training services to poor households.											
c. Expansion of VLA coverage and livestock vaccination and parasite control programmes to improve livestock productivity and reduce animal mortality.											
d. Improvement of food and income security through crop intensification and diversification and other on- and off-farm income generating activities;											
e. Provision of savings and credit services through NGOs/MFIs supported by RDB.											
f. Provision of inputs and materials and training to establish community-managed forest.											
g. Provision of training and equipment to strengthen the institutional capacity of key government service providers and empower the local communities and beneficiaries in rural development.											



COSTS AND FINANCING

Expenditure Accounts by Components - Base Costs (USD'000)

	Agricultural Development			Project Support and Coordination			Physical Contingencies		
	Production Start-Up Programme	Agricultural Improvement Programme	Technical Support and Capacity Building	Rural Micro-Finance	PSU in MAFF	Liaison in STF Secretariat	Total	%	Amount
I. Investment Costs									
A. Civil Works	-	-	193.0	-	15.0	-	208.0	10.0	20.8
B. Vehicles /a	-	-	550.3	26.6	53.2	25.0	655.1	-	-
C. Equipment	-	22.5	70.7	6.8	19.8	5.3	125.1	-	-
D. Materials	189.1	-	24.0	-	-	-	1 915.4	-	-
E. Labour	14.0	-	-	-	-	-	14.0	10.0	1.4
F. Training									
1. Farmer training	231.8	29.3	-	-	-	-	261.1	-	-
2. Staff training	-	-	61.1	-	1.9	-	63.0	-	-
3. Training Contracts	189.5	-	106.9	12.0	-	-	308.5	-	-
Subtotal Training	421.4	29.3	168.1	12.0	1.9	-	632.6	-	-
G. Local Contracts	340.7	1 565.8	133.9	18.8	14.0	0.2	2 199.2	-	-
H. Technical Assistance									
1. International	-	-	101.4	-	150.0	-	1 164.0	-	-
2. National /b	-	-	422.8	-	25.2	-	448.0	-	-
Subtotal Technical Assistance	-	-	1 436.8	-	175.2	-	1 612.0	-	-
I. Credit	-	-	-	1 235.2	-	-	1 235.2	-	-
Total Investment Costs	2 667.5	1 617.5	2 576.7	1 299.4	405.0	30.5	8 596.6	0.3	22.2
II. Recurrent Costs									
A. Staff Costs									
1. Salaries	-	-	503.0	-	20.3	2.3	525.7	-	-
2. Allowances	372.5	-	-	5.8	166.1	14.0	558.4	-	-
Subtotal Staff Costs	372.5	-	503.0	5.8	186.4	16.4	1 084.1	-	-
B. Operation & Maintenance									
1. O&M Buildings	-	-	62.0	-	1.7	-	63.7	5.0	3.2
2. O&M Equipment	-	-	110.9	-	37.4	21.8	170.2	5.0	8.5
3. O&M Vehicles	273.5	-	226.6	10.8	67.0	23.4	601.3	5.0	30.1
4. Office Running Costs&Staff Travel	-	-	228.0	2.6	49.0	7.8	287.4	5.0	14.4
Subtotal	273.5	-	627.5	13.4	155.1	53.0	1 122.5	5.0	56 126.3
Operation&Maintenance	-	-	71.8	-	-	-	71.8	-	-
C. Internal Travel for TA	-	-	-	-	-	-	-	-	-
Total Recurrent Costs	646.0	-	1 202.3	19.2	341.5	69.4	2 278.4	2.5	56.1
TOTAL BASELINE COSTS	3 313.5	1 617.5	3 779.0	1 318.6	746.4	99.9	10 875.0	0.7	78.3
Physical Contingencies	15.1	-	50.7	0.7	9.3	2.7	78.3	-	-
Price Contingencies	194.7	116.6	215.0	2.7	58.8	6.7	594.5	0.8	5.0
TOTAL PROJECT COSTS	352.3	1 734.1	4 044.7	1 321.9	814.5	109.3	11 547.8	0.7	83.3
Taxes	794.5	87.5	275.0	12.3	55.2	18.0	527.5	2.2	11.9
Foreign Exchange	812.5	20.0	1 958.8	48.5	326.7	60.7	3 227.2	1.1	34.2

