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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

RURAL POVERTY REDUCTION PROJECT IN PREY VENG AND SVAY RIENG

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CURRENCY EQUIVALENTS

Currency Unit	=	Cambodian riel (KHR)
USD 1.00	=	KHR 4 000
KHR 1.00	=	USD 0.00025

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 ac

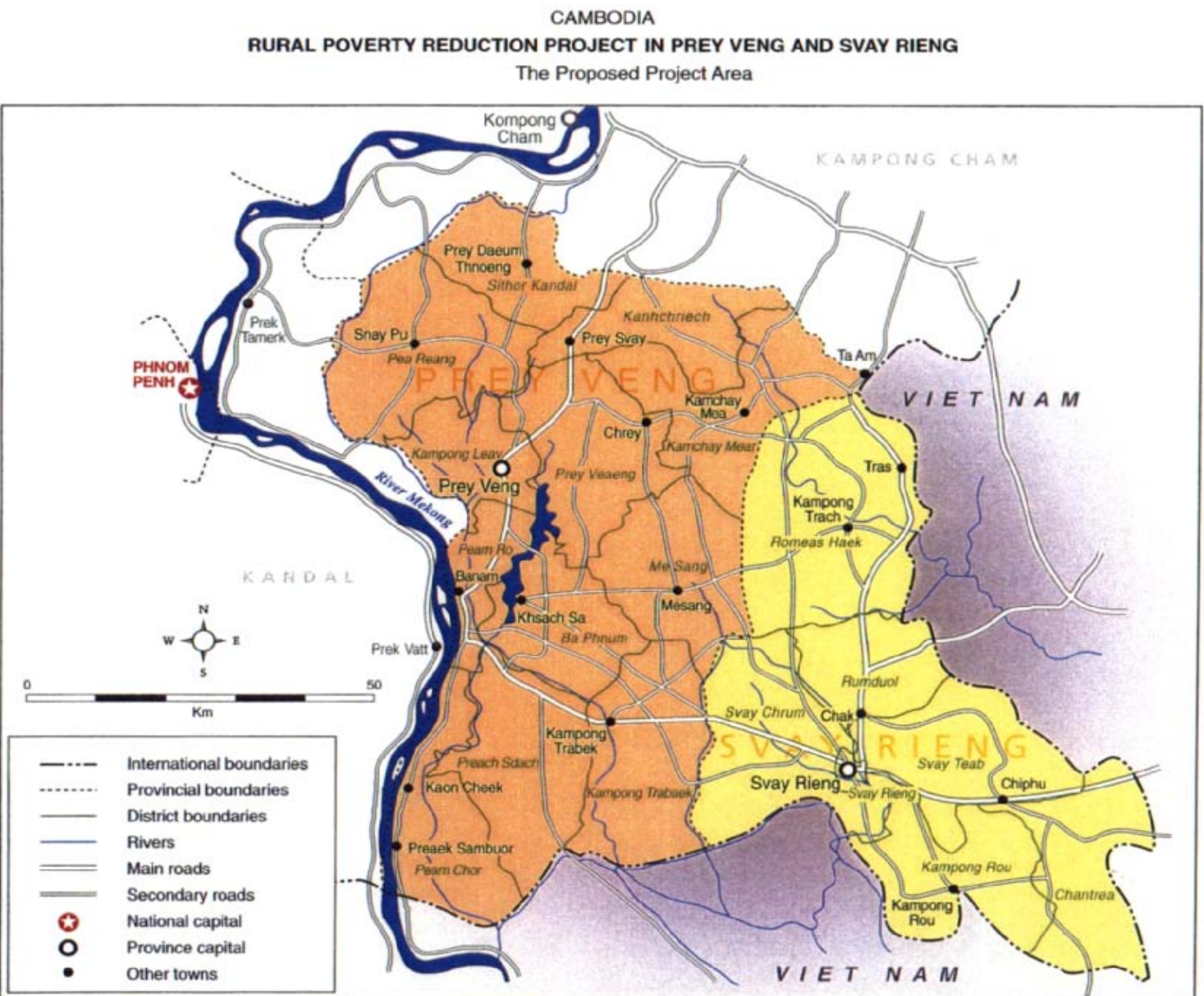
ABBREVIATIONS AND ACRONYMS

CEW	Commune Extension Worker
CIDF	Commune Infrastructure Development Fund
ExCom	Executive Committee (of the Provincial Rural Development Committee)
FSI	Farming Systems Improvement
LIG	Livelihood Improvement Group
M&E	Monitoring and Evaluation
MAFF	Ministry of Agriculture, Forestry and Fisheries
MEF	Ministry of Economy and Finance
NGO	Non-Governmental Organization
NREM	Natural Resource and Environment Management
PDAFF	Provincial Department of Agriculture, Forestry and Fisheries
PDWVA	Provincial Department of Women's and Veterans' Affairs
PRDC	Provincial Rural Development Committee
<i>Seila</i>	A Khmer word meaning 'foundation stone'; the name of the Government's programme for decentralized planning and development
STF	<i>Seila</i> Task Force

GOVERNMENT OF THE KINGDOM OF CAMBODIA**Fiscal Year**

1 January - 31 December

MAP OF 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.

KINGDOM OF CAMBODIA

RURAL POVERTY REDUCTION PROJECT IN PREY VENG AND SVAY RIENG

LOAN SUMMARY

INITIATING INSTITUTION:	IFAD
BORROWER:	Kingdom of Cambodia
EXECUTING AGENCY:	<i>Seila</i> Task Force Secretariat
TOTAL PROJECT COST:	USD 19.6 million
AMOUNT OF IFAD LOAN:	SDR 10.85 million (equivalent to approximately USD 15.5 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:	The World Food Programme and the Partnership for Local Governance (which is financed by the United Nations Development Programme, the Swedish International Development Authority and the Department for International Development of the United Kingdom)
AMOUNT OF COFINANCING:	World Food Programme: USD 2.4 million Partnership for Local Governance: USD 0.3 million
TERMS OF COFINANCING:	Grants
CONTRIBUTION OF BORROWER:	USD 0.5 million
CONTRIBUTION OF BENEFICIARIES:	USD 0.9 million
APPRAISING INSTITUTION:	IFAD
COOPERATING INSTITUTION:	United Nations Office for Project Services

PROJECT BRIEF

Who are the project beneficiaries? The target group comprises about 143 000 poor households, or 698 000 people, living below the poverty line and located in Prey Veng and Svay Rieng, which are the third and sixth poorest provinces, respectively, in the country. The target group includes: (a) the poorest households, which experience food shortages for six to nine months a year and have little land, or even no land, few livestock and many dependants; and (b) the poor, who have slightly more resources, but still experience food shortages for several months a year. Women are an important part of the target group because they play a major role in social and economic development through their productive, reproductive and community activities. The impact of the project on the target group in terms of poverty reduction is expected to contribute directly to the achievement of the Millennium Development Goals.

Why are they poor? Several factors contribute to poverty in the project area, including: (a) lack of access to sufficient productive resources, e.g. land and livestock, or alternative sources of employment, such as wage labour and off-farm income-generating activities; (b) lack of access to improved technologies and reliance on enterprises showing low productivity and an absence of market-oriented production; (c) lack of basic health services, low levels of literacy and numeracy, poor access to markets and input supplies, and lack of technical, financial and marketing support services; and (d) external shocks such as natural disasters, floods and droughts, which can push people into poverty by destroying their productive assets.

How would the project benefit the target group? The project would benefit the target group through: (a) the strengthening of the capacity of the poor, women and village and commune organizations so as to enable them to participate in decision-making processes and the planning and implementation of programmes for their own social and economic development; (b) the provision of agricultural support services and farmer-based extension programmes to improve productivity, income diversification and the market-oriented economy; (c) the provision of assets and inputs in kind and in cash to the poorest groups; (d) support for infrastructure investments in basic social services to improve the health and literacy of the poor; (e) support so that groups of farmers can gain access to financial services; (f) support for the creation of linkages with the private sector suppliers of agricultural inputs and of marketing and food processing services; and (g) institutional support so that local service providers can strengthen their service delivery capacity in a demand-driven and participatory manner.

How will the target group participate in the project? The project will adopt participatory development as the basic approach so as to ensure the ownership and sustainability of the project by the target group. The target group will participate in community development, participatory planning, field demonstrations, the training of farmers as village extension and veterinary workers, the construction of rural infrastructure, and water user and maintenance groups and committees. The target group will also participate in beneficiary monitoring and impact assessment and in decision-making at the village, commune, district and provincial levels. The target group will contribute to the construction of rural infrastructure and bear full responsibility for rural infrastructure operation and maintenance.

Innovative features include the following: (a) the project will use the Commune Infrastructure Development Fund to pilot decentralized institutional arrangements to channel funds to commune councils and for service delivery by public service providers in response to needs and priorities of the target group; (b) this is the first external-loan-funded project that will channel funds to commune council accounts within provincial treasuries through the National Treasury; (c) the *Seila* Task Force Secretariat will coordinate the project and, together with the Ministry of Agriculture, Forestry and Fisheries, will provide a channel and a forum for policy dialogue with the Government on issues involving the targeting of the poor, pro-poor resource allocation, decentralization and deconcentration in relation to agricultural development and rural poverty reduction.

REPORT AND RECOMMENDATION OF THE PRESIDENT OF IFAD

TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO THE

KINGDOM OF CAMBODIA

FOR THE

RURAL POVERTY REDUCTION PROJECT IN PREY VENG AND SVAY RIEN

I submit the following Report and Recommendation on a proposed loan to the Kingdom of Cambodia for SDR 10.85 million (equivalent to approximately USD 15.5 million) on highly concessional terms to help finance the Rural Poverty Reduction Project in Prey Veng and Svay Rieng. 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 as IFAD's cooperating institution.

PART I – THE ECONOMY, SECTORAL CONTEXT AND IFAD STRATEGY¹

A. The Economy and Agricultural Sector

1. The area of Cambodia is 177 000 km². The population of the country was 12.3 million in 2001; there were 2.2 million households, and the population density was 64 persons/km². The 2002 *Human Development Report* of the United Nations Development Programme (UNDP) ranks Cambodia 130th among 173 countries, with a Human Development Index of 0.543, 109th among 146 countries, with a Gender Development Index of 0.537 and 75th among 88 developing countries in terms of poverty, the second worst ranking in Asia. In 2002, 36.1% of the total population, or about 4.1 million people, was living below the poverty line, while 87% of the poor were living in rural households, and 43% of the rural population was living below the rural poverty line.

