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Enabling poor rural people
to overcome poverty

President's report

Proposed loan and grant to the Kingdom of Cambodia for the

Tonle Sap Poverty Reduction and Smallholder Development Project

Executive Board — Ninety-eighth Session
Rome, 15-17 December 2009

For: **Approval**

Note to Executive Board Directors

This document is submitted for approval by the Executive Board.

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Abbreviations and acronyms

AsDB Asian Development Bank

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed financing to the Kingdom of Cambodia for the Tonle Sap Poverty Reduction and Smallholder Development Project, as contained in paragraph 35.

Map of the project area

Cambodia

Tonle Sap Poverty Reduction and Smallholder Development Project



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

Map compiled by IFAD

Kingdom of Cambodia

Tonle Sap Poverty Reduction and Smallholder Development Project

Financing summary

Initiating institution:	Asian Development Bank (AsDB)
Borrower/Recipient:	Kingdom of Cambodia
Executing agency:	Ministry of Agriculture, Forestry and Fisheries
Total project cost:	US\$55.30 million
Amount of IFAD loan:	SDR 4.25 million (equivalent to approximately US\$6.69 million)
Amount of IFAD grant:	SDR 4.25 million (equivalent to approximately US\$6.69 million)
Terms of IFAD loan:	40 years, including a grace period of 10 years, with a service charge of three fourths of one per cent (0.75 per cent) per annum
Cofinancier(s):	AsDB Government of Finland
Amount of cofinancing:	AsDB: US\$3.40 million (loan) AsDB: US\$27.30 million (grant) Government of Finland: US\$5.74 million (grant)
Contribution of borrower:	US\$5.47 million
Appraising institutions:	AsDB and IFAD
Cooperating institution:	AsDB

Proposed loan and grant to the Kingdom of Cambodia for the Tonle Sap Poverty Reduction and Smallholder Development Project

I. The project

A. Main development opportunity addressed by the project

1. The project will assist local communities in: (i) establishing livelihood improvement strategies for resource-poor farming households; (ii) enhancing the productivity of these households and diversifying household economic activities through improved productive service delivery and integrated farming systems; (iii) creating on- and off-farm livelihood opportunities; and (iv) developing access to markets through improved rural infrastructure. The project is designed to trigger broad-ranging development with beneficiaries participating directly in planning and executing growth and poverty reduction initiatives. It will also strengthen deconcentrated agricultural support service functions particularly at the commune and district levels. The project will finance eligible investments in physical assets and capacity development activities included in the commune development plans.

B. Proposed financing

Terms and conditions

2. Cambodia is eligible under the Debt Sustainability Framework (DSF) to receive IFAD financing on the basis of a 50 per cent loan and a 50 per cent grant. It is proposed that IFAD provide to the Kingdom of Cambodia a loan in the amount of SDR 4.25 million (equivalent to approximately US\$6.69 million), on highly concessional terms, and a grant in the amount of SDR 4.25 million (equivalent to approximately US\$6.69 million) to help finance the project. The loan will have a term of 40 years, including a grace period of 10 years, with a service charge of three fourths of one per cent (0.75 per cent) per annum.

Relationship to the IFAD performance-based allocation system (PBAS)

3. The country allocation for Cambodia under the PBAS 2007-2009 cycle is US\$23.02 million. One project was approved by the ninetieth session of the Executive Board in April 2007 with a total amount of IFAD financing equivalent to US\$9.52 million under the DSF. A further DSF country grant of US\$115,000 was approved in 2007 to support the most vulnerable families under the ongoing project. The proposed financing of US\$13.38 million for the project falls within the total country allocation for Cambodia.