**Disbursement Accounts by Financiers/a
(USD '000)**

	IFAD Amount	%	AusAID/UNDP Amount	%	Beneficiaries Amount	%	Government Amount	%	Total Amount	%	For. Exch.	Local (Excl. Taxes)	Duties & Taxes
I. Investment Costs													
A. Civil Works	211.1	90.0	-	-	-	-	23.5	10.0	234.6	2.0	-	211.1	23.5
B. Vehicles	518.0	77.5	-	-	-	-	150.7	22.5	668.7	5.8	484.1	33.9	150.7
C. Equipment & Materials	2 125.0	98.9	-	-	-	-	23.3	1.1	2 148.3	18.6	729.9	1 395.2	23.3
D. Labour	-	-	-	-	16.2	100.0	-	-	16.2	0.1	-	16.2	-
E. Training	668.1	100.0	-	-	-	-	-	-	668.1	5.8	-	668.1	-
F. Technical Assistance	-	-	1 700.3	100.0	-	-	-	-	1 700.3	14.7	1 220.7	479.6	-
G. Local Contracts	2 241.9	95.0	-	-	-	-	118.0	5.0	2 359.8	20.4	13.6	2 228.2	118.0
H. Credit	1 235.2	100.0	-	-	-	-	-	-	1 235.2	10.7	-	1 235.2	-
Total Investment Costs	6 999.3	561.4	1 700.3	100.0	16.2	100.0	315.4	38.6	9 031.3	78.1	2 448.2	6 267.6	315.4
II. Recurrent Costs													
1. Incremental Staff Costs	599.4	100.0	-	-	-	-	-	-	599.4	5.2	-	599.4	-
2. Existing Staff Costs	-	-	-	-	-	-	569.8	100.0	569.8	4.9	-	569.8	-
3. Office Running Costs & Staff Travel	295.0	90.0	-	-	-	-	32.8	10.0	327.8	2.8	109.0	186.0	32.8
4. O&M - Vehicles and Equipment	705.3	81.1	-	-	-	-	164.3	18.9	869.6	7.5	608.7	96.6	164.3
5. O&M - Buildings	-	-	-	-	-	-	73.5	100.0	73.5	0.6	-	66.1	7.3
6. Travel for TA	-	-	76.5	100.0	-	-	0.0	-	76.5	0.7	61.2	7.7	7.7
Total Recurrent Costs	1 599.7	63.6	76.5	3.0	-	-	840.3	33.4	2 516.5	21.8	779.0	1 525.5	212.1
Total Project Costs	8 599.0	74.5	1 776.9	15.4	16.2	0.1	1 155.7	10.0	11 547.8	100.0	3 227.2	7 793.1	527.5

ORGANIZATION AND MANAGEMENT

A. Project Organization and Executing Agencies

1. The project will be implemented within the *Seila* framework established by the Government for decentralized development. The project organization structure will consist of the PSU in MAFF and the STF and its secretariat at the national level. The provincial governments will be responsible for the implementation of project activities in their respective provinces. In each of the four provinces, the structure will involve: (i) the provincial government's PRDC, the PRDC ExCom and the ExCom secretariat and the PDAFFs; (ii) at the district level, district development committees; and (iii) in the communes, the CDCs. At the village level, the beneficiaries, the VDCs, extension groups, WUGs and savings and credit groups will play a major role in project planning implementation. Community-based groups and the VDCs are a key part of the decentralized development approach. The participating NGOs will implement the rural microfinance component and undertake other contracts, e.g. farmers' training.

B. Project Implementation Arrangements

2. **Local planning process (LPP) and targeting.** The LPP will use streamlined, annual PRAs as the basis for data collection, problem/solution identification, priority setting, screening and targeting. First, the villages will be ranked according to the degree of poverty, thereby creating a mechanism for targeting activities to poor villages. Second, the problem/solution identification and priority setting will: (i) provide inputs required for the preparation of village development plans (VDPs) and commune development plans (CDPs) and their annual updating; (ii) help determine the activities to be included on the AIP menu; and (iii) during the district integration workshops, determine where the various project activities will be implemented with support of NGOs providing savings and credit services. Third, the wealth-ranking exercise undertaken by the villages on the basis of their own criteria will determine the composition of the PSP groups, the hosts for the AIP demonstrations and the composition of the extension groups. District facilitation teams, including district agricultural staff, with supervision by CARERE programme support officer, will undertake the PRAs. Following district integration, the PDAFFs ensure that the project AWPB is included in their part of the provincial PIP. The AWPB will be sent by PDAFF to the provincial Department of Planning for consolidation of the provincial PIP.