2. The gross national income per capita was USD 270 in 2001. In 2002, the growth in the gross domestic product (GDP) was 4.5%, with low inflation (3%) and a stable exchange rate. Agriculture accounted for 37% of total GDP in 2001, industry 20% and services 42%. The fiscal deficit was 5.9% of GDP, and the current account deficit was 8.1% of GDP. Foreign exchange reserves stood at 3.5 months' worth of imports. In 2002, the external debt² was about 12% of GDP, and debt service obligations represented 3.3% of the value of the exports of goods and services. A growth of 5% is expected in 2003 and 5.4% in 2004, with low inflation and a stable exchange rate.

3. Crops and fisheries accounted for 45.3% and 30.1% of agricultural GDP, respectively, followed by livestock, at 14.1%, and forestry, at 10.4%. The land used for agriculture is estimated at 2.7 million ha, about 15% of the total land area. Rice accounted for 84% of the cropped area in 2000, with 6% devoted to other food crops, 4% to industrial crops, and 6% to fruit and permanent crops. Agricultural productivity is low in terms of both labour and land. Livestock is an important subsector and provides draught power for cultivation, as well as for meat production and as a storehouse of wealth. The potential for the fisheries industry is large given the extensive bodies of water in the country, especially Tonle Sap Lake.

¹ See Appendix I for additional information.

² This excludes the external debt owed to the Russian Federation and the United States, which is about 80% of the total external debt and is not being serviced pending ongoing negotiations on rescheduling.

B. Lessons Learned from Previous IFAD Experience

4. The major lessons learned from the experience of IFAD and other development partners in Cambodia that have been taken into account in the project design and implementation arrangements include the following. (a) The livelihoods of the poor can be significantly improved through the provision of direct financial assistance, access to technology, financial services and markets, and intensive-capacity building. (b) While Cambodia still needs multisectoral interventions to tackle the causes of the widespread rural poverty, IFAD should cooperate with other partners in the provision of complementary services to the rural poor in order to achieve common objectives. (c) Proven crop and livestock technologies and appropriate extension approaches available in line with the national agricultural extension guidelines should be promoted to improve productivity. (d) Project design should be flexible so as to allow for uncertainties and risks during project implementation and to facilitate adjustments as experience is gained. (e) Beneficiaries should be fully involved in the planning, implementation and financing of project activities and assume responsibility for the operation and maintenance of investments in order to ensure sustainability and ownership.

C. IFAD's Strategy for Collaboration with Cambodia

5. **Cambodia's policy for poverty eradication.** The Government is committed to promoting poverty reduction and equitable development based on a market economy and external investment. The priorities of the national poverty reduction strategy are: (a) the promotion of income-earning and employment opportunities; (b) improvement in capabilities, institutional strengthening and enhanced governance; (c) the reduction of vulnerability; and (d) the promotion of gender equity.

6. **The poverty eradication activities of other major donors.** The economy remains dependent on outside assistance, with total disbursements of official development assistance of about USD 550 million in 2002. Planned official development assistance in 2002-04 by sector is 36% for the social sector, 7.6% for the economic sector (agriculture, manufacturing, trade and tourism), 34.7% for infrastructure and 21.7% for cross-sectoral programmes. The major donors in agriculture and rural development include Australia, Denmark, Germany, Japan, Sweden, the United Kingdom, the European Commission, the Asian Development Bank, the World Bank, IFAD and non-governmental organization (NGOs).

7. **IFAD's strategy in Cambodia.** IFAD's country strategy for Cambodia involves following a community-based approach that will: (a) focus on the household food and income security of the poor; (b) promote economic growth at the household and community levels by enabling local communities to manage their productive resources efficiently and sustainably; (c) promote a mechanism through which lessons learned and best practices become important agenda items in policy formulation at the provincial and national levels; and (d) develop implementation arrangements that will add value to development approaches by drawing on IFAD's experience in agricultural and rural development in many parts of the world. The project design has reflected the objectives of the Strategic Framework for IFAD 2002-2006, as well as the regional strategy.

8. **Project rationale.** The project rationale includes the following considerations. (a) The two provinces have, respectively, the third and sixth highest poverty rates in the country, and more than 40% of the population is living below the poverty Project Rationale line compared to 36.1% nationally. (b) There is an urgent need to increase agricultural productivity, diversify production and develop market-oriented agricultural systems to improve the livelihoods of the poor in the project area. (c) The government system for decentralization and deconcentration recently introduced in the project area provides the favourable policy environment and institutional framework necessary for successful decentralized and participatory rural poverty reduction initiatives. (d) There are opportunities to strengthen the capacity of the poor, the newly elected commune councils and other grass-roots organizations to enable them effectively to participate in their own social and economic

development. (e) The project can build upon the successful experiences of other projects and have a rapid, beneficial impact on the livelihoods of the poor through productivity improvements and rural infrastructure development. (f) The financing of small-scale infrastructure investments and basic social services in response to the priorities of the poor and local communities will help improve productivity and maximize the benefits of agricultural interventions. (g) The establishment of group revolving funds could help in tackling the issue of the indebtedness among the poor who do not have access to the financial services of microfinance institutions. (h) The provision of vocational training can improve income-earning opportunities for seasonal migrants. (i) Other ongoing and planned programmes in the project area could complement the effort to achieve the common objective of poverty reduction.

9. The project strategy will have the following goals: (a) to target poor communes, including those that are particularly vulnerable to flooding and drought; (b) to improve agricultural productivity and develop a market-oriented agriculture that has a rapid impact on household food and income security through a focus on market opportunities, diversification to reduce dependence on a single rice crop, greater livestock production and increased food production on homestead gardens; (c) to focus on capacity-building and empowerment among the poor and local organizations; (d) to finance rural infrastructure projects that are priorities in commune development plans; (e) to improve the off-farm employment opportunities for potential migrants and others through vocational training; (f) to develop the capacity of public service providers at the provincial and district levels so as to enable them to deliver services effectively to the target group in a demand-driven and participatory manner; (g) to mainstream gender concerns during project implementation; (h) to render systems and procedures operational for the decentralized planning, financing and implementation of agricultural and rural development programmes targeted at the rural poor; (i) to pilot the deconcentration of agency functions in agriculture; (j) to feed the lessons and innovations generated through the field operations of the project back into the government system so as to improve government policies for decentralized rural poverty reduction initiatives; and (k) to institutionalize participatory impact assessments and improve the effectiveness of rural poverty reduction investments.

PART II – THE PROJECT

A. Project Area and Target Group

10. **Project area.** The project area comprises the two provinces of Prey Veng and Svay Rieng in the south-east of Cambodia. There are 19 districts, 196 communes and 1 826 villages in the project area. The total land area is 7 680 km², 4% of the total area of the country, but the project area has a population of 1 424 million, or 12% of the national total, and a population density of 185 persons/km², nearly three times the national average. Ninety-five per cent of the population live in the countryside, and the average household size is 4.9 persons. The project area is extremely vulnerable to drought and abnormal floods from the Mekong River and Viet Nam. The rural economy is based on rainfed rice production, livestock and fisheries. Cultivation practices are traditional, with low yields of about 1.7 t/ha in Prey Veng and 1.5 t/ha in Svay Rieng. Livestock is the most important source of farm income after rice, but the production is constrained by high mortality rates. Aquatic resources are central to the livelihoods of poor households, and rice-field fishing is particularly important. Seasonal migration for employment is a major source of off-farm income for both men and women. Key features of the institutional landscape include: (a) the limited outreach and quality of public services; (b) the major role played by the private sector in terms of service provision, marketing and input supply; and (c) the key role played by traditional organizations.

11. The Government introduced decentralized planning, financing and implementation for rural development through the *Seila* programme in Prey Veng in 2000 and in Svay Rieng in 2002. The Provincial Rural Development Committee (PRDC) is responsible for the coordination of all rural development programmes in each province. Government support service providers for agricultural and rural development include the Provincial Department of Agriculture, Forests and Fisheries

(PDAFF), the Provincial Department of Rural Development and the Provincial Service of Water Resources and Meteorology.

12. **Target group.** The target group of the project will comprise the 698 000 people (about 143 000 households), or 49% of the population in the project area, who are living below the poverty line. Among these people, the project will target two main groups: (a) the poorest households, which experience food shortages for six to nine months a year, have little land, or even no land, few livestock and many dependants; and (b) the poor, who have slightly more resources, but still experience food shortages several months a year. Women are an important part of the target group because of their vulnerability and their major role in social and economic development. It is expected that, at full project development, about 120 600 households, or 591 000 people, equivalent to 41% of the population in the project area, will be benefiting directly from project assistance. The project's impact on the target group is expected to contribute to the achievement of the poverty reduction objectives of the Millennium Development Goals.

13. **Targeting.** The project will target a total of 148 communes in 13 districts in the two provinces where more than 40% of the population is living below the national rural poverty line. In view of the limited institutional capacity available locally, the agricultural investment component will target 84 of these 148 communes. The local development component will target all 148 communes. Within poor communes, the most vulnerable villages will be selected in a transparent way during discussions at the commune level involving representatives of all villages in the commune and the staff of all relevant line agencies. Through participatory wealth ranking, the project will target poor households and especially vulnerable groups within the villages.

14. **Gender.** Women account for more than 60% of the adult labour force. Women are less well educated than are men and show lower literacy rates. Girls are often removed from school early to help at home. The health status is poorer among women than among men because of poor post-delivery health care and because of excessive burdens of labour. The needs of women are often concealed by basic family needs. This makes it more difficult to address women's strategic needs, such as representation in decision-making at the community level and in leadership roles. Women are important agents of change in social and economic development.

B. Objectives and Scope

15. The strategic goal of the project is to reduce poverty among 120 600 households through the active participation of the poor in the achievement of improved livelihoods, strengthened capacity, sustainable farming systems and natural resource management, new or rehabilitated infrastructure, and greater access to technology, services and markets so as to enhance economic and social development. The project objectives are to enable: (a) poor households to increase food production and incomes through intensified and diversified crop and livestock production and other initiatives and to manage natural resources in a sustainable manner; (b) the rural poor to improve their capacity to plan and manage their own social and economic development, including rural infrastructure development; and (c) public and other service providers to support the rural poor in a participatory and gender-sensitive manner so that they can plan and carry out development programmes responsive to the priorities of the rural poor.