Country debt burden and absorptive capacity of the State

4. In 2006 total debt service amounted to about 0.58 per cent of goods and services exports. In 2007 concessional loans accounted for 94 per cent of the country's total debt. Cambodia services its loans regularly and has a relatively good absorptive capacity. The country received four highly concessional loans and one grant from IFAD between 1996 and the end of 2008 for a total amount of SDR 34.18 million (approximately US\$52.65 million). At the end of September 2009, two projects had closed and three were ongoing, with SDR 27.97 million disbursed (approximately US\$44.32 million), or 81.8 per cent of total commitment.

Flow of funds

5. IFAD financing will be channelled to two first-generation¹ imprest accounts operated by the project executing agency, and to two second-generation imprest accounts

¹ A first-generation imprest account (FGIA) is an account opened in the name of the executing agency, which receives funds from the financiers for the transfer of funds to second-generation imprest accounts for project expenditures incurred by the executing agency. The FGIA shall be a separate bank account opened for the exclusive use of the project.

and separate bank accounts operated by the project implementing agencies at the national and subnational levels.

Supervision arrangements

6. IFAD financing will be administered by the Asian Development Bank (AsDB) as the cooperating institution.

Exceptions to IFAD General Conditions for Agricultural Development Financing and operational policies

7. In line with the harmonization principles embodied in the Paris Declaration on Aid Effectiveness, it is proposed that IFAD adopt the AsDB's policies and procedures for procurement, disbursement, accounts, audit and use of consulting services. This implies a waiver of the relevant sections of IFAD's General Conditions for Agricultural Development Financing in favour of the AsDB's policies and procedures.

Governance

8. The following planned measures are intended to enhance the governance aspects of the IFAD financing: (i) full compliance with the anticorruption policies of both AsDB and IFAD; (ii) strict financial management with independent audit and monitoring and reviews; (iii) training and technical assistance in procurement and financial management for all implementing agencies, supported by close monitoring and review of procurement and financial management conduct; (iv) operation of project funding subject to the Government's accountability framework; and (v) operation of a system of contracts between the provincial authorities and the subnational level implementing agencies and other service providers to improve accountability.

C. Target group and participation

Target group

9. In accordance with the IFAD Policy on Targeting, the project will benefit about 630,000 households (or approximately 2.5 million people) in 196 communes located in 28 districts of Banteay Meanchey, Kompong Cham, Kompong Thom and Siem Reap in the Tonle Sap basin. The majority of households in the project communes involved in agricultural production have less than 1.0 hectare of usable agricultural land and are resource-poor smallholders.

Targeting approach

10. Within the target communes, the project will target: (i) poorer villages where there is potential for increasing agricultural productivity; and (ii) within the target villages, resource-poor households identified through participatory wealth-ranking exercises.

Participation

11. The establishment of a participatory planning process in each commune will ensure that the target group's priorities for social and economic development are included in project support, specifically in the areas of capacity-building, skills training, technology transfer, improvement of food security and agricultural productivity, on- and off-farm income-generating activities, the development of market-oriented production and rural infrastructure. Target group members will also participate in monitoring project performance and assessing project impact.

D. Development objectives

Key project objectives

12. **The overall** goal of the project is to improve the livelihoods of the resource-poor households in the four target provinces in the Tonle Sap basin by 2020. The objective is to increase agricultural productivity and improve access to markets in these four provinces. Expected improvements include: better agricultural support and improved access to rural financial services, increasing diversification of household economic activities, the creation of on- and off-farm livelihood opportunities and enhanced rural infrastructure.

Policy and institutional objectives

13. The project will support the commune councils in their economic development and in the articulation of key policies and associated regulations designed to improve smallholder agricultural productivity, such as: (i) policies related to best agricultural practices; and (ii) a subdecree for farmers' associations based on the relevant Royal Decree. In addition, the project will support the undertaking of studies in relation to the national seed law, and the use and regulation of genetically modified organisms and hybrid seeds. The project will also develop the capacity of local officials to implement existing laws related to land, water, forestry and fisheries, and current policies for improving natural resources management, expanding private-sector participation and increasing support for smallholders and agribusinesses.