3. **PSP and AIP contracts.** Each PDAFF will have an annual contract for carrying out the PSP and AIP activities, based on the approved AWPB which will specify both the activities to be undertaken each year and the budgeted costs. Prior approval from the cooperating institution will be sought before award and will be requested once the draft AWPB has been submitted for review. The contracting procedures will be as follows, and will apply to contracts between PRDC and selected NGOs or other agencies for the implementation of the agricultural development activities:

- the PDAFF director will contact the ExCom secretariat to: (i) check that the project is in the provincial PIP; (ii) request appropriate forms for preparing the proposal/contract documents; and (iii) show that the PDAFF is qualified to undertake the contract in terms of numbers of suitably trained and experienced staff; availability of vehicles, equipment and office facilities; and access to appropriate crop and livestock production technology and extension methodology;
- PDAFF will complete Parts I and III of the contract document: Summary Contract Description; and Contract Description;

- the ExCom secretariat will complete Part II — Memorandum of Agreement – which sets out the responsibilities of both parties, payment schedule, reporting requirements, general and additional provisions to be signed between the PRDC and PDAFF;
- once completed, the ExCom secretariat will review the documentation or request additional clarification before submitting the contract for approval by PRDC and for subsequent signing of the contract between the PRDC and PDAFF.

4. The contracts include a provision to ensure that the PDAFF follows the procedures set out in IFAD's Procurement Guidelines for the purchase of materials, equipment, etc. The ExCom secretariat will be responsible for the supervision, review and validation of eligible expenditures incurred by the PDAFFs under the annual contracts. Under the PDAFF contracts, each provincial director of agriculture will select, on average, 16 provincial agricultural staff to provide technical backstopping to district staff, arrange for the staffing of district offices (five project staff plus PEOs), supervise all district staff assigned to the project and arrange visits to the districts, and establish the capacity-building programme for provincial and district staff, farmers and community leaders. The PCC and the project staff will manage agricultural activities under contracts, including purchase and delivery of equipment, materials, agricultural inputs and services for the PSP and the AIP; training contracts; payment of allowances; vehicle and motorcycle operating expenses; and the settlement of contract payments.

5. Field implementation of the contracts under the agricultural development component will be the responsibility of the head of the district agricultural office. Implementation will involve five staff from the district office and two-to-three PEOs in districts where the PSP is operating. The responsibilities of the head of the district agricultural office will include: (i) deploying district agricultural staff to participate in the PRAs, following up with agricultural problem identification and screening, and presenting the menu of services available; (ii) preparation for and attendance at the district integration workshops, subsequent preparation of the annual workplan and participation in the preparation of the provincial AWPB; (iii) organizing the implementation of PSP and AIP under the supervision of the provincial staff, management of the office, ensuring that the production inputs are delivered on time and providing the necessary back-up to district staff and PEOs working on PSP and AIP; (iv) accounting and financial management of district operations, reporting to the finance unit of the ExCom secretariat and preparing quarterly progress reports; and (v) liaising with NGO providers of services, including PSP training, credit and others.

6. **Technical assistance.** Specialist TA is an essential element of the project. The two long-term international specialists required will each cover two provinces for the first three years of the project. The two specialists will be assisted by two NPPPs in each province (one each for crop and livestock production) who will remain for 5.5 years. One additional NPPP will have project-wide responsibility for environmental management issues for five years and a second NPPP will provide M&E assistance to the PSU for the first three years. In addition, 10 months of short-term international unallocated TA has been included for the agricultural component, six months for the PSU and four months for specialist studies associated with the MTR and PCR. Training is a key element of the project and will involve both staff and farmers. Costs for training have been included in the project costs for each component.