C. Components

16. The project will have three components: (a) agricultural investment, (b) local development, and (c) institutional support.

Agricultural Investment

17. The purpose of the component is to enable poor households to increase their food production and incomes through intensified and diversified crop and livestock production and other initiatives and to manage natural resources in a sustainable manner. The component will cover 84 poor communes and focus on the enhancement of the food security of the poor and the promotion of improvements in agricultural productivity, diversification and market-oriented agricultural development. It will promote crop diversification so as to reduce the dependency of poor households on a single rice crop, as well as increased livestock production and greater food production in homestead gardens. The project will rely on the national agricultural extension guidelines and participatory planning tools to identify the most applicable agricultural technology packages in which to invest. There are four sub-components: (a) livelihoods and agricultural improvement; (b) improvement of agriculture support systems; (c) natural resource and environment management (NREM); and (d) implementation support.

18. **Livelihoods and agricultural improvement.** This sub-component will consist of two branches – livelihood improvement groups (LIGs) and farming systems improvement (FSI) – that will target subgroups within the target group. The LIG branch will help the very poor, including the landless, by providing them with diverse opportunities to enhance household food security and incomes. Following an agro-ecosystem analysis and participatory wealth-ranking exercises, groups of about 25 very poor women and men farmers will be chosen to join in a three-year self-help programme. The poorest female-headed households and women with husbands absent for long periods will be a priority. The LIG branch involves the provision of: (a) an initial package of primarily agricultural inputs, but also non-agricultural inputs for the landless members; (b) materials for the construction by group members of a rice bank and an initial paddy stock to allow poor rice-deficient farmers to benefit from project assistance; (c) the establishment of a group revolving fund; (d) farmer training and support for extension and financial management; and (e) support for youth groups through technical training, greater community awareness, social and cultural events and a start-up fund for a group activity identified and agreed upon by group members. Supported by the district technical support teams and the provincial technical support team from each PDAPP, two (one man and one woman) commune extension workers (CEWs) will be posted to each commune to provide training and support to the LIGs and maintain links with the commune council and other agencies. Each LIG will receive intensive support for three years from the CEWs. Then, two village extension workers, one man and one woman selected by the group, will take over the extension functions. The FSI branch will consist of farmer training, demonstrations and extension. The group will select the type of demonstrations, while innovative farmers selected by the group will manage the demonstrations. Where possible, inputs for the demonstrations will be purchased from local suppliers, who will visit each demonstration and explain the correct use of the inputs. Farmer field days will be held to present the demonstration results to farming families in the village so as to encourage other farmers to adopt the improved technologies.

19. The **improvement of agriculture support systems** sub-component will improve the support and services provided to farmers through government agencies and the private sector. The project will aim to boost household livelihoods through improved livestock health care and productivity. The attempt to achieve this will involve: (a) the training and retraining of village animal health workers; (b) augmenting the supply of veterinary medicines and vaccines; and (c) support for the establishment of associations of village animal health workers at the district level. The project will develop a fresh fruit and vegetable improvement programme to: (a) identify the dynamics of the market place and possible marketing opportunities; (b) provide information on changing markets; (c) demonstrate

promising new varieties; (d) train households in production and in post-harvest handling and transport of fruit and vegetables of improved quality; and (e) pilot more effective wholesale and retail marketing. The project will also encourage input suppliers to begin fulfilling an extension role. The project will also: (a) support the PDAFFs in monitoring and the provision of regular market price information to market management committees and communes; (b) assist in the preparation of feasibility studies for group enterprises and assist groups in gaining access to credit through microfinance institutions; (c) operate an intern programme so that Cambodian students can examine technical and marketing issues and offer training to farmers; and (d) finance trials for new crops, varieties and technologies so as to address issues identified by the target group.

20. **Natural resource and environment management.** The project will support the *Seila* NREM mainstreaming strategy through capacity-building and the supply of funds for rice-field fisheries and other NREM-related pilot activities. The project will support the training of provincial technical support teams, district technical support teams, CEWs and commune councillors with the aim of introducing demand-driven NREM planning, land-use mapping, sustainable community-based natural resource management, soil and water management, environmental impact assessment and the monitoring of NREM.

21. **Implementation support.** The project will support a capacity-building programme for the PDAFFs, district PDAFF staff and CEWs in order to implement the agricultural investment component at the provincial, district, commune and village levels.

Local Development

22. The aim of this component is to enhance the capacity of the rural poor to plan, implement and manage their own social and economic development, including rural infrastructure development. The component will have three sub-components: (a) rural commune infrastructure investment; (b) support for commune and village planning and village-based organizations; and (c) technical contracts.

23. **Rural commune infrastructure investment.** There are two elements in this sub-component, namely: (a) the Commune Infrastructure Development Fund (CIDF) and the associated beneficiary training and capacity-building; and (b) implementation support and technical assistance. The CIDF will target 148 communes where 40% or more of the population is living below the poverty line. The funds provided will be in addition to the allocations to the Commune/*Sangkat* Fund by the Government or other sources. They will finance selected rural infrastructure projects that are part of commune development plans. Each commune will receive an average allocation of USD 5 000 per year for five years. The CIDF allocation can be used in conjunction with the Commune/*Sangkat* Fund or other sources of funding to finance eligible infrastructure investments. Of the total CIDF allocation, USD 500 per year will be reserved specifically for road maintenance, together with community contributions or commune council contributions from other sources. The project will support training among the members and leaders of existing or new user groups for the operation and maintenance of the completed facilities. District facilitation teams and provincial facilitation teams will be supported in undertaking the local planning process and providing training and support to user groups.

24. **Support for commune and village planning and village-based organizations** will involve: (a) assistance in commune and village-level planning; and (b) capacity-building among commune and village-based organizations, including the training of user groups. The project will finance: (a) additional training for commune councillors; (b) training for members of the commune planning and budget committees; and (c) training and capacity-building among other commune and village-based organizations. The project will finance vocational skills training so as to increase the opportunities for off-farm income-generation and to enhance the skills of seasonal migrants.

25. **Technical contracts.** The project will help finance: (a) detailed feasibility studies of selected potential irrigation schemes; (b) a groundwater survey in each province using data on existing wells;

and (c) continued groundwater monitoring. The Government would seek from other sources the investment funds required to finance any irrigation or flood-control schemes that have been shown to be technically feasible, economically and financially viable and environmentally sustainable.

Institutional Support

26. The goal of this component is to enable public and other service providers at all levels to support the rural poor, in a participatory and gender-sensitive manner, in the planning and implementation of development programmes that respond to the priorities of these people. The component consists of: (a) support for decentralization and gender mainstreaming at the provincial level; and (b) support for decentralization and deconcentration at the national level. Gender mainstreaming; the piloting of the deconcentration of agency functions to commune councils in agriculture; the establishment of operational systems and procedures for decentralized planning, financing and implementation; and the strengthening of the role of IFAD in policy dialogue with the Government on decentralization and deconcentration will be important parts of the component. The responsibility for project planning, financing, implementation and management will be decentralized to the provincial governments, while the *Seila* Task Force (STF) Secretariat will be responsible for national-level support, coordination and donor liaison.

D. Costs and Financing

27. **Project costs.** Total project costs, including contingencies, duties and taxes, are estimated at a little more than USD 19.6 million. The proposed project completion date will be seven years from the date of loan effectiveness, and the proposed loan closing date will be six months after the project completion date.

TABLE 1: SUMMARY OF PROJECT COSTS^a
(USD '000)

Component	Local	Foreign	Total	Foreign Exchange	% of Base Costs
A. Agricultural investment					
–Livelihoods and agricultural improvement	3 303	1 018	4 320	24	23
–Farming systems improvement	1 086	231	1 317	18	7
–Improvement of agriculture support systems	307	45	352	13	2
–Natural resource and environment management	134	47	181	26	1
–Implementation support	1 984	843	2 827	30	15
Subtotal	6 814	2 184	8 997	24	47
B. Local development					
–Rural commune infrastructure investment ^b	4 640	2 121	6 761	31	36
–Support for commune and village planning and village-based organizations	594	0	594	-	3
–Technical contracts	448	112	560	20	3
Subtotal	5 681	2 233	7 915	28	42
C. Institutional support					
–Provincial project support for decentralization and gender mainstreaming	456	262	718	36	4
–Provincial <i>Seila</i> programme support	363	60	423	14	2
–National project support for decentralization and deconcentration	655	244	899	27	5
Subtotal	1 474	565	2 039	28	11
Total base costs	13 969	4 982	18 951	26	100
–Physical contingencies	60	31	91	34	-
–Price contingencies	455	122	578	21	3
Total project costs	14 484	5 136	19 620	26	104

^a Discrepancies in totals are due to rounding.

^b Includes the CIDF and World Food Programme Food Assistance.

28. **Project financing.** The project will be financed through a proposed IFAD loan of about USD 15.5 million, a grant from the Partnership for Local Governance of about 0.3 million, food-for-work assistance of the World Food Programme of the equivalent of about USD 2.4 million, a beneficiary/commune council contribution of about USD 0.9 million and a government contribution equivalent to almost USD 0.5 million. In addition, the Government will continue to pay the salaries of the project staff who are government employees, equivalent to an additional USD 0.6 million.

29. **Retroactive financing.** Through retroactive financing arrangements, before the date of loan effectiveness, but after 31 July 2003, the Government may make payments for agreed eligible expenditures not exceeding USD 105 000, consisting of (a) the various planning workshops that will enable initial project activities to be included in the provincial and commune development plans for 2004; (b) staff selection processes; (c) project staff training needs assessment; and (d) staff allowances and operating costs for the project staff involved in project start-up activities.