IFAD policy and strategy alignment

14. The project design is in line with the IFAD Strategic Framework 2007-2010 and the country strategy for Cambodia, particularly in terms of promoting better and sustainable access to: (i) natural resources; (ii) improved agricultural technologies and effective production services; (iii) enhanced rural financial services; (iv) transparent and competitive agricultural input and produce markets; (v) opportunities for rural off-farm employment and enterprise development; and (vi) local and national policy and programming processes.

E. Harmonization and alignment

Alignment with national priorities

15. The project is aligned with the National Strategic Development Plan 2006-2010 and the Government's Rectangular Strategy II.

Harmonization with development partners

16. Development partners were consulted on the project design through the in-country technical working groups on agriculture and water, and on decentralization and deconcentration. The project will complement several other programmes and collaborate in particular with: (i) the Project to Support Democratic Development through Decentralization and Deconcentration; (ii) the Natural Resource Management and Livelihoods Programme; (iii) the programme for Regional Economic Development: Green Belt, Siem Reap Province; and (iv) the Cambodia Agricultural Value Chain Program implemented in conjunction with the Government of Australia.

F. Components and expenditure categories

Main components

17. The project has three components: (i) commune development; (ii) improved agricultural policy environment; and (iii) effective project management.

Expenditure categories

18. The main expenditure categories are: civil works (21.2 per cent); livelihood group inputs (11.9 per cent); extension services (15.0 per cent); rural information and communication technology (11.6 per cent); equipment, vehicles and furniture (3.5 per cent); capacity development and training (3.4 per cent); surveys, monitoring and auditing (4.5 per cent); consulting services (8.5 per cent); incremental staff (14.0 per cent); and operation and maintenance (6.4 per cent).

G. Management, implementation responsibilities and partnerships

Key implementing partners

19. The key implementing partners will be: (i) members of the target group; (ii) village-based organizations and commune councils; (iii) the provincial and district staff of the Provincial Department of Agriculture, Forestry and Fisheries and the Provincial Department of Information and Communication Technology Development in each project province; (iv) NGOs and private-sector service providers; and (v) the Ministry of Agriculture, Forestry and Fisheries, the National Committee for Sub-

National Democratic Development (NCDD) Secretariat and the National Information Communications Technology Development Authority (NiDA) at the national level.

Implementation responsibilities

20. The Ministry of Agriculture, Forestry and Fisheries will be the executing agency for the project, with a development coordination unit responsible for coordinating with other national agencies, provincial agencies and development organizations. The Ministry of Agriculture, Forestry and Fisheries will also act as an implementing agency responsible for implementing the policy development component and providing technical backstopping in agriculture. As implementing agencies, NCDD Secretariat will be responsible for providing support to the commune councils and the subnational level institutions, and NiDA will be responsible for implementing the rural information and technology-related activities. In collaboration with selected NGOs, the commune councils, together with the provincial and district staff for agriculture and information communications technology development, will implement the activities related to the commune development component. NGOs and private-sector service providers will be contracted to assist and train beneficiary user groups and provide other services. National-level agencies will provide specialist technical and training support as required. The Council for Agricultural and Rural Development (CARD) will perform the functions of the project steering committee for policy guidance and coordination.

Role of technical assistance

21. In addition to the technical assistance delivered under the Government's decentralization and deconcentration programme, the project will provide technical assistance to the institutions at the provincial and national levels in the areas of management, procurement and finance, agriculture, policy development and climate change adaptation. The objective is to provide technical backstopping and advice to local staff to enhance their capacity and the quality of their service delivery.

Status of key implementation agreements

22. The project financing agreement will govern project implementation. There will be an inter-agency memorandum of understanding between the implementing agencies at the national and sub-national level and a project administration manual will be prepared during the project start-up phase.