C. Management and Coordination Responsibilities

7. **At the national level.** The PSU will have the following responsibilities: (i) provision of agricultural policy guidance; (ii) national and interprovincial coordination; (iii) procurement of major project items; (iv) donor liaison; (v) review, consolidation and approval of project AWPBs for submission to the STF for endorsement and to IFAD/UNOPS for review; (vi) preparation and consolidation of project progress reports for onward transmission to IFAD and UNOPS; (vii) consolidation of withdrawal applications for onward transmission to the Ministry of Economy



APPENDIX VI

and Finance (MEF); and (viii) monitoring project performance and organizing mid-term and project completion reviews.

8. The MEF will: (i) operate the two special accounts in accordance with requests from PSU and RDB; (ii) transfer the Government's counterpart funds to the provincial treasuries for staff salaries, project activities and tax waivers; (iii) authorize the opening of the project accounts; and (iv) sign and forward withdrawal applications to IFAD and the cooperating institution.

9. The STF comprises senior representatives from MEF, the Council for the Development of Cambodia, Ministry of Interior, MAFF, Ministry of Rural Development, Ministry of Planning and the Ministry of Women's and Veterans' Affairs (MWVA). The role and responsibilities of STF will include: (i) provision of policy guidance in respect of the Government's policy on decentralization of functions and development; (ii) provision of interministry coordination; (iii) endorsement of the project AWPBs; and (iv) supervision and monitoring of project progress. The STF secretariat, with a liaison officer for the IFAD-financed project, will be responsible for ensuring that the project's use of the decentralized development fund is in accordance with its policies and procedures and all matters related to the implementation of the project at the national level, as provided for the STF above.

10. For the microfinance component, RDB will be responsible for onlending loan funds to the participating NGOs; and consolidating, reviewing, approving and passing on to the PSU the AWPBs, progress reports and withdrawal applications for the rural finance component, for consolidation with those of the agricultural investment component.

11. **At the provincial level.** In each province, the PRDC will be responsible for policy guidance on provincial social and economic development, decentralized development, interagency coordination, approval of the project AWPB, award of contracts to PDAFF, selected NGOs or other agencies for PSP and AIP activities, and supervision and monitoring of project implementation. The ExCom secretariat, on behalf of PRDC, will: (i) contract the PDAFF and NGOs to undertake project activities; (ii) provide overall coordination of project activities at the provincial level; and (iii) monitor project implementation.

12. In collaboration with its district agricultural offices and selected NGOs, the PDAFF will implement the activities of the agricultural development component in accordance with annual contracts with the PRDC under the supervision of the ExCom and the PSU. The PDAFF director in each project province will be appointed by the respective provincial government as the provincial project coordinator (PPC).

13. Selected NGOs will, in collaboration with PDAFF: (i) work with groups and village banks; (ii) target the credit programme to members of the IFAD target group participating in the programme of demonstrations and extension; (iii) mobilize savings from members; (iv) provide training to farmers on the financial management of the group-resolving funds and audit the financial records and accounts of the group-resolving funds under the PSP; and (v) execute impact assessment and beneficiary monitoring and provide any other services as may be required under a contract with the PRDC, e.g. community forestry.

14. Chart 1 shows the project organization structure and links between the implementing agencies and the project beneficiaries. Chart 2 shows the flow of funds from IFAD to the beneficiaries.