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

Component	IFAD		Partnership for Local Governance		World Food Programme		Commune Councils/ Beneficiaries		Government		Total		Foreign Exchange	Local (excluding taxes)	Duties and Taxes
	Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%			
A. Agricultural investment															
Livelihoods and agricultural improvement	4 495.29	100.0	-	-	-	-	-	-	-	-	4 495.29	22.9	1 056.81	3 438.48	-
Farming systems improvement	1 368.95	100.0	-	-	-	-	-	-	-	-	1 368.95	7.0	240.50	1 128.45	-
Improvement of agriculture support systems	367.46	100.0	-	-	-	-	-	-	-	-	367.46	1.9	47.04	320.42	-
Natural resource and environment management	190.10	100.0	-	-	-	-	-	-	-	-	190.10	1.0	49.78	140.32	-
Implementation support	2 474.32	83.0	172.13	5.8	-	-	-	-	333.78	11.2	2 980.23	15.2	891.87	1 849.26	239.09
Subtotal	8 896.12	94.6	172.13	1.8	-	-	-	-	333.78	3.6	9 402.02	47.9	2 286.00	6 876.93	239.09
B. Local development															
Rural commune infrastructure investment ^b	3 515.00	51.1	-	-	2 439.49	35.4	930.38	13.5	-	-	6 884.87	35.1	2 144.75	4 740.12	-
Support for commune and village planning and village-based organizations	619.52	100.0	-	-	-	-	-	-	-	-	619.52	3.2	-	619.52	-
Technical contracts	582.13	100.0	-	-	-	-	-	-	-	-	582.13	3.0	116.43	465.70	-
Subtotal	4 716.64	58.3	-	-	2 439.49	30.2	930.38	11.5	-	-	8 086.51	41.2	2 261.17	5 825.34	-
C. Institutional support															
Provincial project support for decentralization and gender mainstreaming	639.23	85.1	22.74	3.0	-	-	-	-	89.23	11.9	751.20	3.8	273.58	401.29	76.34
Provincial <i>Seila</i> programme support	435.53	100.0	-	-	-	-	-	-	-	-	435.53	2.2	60.33	375.20	-
National project support for decentralization and deconcentration	805.78	85.3	70.85	7.5	-	-	-	-	68.13	7.2	944.76	4.8	254.47	630.37	59.92
Subtotal	1 880.55	88.2	93.59	4.4	-	-	-	-	157.35	7.4	2 131.49	10.9	588.37	1 406.86	136.26
Total project costs	15 493.30	79.0	265.72	1.4	2 439.49	12.4	930.38	4.7	491.13	2.5	19 620.02	100.0	5 135.54	14 109.13	375.35

^a Discrepancies in totals are due to rounding.

^b Includes the CIDF and World Food Programme Food Assistance.

E. Procurement, Disbursement, Accounts and Audit

30. The **procurement** of goods and services financed through the IFAD loan will be undertaken in accordance with IFAD Procurement Guidelines and procedures. The procurement of contracts financed through the CIDF will follow the Commune/*Sangkat* Fund Project Implementation Manual. Unless otherwise agreed by IFAD, each contract for the supply of vehicles estimated to cost USD 100 000 equivalent or more will be awarded on the basis of limited international bidding. Each contract valued at less than the equivalent of USD 20 000 will follow local shopping procedures, while those valued in excess of the equivalent of USD 20 000 will follow local competitive bidding procedures open to international suppliers. Contracts valued at the equivalent of USD 60 000 or more will require prior review by the cooperating institution.

31. **Disbursement.** A special account in USD will be opened in a bank acceptable to IFAD, with an authorized allocation of USD 1.5 million. Disbursements for contracts costing in excess of USD 20 000 will require detailed documentation. Disbursements for contracts costing less than USD 20 000 will be made against statements of expenditure.

32. **Accounts and audits.** The STF Secretariat, the Ministry of Agriculture, Forestry and Fisheries (MAFF) and each executive committee (ExCom) of the PRDCs will operate two separate accounts for the IFAD and Borrower financing of project operations (each being a project account). The STF Secretariat, MAFF, each ExCom, each implementing agency, the National Treasury and each provincial treasury will maintain appropriate financial records and accounts in accordance with sound accounting principles so as to reflect the progress of the project and track resources, operations and expenditures. The accounts relating to the project will be audited annually by an independent external auditor acceptable to IFAD in accordance with the International Standards on Auditing. The audited financial statements, including separate opinions on the statements of expenditure and the operations of the special account, project accounts, the CIDF account in the National Treasury, the commune council accounts in the provincial treasuries and the government counterpart fund account, will be submitted to IFAD each year until the completion of the project. A copy of the annual government audit of the Commune/*Sangkat* Fund accounts in Prey Veng and Svay Rieng will be submitted by the STF Secretariat and the Ministry of Economy and Finance (MEF) to IFAD, its cooperating institution and the external auditors.

F. Organization and Management

33. The project implementation and management responsibilities will be decentralized to the provincial governments within the framework of the Government decentralization policy. At the national level, project organization will involve STF, the STF Secretariat, MEF, the Ministry of Women's and Veterans' Affairs (MWVA) and MAFF. In each of the two provinces, project implementation will involve: (a) PRDC, ExCom and its management units, PDAFF, the Provincial Department of Women's and Veterans' Affairs (PDWVA) and other provincial implementing agencies as they become necessary; (b) the district-based staff of these provincial agencies; (c) commune councils and their committees and administrations; and (d) villages self-help and user groups and associations and village-based organizations. Private sector contractors will carry out all construction work. NGOs may be contracted to assist and train beneficiary user groups. Specialist technical support and training as required under contracts will be provided through national and provincial agencies and other projects.

34. **Beneficiary participation.** The target group will participate in community development, participatory planning, field demonstrations, the training of farmers as village extension and veterinary workers, the construction of rural infrastructure, and water user and maintenance groups and committees. They will participate in beneficiary monitoring and impact assessment, as well as decision-making processes at the village, commune, district and provincial levels. They will contribute to the construction of rural infrastructure and bear full responsibility for the related operation and maintenance.

35. **Monitoring and evaluation (M&E) and impact assessment.** In cooperation with the ExComs, implementing agencies and members of the target group, the STF Secretariat will establish a project M&E system that will extend from the village to the provincial and national levels. The M&E system will cover the *Seila* system, which is compatible with the IFAD guidelines for project M&E. Participatory impact assessment will cover 2% of the target villages every year.

G. Economic Justification

36. **Beneficiaries and benefits.** At full project implementation, the total number of beneficiaries will be over 120 600 households, equivalent to 591 000 people, or 41% of the population in the project area. Increased crop and livestock production and higher incomes among poor and very poor households will be the main project benefits that are directly quantifiable. Other benefits include improved household food security, enhanced gender awareness, nutrition and health, better access to services and markets, and improved infrastructure. Additional benefits will derive from the project's capacity-building programme.

37. **Gender and household food security.** The project will have a positive impact on gender relations and household nutrition and food security. The project will enhance the role of women as agents of change and bring about a gradual transformation of gender relations during the process of social and economic development. All staff training programmes will include gender awareness, analysis and monitoring components. Priority will be given to women in the selection of the staff for the project (50% of the CEWs, village extension workers and farmer field school participants and 100% of the caretakers of drinking water systems will be women). Some activities will be targeted specifically towards women, such as chicken and pig production, post-harvest storage and processing, the nutrition and health of women and children, and literacy and numeracy training for women. Enhanced drinking water supplies will benefit women by reducing the time they spend in the collection of water and through improvements in the health status of families. As a result of the adoption of more productive crop and livestock production technologies, poor households will be able to become self-sufficient in rice and to have more diversified diets and, hence, better family food security. Post-harvest and processing activities will similarly assist in the reduction of losses and improvements in the nutritional status of poor households.

38. **Financial analysis.** Five farm models have been prepared for the analysis of the impact of the project on the incomes of target group households. The models show increases in total household incomes ranging from 83-181%, while the average returns to farm labour also increase significantly. Farmers should have an incentive to adopt the improved crop and livestock production practices because the incremental returns to labour range from USD 2.20 to 3.70 per day and exceed the opportunity costs of labour during the cropping season by a substantial amount.

39. **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 crop and livestock production and infrastructure investments in 84 communes. Additional non-quantified benefits would accrue from the investments financed through the CIDF in the other 64 communes and from those households in the 84 communes that benefit from the infrastructure, but do not participate in the agricultural programmes. The overall economic rate of return, including all costs and quantified benefits, is 19%. Switching values at a discount rate of 12%, the assumed opportunity costs of capital in Cambodia indicate that the project could sustain a 21% reduction in benefits or a 26% increase in project costs before it would become uneconomic.

H. Risks

40. There are no major technical risks associated with the project. The proposed agricultural extension approach has been successfully used elsewhere in Cambodia in similar social, economic and agro-ecological situations. The infrastructure investments that CIDF is likely to finance will be

technically simple and, for the most part, follow standard and proven designs. Inadequate institutional capacity at the commune council level could be a major risk for the success of the project. Therefore, prior to project start-up, the Government will provide additional training to commune council members and commune clerks. Also, the project design comprises a major training programme, which relies on local technical assistance, NGOs, or other service providers and includes in-service technical and managerial training for members of the commune councils, the staff of the ExCom management units and implementing agencies, and provincial and National Treasury accountants. As the coordinating agency for all rural development activities in the provinces, the PRDCs should be able to identify potential synergies with other programmes and avoid potential staff overloads during the annual planning process. An additional risk relates to the ability of the commune councils and user groups to operate and maintain the infrastructure financed through the CIDF. This risk has been addressed by including appropriate staff and beneficiary training and by following a participatory approach towards the planning and implementation of project infrastructure investments.

I. Environmental Impact

41. Overall, the project will not have any irreversible impact on the environment. The development proposals are sustainable and do not involve the use of large quantities of fertilizers or agrochemicals, the abstraction of large quantities of water, the construction of reservoirs, the development of large-scale irrigation schemes, or the clearing of forests. The project will promote the use of existing supplies of water, mostly rainfall, and increase the production of vegetable by-products and manure. The project proposals are in line with the *Seila* NREM mainstreaming strategy and include a NREM sub-component. The project will address groundwater issues by financing: (a) a comprehensive groundwater survey; and (b) a groundwater monitoring programme. The road improvements will involve the upgrading of existing tracks, and layouts will include an adequate number of cross drainage structures so as to ensure that no damage is done to the local hydrology.