Key financing partners and amounts committed

23. The total project cost is US\$55.30 million over seven years. The sources of financing are IFAD (US\$6.69 million loan and US\$6.69 million grant, total US\$13.38 million, 24.2 per cent), AsDB (US\$3.40 million loan and US\$27.30 million grant, total US\$30.70 million, 55.5 per cent), Government of Finland (US\$5.74 million grant, 10.4 per cent) and Government of Cambodia (US\$5.47 million, 9.9 per cent). All financing is committed.

H. Benefits and economic and financial justification

Main categories of benefits generated

24. The main project benefits include: (i) incremental benefits from higher yields and improved productivity of crops and livestock; (ii) increased gross margins from improved market access and diversification; (iii) social and economic empowerment of the men and women in the target population, farmers' organizations and local communities through capacity-building and self-help groups; (iv) reduced incidence of poverty as a result of project assistance targeting the poor; (v) increased access to affordable capital to enhance productivity; (vi) greater asset accumulation through the adoption of alternative livelihood opportunities; (vii) better awareness among project and agency staff of gender issues; (viii) more effective governance at the provincial, district, commune and village levels; (ix) improved rural infrastructure to enhance productivity and market links; and (x) greater capacity of

national and sub-national stakeholders to implement decentralization and deconcentration policies in agriculture and rural development.

Economic and financial viability

25. The base case for the internal economic rate of return ranges between 43.7 per cent and 50.3 per cent over 20 years and the benefit-cost ratio is estimated at 1.51-1.63. These figures show that the project is economically viable. The financial analysis indicates substantial incremental net benefits and returns for labour, which are considered sufficient financial incentive for target group farmers to participate in project activities.

I. Knowledge management, innovation and scaling up

Knowledge management arrangements

26. The project will evaluate the lessons learned from different approaches in the Tonle Sap basin, including development projects supported by other development partners. The financiers and the Government will conduct biannual reviews throughout the duration of the project to assess implementation performance and apply lessons learned and knowledge acquired to improve project implementation.

Development innovations that the project will promote

27. The project will promote: (i) targeting of the resource-poor households through the livelihoods improvement approach; (ii) preservation of the Tonle Sap biosphere, while addressing the pressing need for accelerated growth and sustainable poverty reduction; (iii) a demand-driven approach and emphasis on capacity-building and institutionalization of change agents to ensure sustainability; (iv) competitive service delivery; (v) specific measures to ensure that women are able to benefit from the project; and (vi) the focus on group savings, training and capacity-building in such a way that the resource-poor farmers are able gradually to become bankable clients for microfinance institutions and the formal banking sector.

Scaling-up approach

28. The approach used by IFAD and AsDB in their previous and ongoing operations in Cambodia whereby direct financial assistance is provided to poor groups to help them generate income and overcome poverty, has been recognized by the Government, incorporated into this project and scaled up.

J. Main risks

Main risks and mitigation measures

29. The project faces the following main risks: (i) the Government's commitment to maintaining an optimal enabling policy and institutional environment to support accelerated agricultural growth could diminish in the face of other development priorities during the project implementation period; (ii) underperforming commune councils could impact project outcomes negatively; (iii) farming communities are traditionally risk-averse and cautious about change; and (iv) unexploded ordnance (UXO) clearance could be needed in the project area. The proposed mitigation measures include: (i) assisting the Government to address priority policy and institutional reforms to ensure continued support for smallholder agricultural development; (ii) providing resources to support additional technical staff in assisting commune and district councils to strengthen their capacity to perform their functions effectively; (iii) working with the Cambodian Agricultural Research and Development Institute, the Ministry of Agriculture, Forestry and Fisheries and private traders to improve input supply, and establishing a new partnership among farmers' groups and microfinance institutions to improve access to rural financial services; and (iv) establishing the non-existence of mines and UXOs, which will be one of the criteria for the selection of subproject sites, especially for rural infrastructure works and land improvements, with a provision in future contracts that in the event of UXO clearance becoming necessary, the services of a reputable and experienced mine

security organization will be engaged to carry out the clearance and then certify that the subproject area is clear of UXOs.