Chart 1: Project Organization Structure

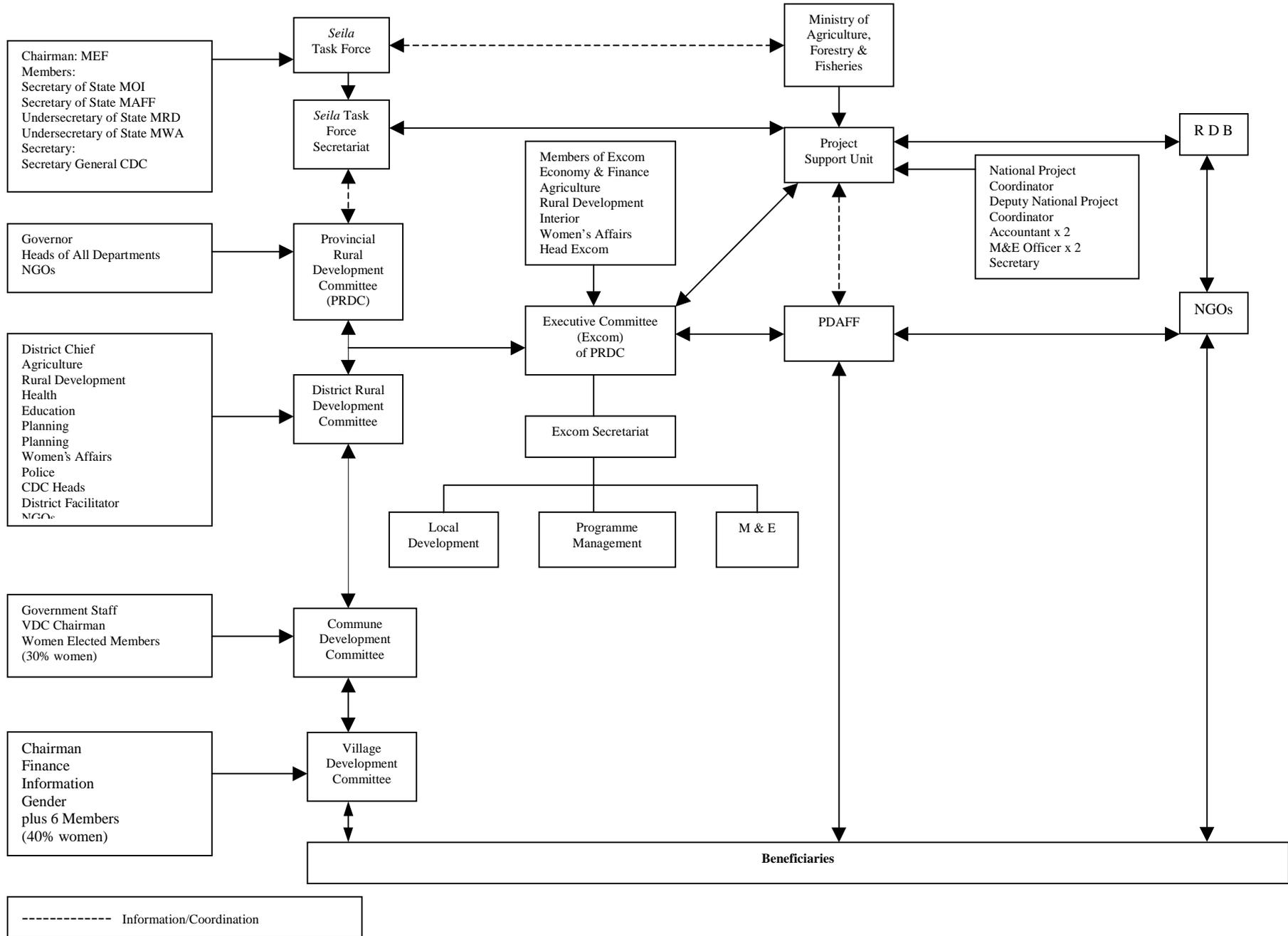
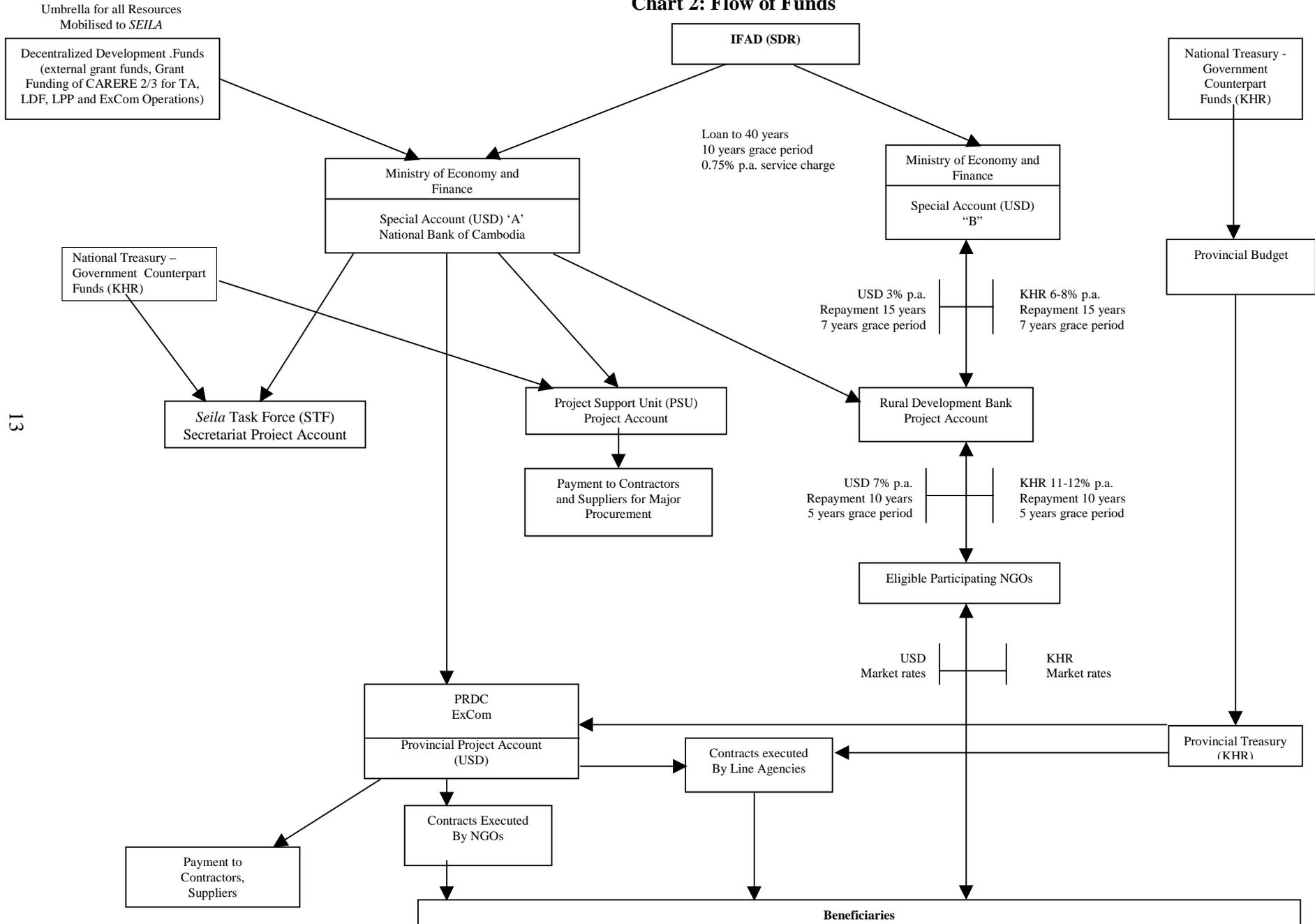