J. Innovative Features

42. The innovative features of the project include the following in terms of IFAD in Cambodia: (a) The project will use the CIDF to pilot decentralized institutional arrangements for the channelling of funds to the commune councils and for service delivery by public service providers in response to the needs and priorities of the target group. (b) This is the first external loan-funded project that will channel funds to commune council accounts in provincial treasuries through the National Treasury. (3) The STF Secretariat will coordinate the project and, together with MAFF, will provide a channel and a forum for policy dialogue with the Government on issues related to the targeting of the poor, pro-poor resource allocation, and decentralization and deconcentration in relation to agricultural development and rural poverty reduction.

PART III – LEGAL INSTRUMENTS AND AUTHORITY

43. 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.

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

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

PART IV – RECOMMENDATION

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

46. RESOLVED: that the Fund shall make a loan to the Kingdom of Cambodia in various currencies in an amount equivalent to ten million eight hundred and fifty thousand Special Drawing Rights (SDR 10 850 000) to mature on or prior to 15 December 2043 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.

Lennart Båge
President

**SUMMARY OF IMPORTANT SUPPLEMENTARY ASSURANCES
INCLUDED IN THE NEGOTIATED LOAN AGREEMENT**

(Loan negotiations concluded on 29 October 2003)

1. **Availability of loan proceeds.** The Government of the Kingdom of Cambodia (the Government) will make the proceeds of the loan available to carry out the project in accordance with the annual workplans and budgets (AWP/Bs) as follows:

- (a) to the STF Secretariat and the project support unit, as a grant, by disbursement from the special account into the appropriate project account in United States dollars, quarterly in advance;
- (b) to the ExComs, as a grant, by disbursement from the special account into the appropriate project account in United States dollars, quarterly in advance; and
- (c) to the national treasury, as a grant, by disbursement from the special account into the appropriate project account in Cambodian riels to finance the activities under the CIDF sub-component.

2. **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 490 000 in accordance with its customary national procedures. For such purpose, as soon as practicable but in no event later than 30 days after the effective date of the project loan agreement, the Government will make available counterpart funds in an initial amount of USD 33 000 to assist in financing the first six months of project implementation in accordance with the respective AWP/B, as follows:

- (a) to the STF Secretariat and the project support unit, as a grant in United States dollars, by deposit into the appropriate project accounts. Thereafter, the Government will replenish such project accounts by depositing the counterpart funds called for in the AWP/B for the relevant project year, annually in advance; and
- (b) to the ExComs, as a grant in United States dollars, by deposit into the appropriate project accounts. Thereafter, the Government will replenish such project accounts by depositing the counterpart funds called for in the AWP/B for the relevant project year, semi-annually in advance.

3. **Gender.** The Government will ensure that gender concerns are mainstreamed in all project activities throughout the project implementation period, and in particular that: (i) the project will promote the role of women as agents of change in local social and economic development; (ii) priority will be given to women farmers to train as farmer extension agents, voluntary animal health workers and managers of drinking water systems and rural access roads; (iii) the project will encourage women farmers to take on leadership roles and participate in decision-making both within the family and at the community level; and (iv) priority will be given to qualified women to work as project staff.

4. **National budget.** The Government will ensure that adequate provisions for financing the project will be included in the national budget each financial year during the project implementation period, based on the projected AWP/B for each such year.

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. **Agricultural extension programme.** The Government will ensure that adequate human and financial resources are provided to sustain the crop and livestock extension programmes in the project area until at least three years after the project completion date.

7. **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.

8. **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.

9. **Insurance.** The Government will insure project personnel against health and accident risks in accordance with its customary practice in respect of its national civil service. The Government will insure all vehicles and equipment used in connection with the project against such risks and in such amounts as may be consistent with sound practice. The Government may, in either case, finance such insurance from the proceeds of the loan.

10. **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.

11. **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 that 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 levels.

12. **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.

13. **Key project staff.** The Government will recruit and appoint key project staff with such qualifications and experience, and in accordance with such competitive and transparent procedures and criteria, as the Government may propose and IFAD may agree. The Government will provide qualified project staff in adequate numbers with experience and qualifications satisfactory to IFAD, including, inter alia, staff of the ExComs, PDAFFs and PDWVAs working full-time for the project at the provincial, district and commune levels in the project area. The Government will not remove any key project staff, until at least the completion of the mid-term review, except on grounds of unsatisfactory job performance. Unless otherwise agreed by IFAD, the Government will not remove any key project staff without prior consultation with IFAD at least three months in advance. The term “key project staff” includes, inter alia, the project coordinator, finance and planning/monitoring and

evaluation officers of the STF Secretariat, the assistant to the liaison officer of MEF, planning and finance officers of MAFF, gender mainstreaming officers of the Ministry of Women's and Veterans' Affairs, the component manager and heads of the provincial technical support staff (PTSS) and district technical support staff (DTSS) of each PDAFF, the sub-component manager of each PDWVA and the chief of each ExCom.

14. **Technical assistance.** The Government will endeavour to secure further technical assistance for the project from the Partnership for Local Governance, its successor or other sources, after 31 December 2005 until the end of the project implementation period.

15. **World Food Programme food-for-work assistance.** The Government will endeavour to secure further such food-for-work assistance for the project after 31 December 2006 until the end of the project implementation period.

16. **Financing of the operating costs of the provincial decentralization structure.** The Government will, from 1 January 2006 until the end of the project implementation period, be responsible for the financing of the costs of operations of the PRDC structure and the ExCom management units, including the support to the commune planning process and technical support for investments planned by the commune councils, either from its own resources or from other sources of financing.

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 through 2005, the Partnership for Local Governance fails or ceases to provide its financing for the project; or
- (b) at any time through 2006, the World Food Programme fails or ceases to provide its financing for the project.

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

- (a) the Government shall have appointed the project coordinator, two finance officers and two planning and monitoring officers to the STF Secretariat;
- (b) the Government shall have appointed the assistant to the liaison officer of MEF;
- (c) the ExCom of each province shall have been fully staffed with the adequate number of qualified staff;
- (d) the MAFF shall have appointed the component manager in each province, and the PDAFF of each province shall have appointed the head of the provincial technical support team and the head of the district technical support team, and staffed the teams with the adequate number of qualified staff;
- (e) the AWP/B for the first project year shall have been duly approved;
- (f) the Government shall have duly opened the special account, counterpart funds account and project accounts;
- (g) the Government shall have confirmed to IFAD that counterpart funds will be available in the national budget for transfer to the STF Secretariat, the project

ANNEX

support unit and the ExComs to assist in financing the first 12 months of project implementation;

- (h) a memorandum of understanding among MEF, STF, MAFF and the provincial governments 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, STF, MAFF and the provincial governments shall have been duly authorized or ratified by all necessary corporate, administrative and governmental action;
- (i) 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; and
- (j) 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.

APPENDIX I

COUNTRY DATA
CAMBODIA

Land area (km² thousand) 2001 a/	177	Gross national income per capita (USD) 2001 a/	270
Total population (million) 2001 a/	12.27	Gross national product per capita growth (annual %) 2000 a/	2.2 b/
Population density (people per km²) 2001 a/	69	Inflation, consumer prices (annual %) 2001 a/	-1
Local currency	Riel (KHR)	Exchange rate: USD 1 =	KHR 4 000 in May 2003
Social Indicators		Economic Indicators	
Population (average annual population growth rate) 1980-2000 c/	2.8	GDP (USD million) 2001 a/	3 384
Crude birth rate (per thousand people) 2000 a/	30	Average annual rate of growth of GDP c/	
Crude death rate (per thousand people) 2000 a/	12	-1980-90	n.a.
Infant mortality rate (per thousand live births) 2000 a/	88	-1990-2000	6.9
Life expectancy at birth (years) 2000 a/	54		
		Sectoral distribution of GDP, 2001 a/	
Number of rural poor (million, approximate) a/	5.3	-% agriculture	37 b/
Poor (as % of total rural population) c/	43.1	-% industry	20 b/
Total labour force (million) 2001 a/	6.47	-% manufacturing	6 b/
Female labour force (as % of total) 2001 a/	52	-% services	42 b/
Education		Consumption, 2001 a/	
School enrolment, primary (% gross) 2001 a/	102 b/	General government final consumption expenditure (as % of GDP)	6 b/
Adult illiteracy rate (% age 15 and above) 2001 a/	32	Household final consumption expenditure, etc. (as % of GDP)	90 b/
Nutrition		Gross domestic savings (as % of GDP)	8 b/
Daily calorie supply per capita, 1997 d/	2 048		
Malnutrition prevalence, height-for-age (% of children under 5) 2001 a/	45 b/	Balance of Payments (USD million)	
Malnutrition prevalence, weight-for-age (% of children under 5) 2001 a/	45 b/	Merchandise exports, 2001 a/	1 531
		Merchandise imports, 2001 a/	1 476
		Balance of merchandise trade	55
Health		Current account balance (USD million)	
Health expenditure, total (as % of GDP) 2001 a/	7 b/	-before official transfers, 2001 a/	304.5
Physicians (per thousand people) 1999 a/	0 b/		b/
Population using improved water sources (%) 2000 e/	30	-after official transfers, 2001 a/	-19.3
Population with access to essential drugs (%) 1999 e/	0-49		b/
Population using adequate sanitation facilities (%) 2000 e/	18	Foreign direct investment, net, 2001 a/	n/a
Agriculture and Food		Government Finance	
Food imports (% of merchandise imports) 2000 a/	n/a	Overall budget deficit (including grants) (as % of GDP) 2001 a/	n/a
Fertilizer consumption (hundreds of g per ha of arable land) 1999 a/	21	Total expenditure (% of GDP) 2001 a/	n/a
Food production index (1989-91=100) 2000 a/	142	Total external debt (USD million) 2000 a/	2 357
Cereal yield (kg per ha) 2001 a/	2134	Present value of debt (as % of gross national income) 2000 a/	62
		Total debt service (as % of exports of goods and services) 2000 a/	2
Land Use		Lending interest rate (%) 2001 a/	17
Arable land (as % of land area) 1999 a/	21	Deposit interest rate (%) 2001 a/	4
Forest area (km ² thousand) 2000 a/	#VALUE		
	!		
Forest area (as % of total land area) 2000 a/	53		
Irrigated land (as % of cropland) 1999 a/	7		

a/ World Bank, *World Development Indicators* database (as of 20/02/2003).

b/ Data are for years or periods other than those specified.

c/ World Bank, *World Development Indicators*, 2002.

d/ UNDP, *Human Development Report*, 2000.

e/ UNDP, *Human Development Report*, 2002.