Environmental classification

30. Pursuant to AsDB's environmental assessment procedures, the project has been classified as a Category B operation in that it is not likely to have any significant negative environmental impact.

K. Sustainability

31. The project focuses on strengthening the capacity of target group members and on developing sustainable village-level institutions that can operate without assistance at the end of the project, through activities such as: (i) establishing farmers' groups and associations that can operate revolving funds and obtain services and technical support from public and private service providers; (ii) training village animal health workers and creating district associations to provide services for livestock health and vaccination to farmers on a fee-paying basis; (iii) training commune and village extension workers to provide services to farmers; and (iv) providing market information to orient the farmers to produce for the markets.

II. Legal instruments and authority

32. A project financing agreement between the Kingdom of Cambodia and IFAD will constitute the legal instrument for extending the proposed financing to the borrower/recipient. A copy of the negotiated financing agreement is attached as an annex.
33. The Kingdom of Cambodia is empowered under its laws to receive financing from IFAD.
34. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Lending Policies and Criteria.

III. Recommendation

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

RESOLVED: that the Fund shall make a loan on highly concessional terms to the Kingdom of Cambodia in an amount equivalent to four million two hundred and fifty thousand special drawing rights (SDR 4,250,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

RESOLVED FURTHER: that the Fund shall provide a grant to the Kingdom of Cambodia in an amount equivalent to four million two hundred and fifty thousand special drawing rights (SDR 4,250,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze
President

Negotiated financing agreement:

"Tonle Sap Poverty Reduction and Smallholder Development Project"

(Negotiations concluded on 21 October 2009)

Loan Number: _____

Grant Number: _____

Project Title: Tonle Sap Poverty Reduction and Smallholder Development Project (the "Project")

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

and

the Kingdom of Cambodia (the "Borrower/Recipient")

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

WHEREAS:

A. The Borrower/Recipient has requested financing from the Fund for purposes of partially financing the Tonle Sap Poverty Reduction and Smallholder Development Project described in schedule 1 to this Financing Agreement;

B. the Asian Development Bank (herein referred to as the "ADB") has agreed to extend financing to the Borrower/Recipient of approximately thirty million seven hundred thousand United States dollars (USD 30 700 000) comprising a loan of three million four hundred thousand United States dollars (USD 3 400 000) and a grant in the amount of twenty seven million three hundred thousand United States dollars (USD 27 300 000) to assist in co-financing the Project on terms and conditions to be set forth in an Agreement (the "ADB Financing Agreement") between the Borrower/Recipient and the ADB;

C. the Government of Finland has agreed to provide a grant (the "Finnish Grant") to the Borrower/Recipient of approximately five million seven hundred and fifty thousand United States dollars (USD 5 750 000) to assist in co-financing the Project on terms and conditions to be set forth in an Agreement (the "Finnish Agreement") between the Borrower/Recipient and Finland.

NOW THEREFORE the Parties hereby agree as follows:

Section A

1. The following documents collectively form this Agreement: this document, the Project Description and Implementation Arrangements (Schedule 1), the Allocation Table (Schedule 2), and the Special Covenants (Schedule 3).

2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, as may be amended from time to time (the "General Conditions") are annexed to this Agreement, and all provisions thereof shall apply to this Agreement, except for the provisions identified in Section E paragraph 3 below. For the purposes of

this Agreement the terms defined in the General Conditions shall have the meanings set forth therein.

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

Section B

1 (a) The amount of the Loan is four million two hundred and fifty thousand special drawing rights (SDR 4 250 000).

(b) The amount of the Grant is four million two hundred and fifty thousand special drawing rights (SDR 4 250 000).

2 The Loan is granted on highly concessional terms.

3. The Loan Service Payment Currency shall be USD.

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

5. Principal and service charge shall be payable on each 15 June and 15 December.

6. The Borrower/Recipient shall provide counterpart financing for the Project in the amount of five million four hundred and seventy three thousand United States dollars (USD 5 473 000).