Chart 2: Flow of Funds



ECONOMIC AND FINANCIAL ANALYSIS

1. A detailed financial and economic analysis was undertaken during both project formulation and appraisal. Seven farm models were prepared to analyse the impact of the project on the income of target group households. The farm models pattern the landholdings and resource availability of poor and very poor farm households within the project area, and illustrate the project's expected impact on the incomes, food security and labour use of adopting farm households. Table 1 gives a brief description of each farm model and indicates the farm households' suitability for participation in PSP or AIP.

Table 1. Farm Models

Farm Model	Brief Description	Suitable for participation in :
1 (Base case)	Very poor < 1ha. mostly lowland, one draft animal, 2 adult labourers	PSP Option 1
1A (Iteration)	As above but no draught animal	PSP Option 1
2 (Base case)	Very poor, <0.25 ha, no draught animal, two adult labourers	PSP Option 2
2A (Iteration)	As above with severe labour constraints, i.e. only one adult labourer	PSP Option 2
3	Very poor, < 1.5. ha. mostly upland, one draught animal, two adult labourers	PSP Option 3
4	Poor, < 1.5 ha. mostly lowland, one draught animal, 2.5 adult labourers (equivalent)	AIP
5	Poor, < 2 ha. Mostly upland, one draught animal, 2.5 adult labourers (equivalent)	AIP

2. The farm models demonstrate the farm households' cash position before and after project investments in crop and livestock training, demonstration and extension, animal health programmes and credit for agricultural inputs and income diversification. The models verify the soundness of the investments and of adopting project extension recommendations that are capable of improving farm incomes. All models show a significant increase in cash incomes and returns to labour. For all seven models, the returns per labour day exceed those for unskilled labour (KHR 2 500-3 800 per day depending on the season), while the incremental returns per incremental labour day range from KHR 8 118 to KHR 13 139, indicating that farmers have an incentive to adopt the improved crop and livestock production practices. Table 2 gives a summary of the analysis of the farm models.