PREVIOUS IFAD FINANCING 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	World Bank: IDA	World Bank: IDA	HC	11 Sep 96	22 Sep 97	30 Jun 04	L - I - 423 - KH	SDR	3 300 000	70%
Agricultural Development Support Project to <i>Seila</i>	IFAD	UNOPS	HC	08 Sep 99	16 Feb 00	30 Sep 06	L - I - 513 - KH	SDR	6 350 000	76%
Community-Based Rural Development Project in Kampong Thom and Kampot	IFAD	UNOPS	HC	07 Dec 00	29 Mar 01	30 Sep 08	L - I - 551 - KH	SDR	7 850 000	34%

Note: HC = highly concessional.

IDA = International Development Association (World Bank Group).

UNOPS = United Nations Office for Project Services.

LOGICAL FRAMEWORK

Objective Hierarchy	Performance Indicators and Targets	Means of Verification	Assumptions/Risks
<p>Strategic Goal Poverty reduction of 120 600 households, with active participation of the poor, through improved livelihoods, strengthened capacity, sustainable farming systems and natural resource management, new or rehabilitated infrastructure development and increased access to technology, services and markets for economic and social development.</p>	<p>³</p> <ul style="list-style-type: none"> Per capita income increased in relation to the poverty line of USD 95 per capita. Stunting of children under 5 in relation to 51% in Prey Veng and Svay Rieng. Underweight children under 5 in relation to 57% in Prey Veng and 46% in Svay Rieng. Acute malnutrition of children under 5 in relation to 15% in Prey Veng and 13% in Svay Rieng. Decrease in maternal and child mortality rates. 	<ul style="list-style-type: none"> Household income and expenditure surveys. Nutrition surveys disaggregated by gender. Participatory impact assessments. M&E system of the national poverty reduction strategy. 	<ul style="list-style-type: none"> Political stability and security maintained. Limited internal or external shocks to the economy. Decentralization and deconcentration remain government policies.
<p>Project Objectives</p> <p>1. Poor households are able to sustain increased food production and incomes deriving from intensified and diversified crop and livestock production and other sources and manage their natural resources in a sustainable manner.</p> <p>2. The rural poor have improved capacity to plan, implement and manage their own social and economic development, including infrastructure development.</p> <p>3. Public and other service providers are able to support the rural poor (men and women) in a participatory and gender-sensitive way so as to plan and carry out development programmes that respond to the priorities of the rural poor.</p>	<ul style="list-style-type: none"> Incomes from crop and livestock production increased by about 83% for 25 200 of the poorest households by project year 7 (PY7), with an additional 15 120 indirect beneficiaries expected. Incomes from crop and livestock production increased by 100-180% for 25 200 poor households by PY10, with an additional 7 560 indirect beneficiaries expected. Improvements in rice-field fisheries and other NREM activities benefit 15 650 households directly and 14 175 households indirectly. Commune councils, village-based organizations and households in 148 poor communes are better able to engage in participatory planning and local development programmes. By PY7, commune councils and households in 148 poor communes are able to operate and maintain new/rehabilitated CIDF-financed rural infrastructure investment projects. Poor households in 148 poor communes have participated in the planning and implementation of rural infrastructure investment programmes by PY7. Services of decentralized and deconcentrated government agencies and others are able to support commune councils, village-based organizations and user groups in 148 poor communes in planning, financing, implementing, operating and maintaining new or rehabilitated infrastructure by PY7. Agricultural and NREM extension services of PDAFFs and other agencies are able to support poor households in 84 poor communes in planning and implementing agricultural and NREM activities by PY7. Decentralized and deconcentrated structures and procedures are functioning effectively in the commune councils and at the provincial and national levels. 	<ul style="list-style-type: none"> Project annual reports and completion report. Participatory impact assessments. Commune database. <i>Seila</i> M&E system. 	<ul style="list-style-type: none"> Political stability and security maintained. Limited internal and external shocks to the economy. Progress in land law implementation and titling. Decentralization and deconcentration remain government policies. A participatory approach to rural development remains government policy.
<p>Outputs</p> <p>A. Agricultural Investment</p> <p>1. Farmer groups able to use improved technologies and services.</p>	<ul style="list-style-type: none"> In 84 poor communes, 1 008 LIGs and 25 200 members are using improved crop and livestock production technologies by PY5, each with a functioning group revolving fund. In 84 poor communes 1 008 FSI groups and 25 200 members are trained (1 008 farmer field schools) and using improved crop and livestock production technologies by PY5, 	<ul style="list-style-type: none"> Project progress reports. Annual project workplans and budgets, midterm review, CDB, 	<ul style="list-style-type: none"> Project activities designed to reduce impact of drought and floods. Proven and acceptable

³ Indicators at the goal level are to be compared with those current at the start of the project.

Objective Hierarchy	Performance Indicators and Targets	Means of Verification	Assumptions/Risks
	and, by PY7, 3 024 demonstrations are held and results evaluated.	participatory impact assessment, and project completion report. • Data on # of groups, demonstrations and farmer field schools disaggregated by gender.	technologies and approaches are available.
2. Agricultural support systems effectively assist farmers implement improved farming systems.	<ul style="list-style-type: none"> • Two CEWs (one man and one woman) recruited, trained and operating in each of the 84 poor communes by PY3, and two village extension workers (one man and one woman) recruited, trained and operating in each village by PY7. • Village animal health system strengthened through the recruitment, training and equipping of 200 new animal health workers in PY1, and refresher training provided to 400 existing village animal health workers. • Adaptive research contracted; improved market management and information system in place, and training provided to agricultural input suppliers. 	<ul style="list-style-type: none"> • Same as above. • Data on number of CEWs, village extension workers and village animal health workers disaggregated by gender. 	Same as above.
3. Use of natural resources by farmers is environmentally sustainable.	<ul style="list-style-type: none"> • In 84 poor communes, the capacity of commune councils for NREM developed through training, etc., and funds provided for NREM investments. • In 84 poor communes, 100 pond and 5 lake refuges established and operating effectively by PY7. 	Same as above.	Same as above.
4. PDAFF staff in the two provinces assist farmers in an effective and efficient manner.	<ul style="list-style-type: none"> • A provincial technical support team established, trained and equipped in each province in PY1. • A district technical support team established, trained and equipped by PY2 in each of 13 districts. • Two national agricultural extension technical assistants recruited for each province (one crops and one livestock) in PY1. • Starting in PY2, participatory impact assessments undertaken in 2% of the villages. 	Same as above.	Same as above.
B. Local Development			
1. Rural infrastructure, e.g. small-scale irrigation and water management schemes, village roads, and drinking water schemes, has been built or rehabilitated.	<ul style="list-style-type: none"> • In 148 poor communes, commune councils have financed the construction/rehabilitation of the small-scale infrastructure investments included in their commune development plans by PY7, and user groups trained to operate and maintain the schemes. • Groundwater levels monitoring conducted in both provinces throughout the project period. • A groundwater survey covering both provinces is carried out. • Feasibility studies for potential flood control and water management schemes are undertaken. 	<ul style="list-style-type: none"> • Project progress reports. • Annual project workplans and budgets, midterm review and project completion report. • Data on number of beneficiaries and trainees disaggregated by gender. 	<ul style="list-style-type: none"> • Rural infrastructure remains a high priority for the commune councils. • Major floods destroy infrastructure.
2. Commune councils and village-based organizations are functioning effectively, with the equitable involvement of women and men in decision-making, assuming responsibilities for the planning, financing and implementation of poverty reduction initiatives.	<ul style="list-style-type: none"> • In 148 poor communes, commune councils, village-based organizations and user groups have improved capacity to sustain their own social and economic development programmes by PY7. • In 148 poor communes, the councillors are fulfilling their poverty reduction mandate by preparing appropriate plans and budgets following the training of councillors and planning and budget committee members and the recruitment, training and deployment of six additional district facilitation teams and six additional technical support staff. • In 13 poor districts, poor men, women and youths have acquired employment skills following participation in the vocational training programmes held each year. 	Same as above.	Same as above.
C. Institutional Support			

Objective Hierarchy	Performance Indicators and Targets	Means of Verification	Assumptions/Risks
<p>At provincial level:</p> <p>1. ExComs operating effectively and efficiently.</p> <p>2. Gender is mainstreamed.</p>	<ul style="list-style-type: none"> • Following the provision of additional equipment, staff and training, ExComs are able to support the 148 poor communes in social and economic development programmes. • Treasury accountants able to handle CIDF funds and procedures efficiently. • Participatory impact assessments carried out in 2% of all villages each year starting in PY2. • Gender mainstreaming activities carried out in all years (training, analysis, and training and impact monitoring) by PDWVA assisted by MWVA. • Provincial project M&E system includes gender indicators. 	<p>Same as above.</p>	<ul style="list-style-type: none"> • STF and STF Secretariat or a successor remain in place. • Partnership for Local Governance, a successor, or Government will support the PRDC/ExCom structures and costs beyond 2005. • Decentralization and deconcentration remain government policies.
<p>At national level:</p> <p>1. Project effectively and efficiently implemented according to government decentralization and deconcentration procedures.</p> <p>2. MAFF is able effectively and efficiently to support the PDAFFs.</p> <p>3. MAFF develops policy initiatives for decentralization and deconcentration in support of agricultural development and rural poverty reduction.</p> <p>4. MWVA is able effectively and efficiently to support the PDWVAs in gender mainstreaming within rural poverty reduction programmes.</p>	<ul style="list-style-type: none"> • Sound financial management systems in place from the start of PY1; staff trained. • M&E system operational within six months of loan effectiveness. • STF Secretariat provides policy guidance, coordination and knowledge-sharing. • Training, technical support, policy guidance, etc., provided to PDAFFs. • Lessons learned guide policy formulation at national and provincial levels. • MWVA provides support for gender mainstreaming in the two provinces. 	<p>Same as above.</p>	<p>Same as above.</p>

COSTS AND FINANCING
Expenditure Accounts by Component – Base Costs (USD '000)