Section C

1. The Lead Project Agency shall be the Borrower/Recipient's Ministry of Agriculture, Forestry and Fisheries (MAFF), or any successor thereto.

2. The following are designated as additional Project Parties:

- a) the National Committee for sub-National Democratic Development Secretariat (NCDDS), or any successor thereto;
- b) the National Information Communications Technology Development Authority (NiDA), or any successor thereto;
- c) the Council for Agricultural and Rural Development (CARD), or any successor thereto, functioning as the Project Steering Committee (PSC);
- d) Provincial Councils and Administrations;
- e) District Councils and Administrations; and
- f) Commune Councils and Administrations.

3. The Project Completion Date shall be 31 August 2017, or such other date as may from time to time be agreed between the Borrower/Recipient and the Fund.

Section D

The Loan and Grant shall be administered and the Project supervised by the ADB as the Cooperating Institution.

Section E

1. The following are designated as additional grounds for suspension of this Agreement:

- a) The ADB Financing Agreement has failed to enter into full force and effect within 180 days of the date of this Agreement, and substitute funds are not available to the Borrower/Recipient on terms and conditions acceptable to the Fund; and
- b) the right of the Borrower/Recipient to withdraw the proceeds of the ADB Loan or Grant has been suspended, cancelled or terminated, in whole or in part, or the ADB Loan has become due and payable prior to the agreed maturity thereof; or any event has occurred which, with notice of the passage of time, could result in any of the foregoing.

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

No withdrawals shall be made from the Loan and Grant Accounts until:

- a) one Project Manager shall have been appointed by MAFF;
- b) one Project Manager shall have been appointed by NCDDDS;
- c) one Project Manager shall have been appointed by NiDA;
- d) all Project staff at the DCU of MAFF, NCDDDS and NiDA shall have been duly appointed; and
- e) the Pooled Imprest Accounts shall have been opened on terms and conditions acceptable to the Fund.

3. The following provisions of the General Conditions shall not apply to this Agreement:

a) Section 7.05 (Procurement); the procurement of goods, works and services to be financed out of the proceeds of the financing shall be subject to and governed by: (i) ADB's *Procurement Guidelines* (2007, as amended from time to time); (ii) ADB's *Guidelines on the Use of Consultants* (2007, as amended from time to time); and (iii) Schedule 4 to the ADB Financing Agreement;

b) Section 9.03 (Audit of Accounts); Project Accounts, financial statements and statements of expenditure shall be audited by independent auditors acceptable to the Fund and the ADB, in accordance with auditing standards acceptable to the ADB.

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

For the Fund:

The President
International Fund for Agricultural Development
Via Paolo di Dono 44
00142 Rome, Italy

For the Borrower/Recipient:

Department of Investment
and Cooperation of the
Ministry of Economy and
Finance,
Phnom Penh, Cambodia

Facsimile Number
(855 23) 725-341
(855 23) 430-224

This agreement, dated _____, has been prepared in the English language in six (6) original copies, three (3) for the Fund and three (3) for the Borrower/Recipient.

For the Fund

For the Borrower/Recipient

Schedule 1

Project Description and Implementation Arrangements

I. Project Description

1. *Target Population.* The Project shall contribute to improving the livelihoods of approximately 630 000 households in approximately twenty eight districts in the four participating provinces of Banteay Meanchey, Kampong Cham, Kampong Thom and Siem Reap (hereinafter "Participating Provinces") of the Borrower/Recipient's territory (the "Project Area").

2. *Goal.* The expected goal of the Project is to improve the livelihood of the resource poor households within the Project Area by 2020.

3. *Objective.* The expected objective of the Project is to increase the agricultural productivity and improve access to markets within the Project Area.