Table 2. Farm Benefits and Returns to Labour

Model	Without Project			With Project			
	Total Family Income (KHR)	Total Family Labour Days	Return to Labour (KHR/pd)	Total Family Income (KHR)	Total Labour Days	Return to labour (KHR/pd)	Incremental family Income by %
1. PSP <1 ha	1 425 810	330	5 640	2 055 030	390	6 867	+44
1 (a) PSP <1 ha no draught animal	1 239 150	294	5 782	1 910 050	343	8 087	+54
2. PSP < 0.25 ha	836 500	263	2 370	1 843 100	387	7 218	+120
2 (a) PSP < 0.25 ha severe labour constraint	834 500	262	2 370	1 461 130	273	7 211	+75
3. PSP<1.5 upland	1 267 100	331	4 346	2 363 555	433	6 529	+87
4. AIP – lowland <1.5 ha	1 565 650	323	5 614	2 978 550	464	7 276	+90
5. AIP – upland <2.0 ha	1 506 150	348	4 840	3 001 610	525	6 324	+99



3. For four models (1, 2, 2(a) and 3), a farm family with two working members (one available for 50% of the time) can provide all the incremental labour required. The PSP, farm model 1 (a), shows that a single women-headed household could undertake the option of activities proposed. Models 4 and 5 have the equivalent labour of 2.5 adults. Target group households should not therefore be constrained by a shortage of labour from adopting improved technology.

Economic Analysis

4. The economic viability of the project has been evaluated over a 20-year period. Benefit streams have been calculated on the basis of the net annual value of the incremental output based on the five main farm models (excluding Models 1 (a) and 2 (a)) which represent the average size of farms and the expected adoption of the PSP inputs and improved crop and livestock husbandry practices following the AIP demonstrations and extension activities. Economic benefits assume that 80% of the PSP-adopting households are able to sustain the improved income levels. Cost streams have been adapted from the annual project costs and include: (i) training, TA and support to RDB, NGOs, PSU and the STF secretariat; (ii) support services beyond the life of the project; and (iii) an estimate of the costs of CAREERE support for decentralized planning and development now and in the future.

5. The overall economic rate of return is 17.9%. Switching values at a discount rate of 10%, the assumed opportunity cost of capital in Cambodia indicates that the project can sustain a 16% reduction in benefits and a 19% increase in project costs before becoming uneconomic. However, this analysis excludes a number of benefits that have not been quantified, including benefits from credit provided for off-farm income generating activities and livestock benefits to households outside the AIP.

6. **Government budgetary implications and cost recovery.** The Government will finance the basic salaries of all staff and there will be no incremental staff costs to government as project staff numbers will remain unchanged throughout the project period. The project will pay allowances to staff working full-time on project activities. In most cases, these costs will be an element in the annual contracts and therefore payment will be linked to the performance of a particular activity. Cost recovery will be achieved through the repayment of credit, while the PSP inputs will be repaid to the group for reuse by members during the following year and farmers will pay for vaccination and parasite control.

7. **Benefits and beneficiaries.** About 16 630 very poor households will benefit directly from the PSP programme (including 3 190 already targeted by CAREERE 2); and an additional 30 000 poor households will benefit in full from the AIP programme and from access to targeted credit. A much larger number of rural households will benefit from participation in extension groups, the strengthened animal health network, the activities of VLAs, and from the farmer field days which are open to all comers. Poor women farmers will benefit in particular as both core agricultural programmes address the issues of food security and on-farm income. Women often carry the burden for food insecure households and struggle to balance the many competing demands on their time and energy. Project activities have been analysed to check that households that are resource-poor, short of land (farm models 2 and 2A), short of labour (farm models 1, 1A and 2 A) and short of capital (all models) will be able to participate. The design of all activities reflects the findings of the analysis.