	Agricultural Investment				Local Development				Institutional Support				Total
	Livelihood Improvement	Farming Systems Improvement	Improvement of Agricultural Support Systems	Natural Resource and Environment Management	Implementation Support	Commune Investment	Support for Communes and Villages	Technical Contracts	Provincial Project Support for Decentralization and Gender Mainstreaming	Provincial <i>Seila</i> Programme Support	National Project Support for Decentralization and Deconcentration		
I. Investment costs													
A. Office buildings	-	-	-	-	21.92	-	-	-	-	-	-	21.92	
B. Vehicles	-	-	-	-	80.52	-	-	-	80.52	-	90.59	251.63	
C. Motorcycles	-	-	-	-	394.62	-	-	-	21.74	-	-	416.36	
D. Equipment	-	-	-	-	86.70	-	-	-	90.59	-	26.17	203.45	
E. Materials	3 433.76	801.66	113.74	165.93	-	-	-	-	14.65	-	-	4 529.74	
F. CIDAD	-	-	-	-	-	3 700.00	-	-	-	-	-	3 700.00	
G. Food assistance, transport and handling /a	-	-	-	-	-	2 439.49	-	-	-	-	-	2 439.49	
H. Technical and service contracts	133.43	-	64.57	-	-	-	-	582.13	-	-	-	780.12	
I. Training and studies													
Farmer training	928.11	567.29	183.97	-	40.24	-	-	-	-	-	-	1 719.60	
Staff training	-	-	5.18	-	89.60	-	-	-	9.70	-	3.30	107.77	
User group and vocational training	-	-	-	-	-	-	357.77	-	-	-	-	357.77	
Planning and facilitation training	-	-	-	24.17	-	-	261.75	-	15.98	-	-	301.89	
Studies and consultation	-	-	-	-	-	-	-	-	67.91	-	233.48	301.39	
<i>Seila</i> training	-	-	-	-	-	-	-	-	-	234.44	-	234.44	
Subtotal: training and studies	928.11	567.29	189.14	24.17	129.84	-	619.52	-	93.59	234.44	236.78	3 022.88	
J. Technical assistance													
International	-	-	-	-	-	-	-	-	-	-	70.85	70.85	
National	-	-	-	-	374.33	-	-	-	38.34	-	-	412.67	
Subtotal: technical assistance	-	-	-	-	374.33	-	-	-	38.34	-	70.85	483.52	
Total investment costs	4 495.29	1 368.95	367.46	190.10	1 087.92	6 139.49	619.52	582.13	339.43	234.44	424.38	15 849.10	
II. Recurrent costs													
A. Staff allowances /b	-	-	-	-	1 034.14	-	-	-	208.07	-	356.26	1 598.47	
B. Operation and maintenance													
Vehicles	-	-	-	-	547.31	-	-	-	149.60	-	124.10	821.01	
Office consumables and equipment	-	-	-	-	205.64	-	-	-	39.78	-	30.90	276.32	
Office utilities and buildings	-	-	-	-	105.21	-	-	-	14.32	-	9.12	128.65	
Infrastructure	-	-	-	-	-	745.38	-	-	-	-	-	745.38	
Subtotal: operation and maintenance	-	-	-	-	858.16	745.38	-	-	203.71	-	164.12	1 971.36	
C. <i>Seila</i> programme staff allowances and operating expenses	-	-	-	-	-	-	-	-	-	201.09	-	201.09	
Total recurrent costs	-	-	-	-	1 892.30	745.38	-	-	411.78	201.09	520.37	3 770.92	
	4 495.29	1 368.95	367.46	190.10	2 980.23	6 884.87	619.52	582.13	751.20	435.53	944.76	19 620.02	
Taxes	-	-	-	-	239.09	-	-	-	76.34	-	59.92	375.35	
Foreign exchange	1 056.81	240.50	47.04	49.78	891.87	2 144.75	-	116.43	273.58	60.33	254.47	5 135.54	

ORGANIZATION AND MANAGEMENT

A. Project Organization and Executing Agencies

1. Project implementation and management responsibilities will be decentralized to the provincial governments. They will remain in line with the government system and procedures for decentralized development planning, financing and implementation. At the national level, the project organization will involve the STF, STF Secretariat, MEF, MWVA and MAFF. In each of the two provinces, project implementation will involve: (a) PRDC, ExCom and the associated management units, PDAFF, PDWVA and other provincial line agencies as necessary; (b) the district-based staff of these provincial line agencies; (c) commune councils, their committees and administrations; and (d) village self-help and user groups and associations and village-based organizations. Private sector contractors will implement all construction work. NGOs may be contracted to assist and train beneficiary user groups. National and provincial agencies and staff from other projects will provide specialist technical and training support, as required, under contract.

B. Project Implementation Arrangements

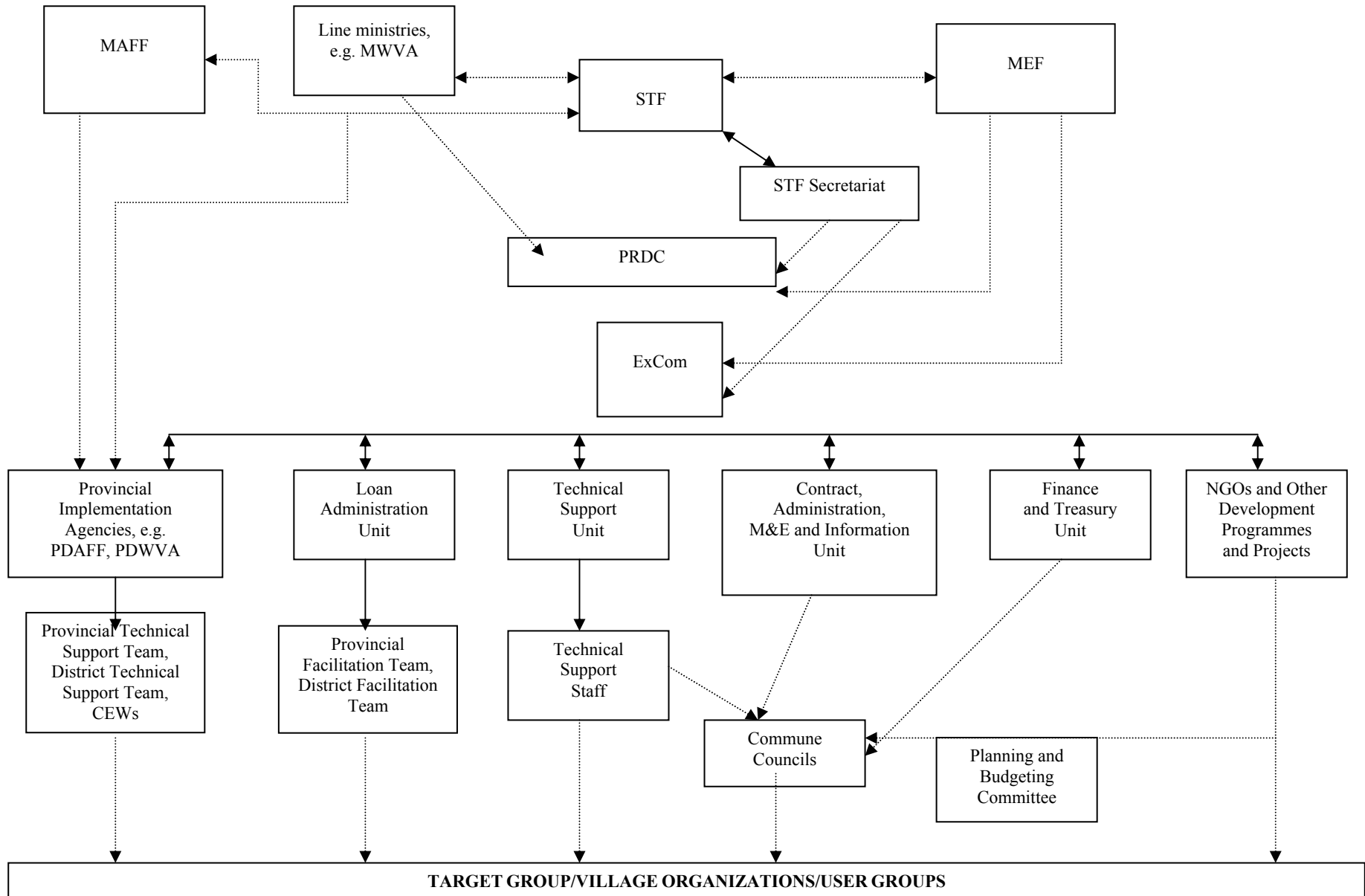
2. **Implementation procedures.** The implementation of the project will be carried out through the contracting system between the PRDC and provincial implementing agencies and service providers. The ExComs and their management units will be responsible for the coordination of the implementation of the agreed project activities in accordance with the loan agreement and the Memorandum of Understanding between the STF Secretariat, MEF, MAFF and the provincial governments. The Memorandum of Understanding sets out the responsibilities for project implementation and the procedures for planning and budgeting, financing, loan disbursement, reporting, procurement, the preparation of accounts and auditing. In each province, the PDAFF will implement the agricultural investment component in accordance with an annual contract with the PRDC, while the use of the funds made available through the CIDF will follow the procedures of the Commune/*Sangkat* Fund Project Implementation Manual.

3. **Planning.** The project will be guided by the local participatory planning process of the Government for the village, commune, district, provincial and national levels for data collection, the identification of problems and solutions, setting priorities and subproject formulation. Each implementing agency will prepare an annual workplan and budget for the forthcoming year based on the participatory planning process. The agreed district plans prepared during the district integration workshops, which will determine where the various infrastructure investments will be made and the locations of the various crop and livestock demonstrations, will form the basis of the provincial annual workplans and budgets. The PRDCs will review these workplans and budgets for inclusion in the provincial investment programmes and, subsequently, submit the provincial workplans and budgets to the STF Secretariat for consolidation and eventual endorsement by the STF and insertion in the national public investment programmes and budgets.

4. **The phasing of project interventions.** To ensure a smooth introduction of the CIDF, 50 communes will have access to the funds in project year 1 (PY1), increasing to 100 in PY2 and 148 in PY3. For the agricultural investment component, the project cannot start in all 13 districts and 84 communes at the same time because the staff will not be familiar with the proposed activities and an initial training and orientation programme will be required. Therefore, in PY1, the agricultural investment related to the project will be started in one commune in each of the nine districts. In PY2, project activities will be undertaken in the remaining four districts and in a further 33 communes. In PY3, the project will begin in the remaining 42 communes. Within each commune, the formation of farmer groups will be phased over a three-year period, and the number of LIG and FSI groups being intensively supported, under a three year programme, will increase from 72 in PY1 to a maximum of 1 608 in PY4 before declining to 336 in PY7.

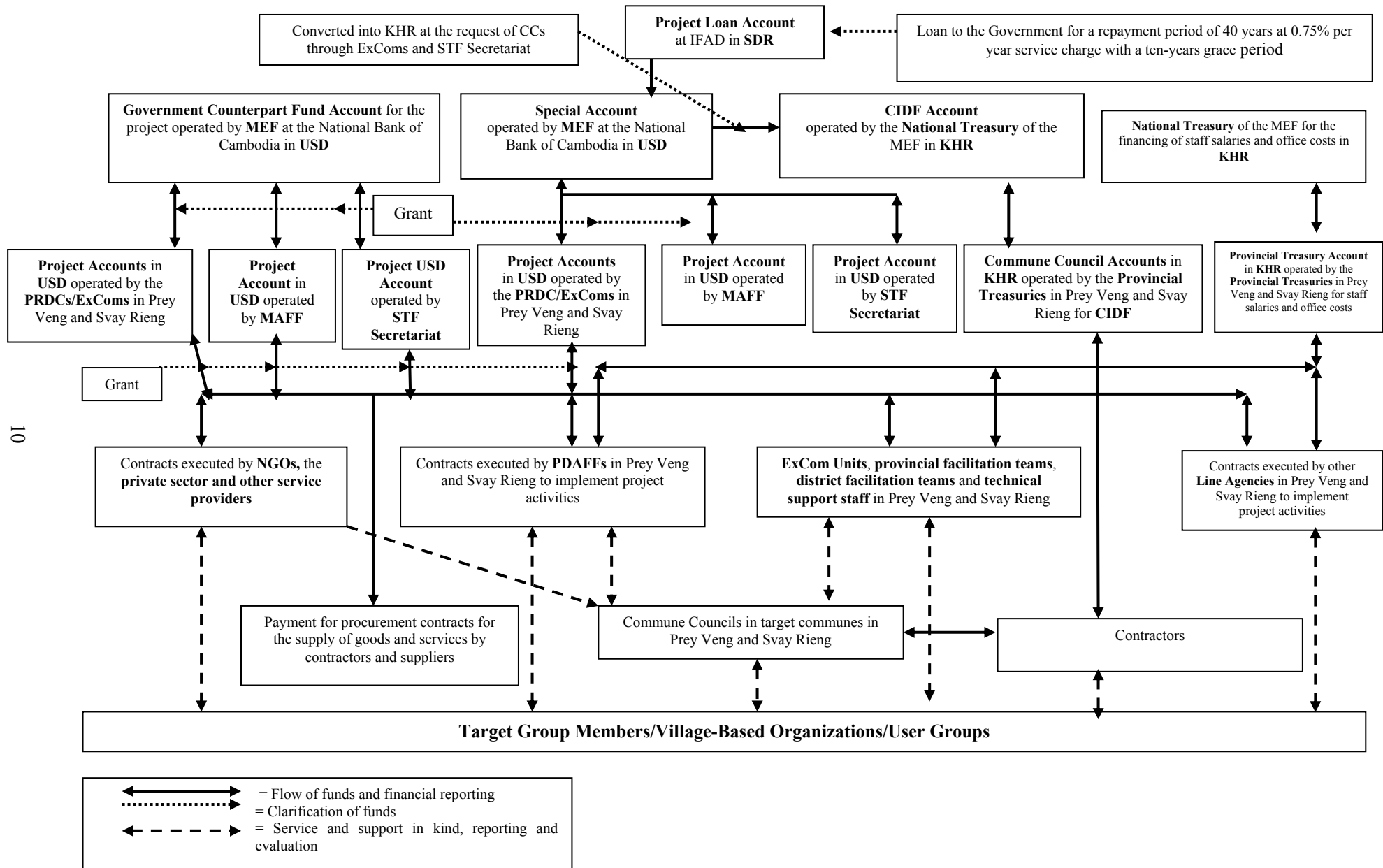
5. Chart 1 shows the structure of the project organization and the links between the implementing agencies and the project target group. Chart 2 shows the flow of funds from IFAD to the target group.

CHART 1: THE STRUCTURE OF PROJECT ORGANIZATION STRUCTURE



←····→ Coordination
 → Support, facilitation and services
 ↔ Reporting

CHART 2: FLOW OF FUNDS



10

ECONOMIC AND FINANCIAL ANALYSIS

A. Financial Analysis

1. Five farm models have been prepared for an analysis of the impact of the project on the income of target group households. Table 1 calculates the benefits and returns to labour for land-based activities with and without the project, while Table 2 shows the benefits and returns to labour with estimates of non-farm income.

TABLE 1: ON-FARM BENEFITS AND RETURNS TO ON-FARM LABOUR

Model Type of Farm Household	Without Project			With Project			Difference	
	Total Farm Income (USD) /a	Total On-Farm Labour (days)	Return to On-Farm Labour (USD/day)	Total Farm Income (USD)	Total On-Farm Labour (days)	Return to On-Farm Labour (USD/day)	Farm Income (%)	Return per Incremental Day (USD)
Very poor, less than 1 ha, mostly lowland, no draught animal, 2 adult labourers, LIG members								
Farm Model 1	148	123	1.21	444	181	2.45	201	3.47
Farm Model 2: labour constraints	148	123	1.21	442	181	2.47	200	3.45
Farm Model 3: less land	102	82	1.24	424	169	2.52	317	3.64
Poor, less than 1.5 ha, mostly lowland, a pair of draught animals, 2 adult labourers, FSI groups								
Farm Model 4	289	305	0.95	889	401	2.36	208	2.17
Farm Model 5: no draught animals	215	205	1.55	820	282	3.26	281	3.65

^a Excluding non-farm income in both the 'with' and 'without' project situations.

TABLE 2: HOUSEHOLDS BENEFITS AND AVERAGE RETURNS TO LABOUR

Model Type of Farm Household	Without Project			With Project			Difference	
	Total Household Income (USD) /a	Total Household Labour (days)	Return to Household Labour (USD/day)	Total Household Income (USD)	Total Household Labour (days)	Return to Household Labour (USD/day)	Household Income (%)	Return per Incremental Day (USD)
Very poor, less than 1 ha, mostly lowland, no draught animal, 2 adult labourers, LIG members								
Farm Model 1	346	354	0.98	634	405	1.57	83	1.63
Farm Model 2: labour constraints	258	261	0.99	519	274	1.90	101	7.77
Farm Model 3: less land	312	326	0.96	622	401	1.55	100	1.33
Poor, less than 1.5 ha, mostly lowland, a pair of draught animals, 2 adult labourers, FSI groups								
Farm Model 4	386	428	0.90	961	468	2.05	149	3.73
Farm Model 5: no draught animals	327	345	0.95	919	402	2.29	181	3.18

^a Including farm and non-farm income in both the 'with' and 'without' project situations.

2. The models show increases in total household incomes ranging from 83-181%, while the average returns to farm labour also increase significantly. Farmers should have an incentive to adopt the improved crop and livestock production practices because the incremental returns to incremental labour range from USD 2.20 to 3.70 per day and exceed the opportunity cost of labour (USD 1.00 per day at peak periods) during the cropping season by a significant amount. Labour should not be a constraint because households with two people working, of whom one is only available for 50% of the time, can provide the extra labour required and more. The analysis shows that a farm family with one working member and with less than 1.0 ha should also be able to provide all the labour required. This type of household, with a 'without project' annual household income of USD 258, is living well below the poverty line. The household has a good incentive to adopt improved crop and livestock

technology, with an annual household income of USD 519 (101% increase), which would take it above the poverty line.

B. Economic Analysis

3. 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 incremental crop and livestock production and infrastructure investments in 84 communes. Additional non-quantified benefits would accrue from the investments financed by the CIDF in the other 64 communes and from those households in the 84 communes that benefit from the infrastructure, but do not participate in the agricultural programmes. An independent evaluation of the types of investment likely to be financed by the CIDF shows internal economic rates of return ranging from 13 to 56%, with an average of 27%. Cost streams have been adapted from the annual project costs and include: (a) the costs of training and technical assistance and all institutional support costs; (b) the cost of support services beyond the life of the project; and (c) the costs associated with the *Seila* system of decentralized planning, financing and implementation, without which the projects investment programme could not operate.

4. The overall economic rate of return, including all costs and quantified benefits, is 19%. A switch of the values at a discount rate of 12% – the assumed opportunity cost of capital in Cambodia – indicates that the project can sustain a 21% reduction in benefits or a 26% increase in project costs before it will become uneconomic.

C. Benefits and Beneficiaries

5. The project will have both direct and indirect benefits. Increased crop and livestock production and increased incomes among poor and very poor households will be the main, directly quantifiable benefits of the project. Other benefits include improved household food security, gender awareness, and nutrition and health, better access to services and markets, and enhanced infrastructure. Additional benefits will be generated by the project's capacity-building programme. At full implementation in PY10, the estimated annual incremental production would be -1 815 t of paddy, 6 650 t of maize, 3 904 t of Mung bean, 25 058 tons of vegetables, 5 670 t of cassava and sweet potato, 2 335 t of fruit, 1 391 liveweight t of pigs, 2 579 liveweight t of chickens and 1 955 t of eggs.

6. At full implementation in PY10, the total number of beneficiaries will be over 120 600 households, equal to 591 000 people, or 41% of the population in the project area. The total estimated number of households directly benefiting from the project's LIGs and FSI group activities is 50 400 and from the rice-field fisheries 15 650. In addition, there will be a significant number of indirect beneficiaries, i.e. those people who subsequently adopt improved technology, and this number is an estimated 22 680 for agriculture and 14 175 for rice-field fisheries. If the infrastructure investments financed through the CIDF benefit all households in the 148 communes, the number of beneficiaries will be 220 076 households, equivalent to 1.1 million people.