4. *Components.* The Project shall consist of the following Components:

4.1. Component I: Commune Development Component

a) *Rural Infrastructure Supporting Agricultural Productivity.* Under this sub-component, the Project shall support agricultural productivity through the development and upgrading of rural infrastructure based on the investments determined by the Commune Investment Plans (CIPs).

b) *Improving Access to Rural Financial Services.* Under this sub-component, the Project shall increase the availability of rural financial services through:

- (i) the provision of technical assistance to the Livelihood Improvement Groups (LIGs) to establish and manage the group revolving funds;
- (ii) the enhancement of the outreach and institutional capacity of rural financial institutions;
- (iii) the provision of training of Project beneficiaries to become credit-worthy for financial services by micro-finance institutions; and
- (iv) the facilitation of the participation of selected micro-finance institutions to provide rural financial services.

c) *Increasing Agricultural Productivity and Diversification.* Under this sub-component, the Project shall strengthen the capacities of the Commune, District and Provincial service delivery institutions and agencies for farm-based research and demonstrations through:

- (i) the provision of training and extension services to enable resource poor farmers adopt integrated rice-based farming systems, generate off-farm income and improve access to markets;
- (ii) the financing of agricultural and livelihood development activities identified in the CIPs;
- (iii) the establishment and operation of the LIGs; and
- (iv) the promotion of the participation of LIG members in the agricultural value chain.

d) *Increasing Access to Agricultural Information and Market Data.* Under this sub-component, the Project shall increase access to agricultural information and market data through:

- (i) the development of relevant agricultural information and market data for dissemination through improved rural Information and Communication Technology (ICT) services;
- (ii) the establishment and operation of e-kiosks and support services in 80 District and/or Commune centres;
- (iii) the selection and training of e-development leaders; and
- (iv) the provision of ICT training for community representatives.

4.2. Component II: Improved Agricultural Policy Environment. Under this Component, the Project shall support the development of key policies and associated regulations to improve agricultural productivity by smallholder farmers through:

- a) the development of policies related to good agricultural practices, including the national production guidelines for smallholders and appropriate regulations for contract farming by smallholders;
- b) the preparation of the sub-decree on formation and operation of farmer associations and the related guidelines;
- c) the carrying out of policy-related studies on the use of crop seeds selection and hybrid seeds; and
- d) the carrying out of policy-related studies on the use and regulation of Genetically Modified Organisms (GMOs).

4.3. Component III: Effective Project Management. Under this Component, the Project shall support Project management by strengthening the capacities of the Lead Project Agency and Project Parties, as appropriate, through the provision of necessary resources.

II. Implementation Arrangements

Project Management

1. The Borrower/Recipient shall appoint:

- a) MAFF as: (i) the Lead Project Agency to assume overall responsibility over Project implementation; and (ii) one of the Project Parties to assume day-to-day responsibility for implementation of Components II and III;
- b) NCDDS as one of the Project Parties to assume day-to-day responsibility for the implementation of sub-components 1(a) (b) and (c); and
- c) NiDA as one of the Project Parties to assume responsibility for the implementation of sub-component 1(d).

2. The Lead Project Agency shall establish a Development Coordination Unit (DCU), which shall: (i) undertake consolidated planning, budgeting and reporting functions; (ii) open and maintain Project accounts; (iii) prepare, in a timely fashion, the necessary withdrawal applications for submission to the Borrower/Recipient's Ministry of Economy and Finance, and onward to the Fund, for reimbursement, based on the financial statements and requests from the Project Parties; (iv) procure goods, works and consulting services in cooperation with the Project Parties following procedures acceptable to the ADB; (v) appoint independent auditors, acceptable to the Fund and the ADB; (vi) establish within six months of the Effective Date of the ADB Financing Agreement a monitoring and evaluation system (including conducting the base line, midterm and project completion reviews); (vii) review and consolidate the Project annual work plans and budget and procurement plans prepared by the Project Parties; (viii) consolidate the progress and financial reports prepared by the Project Parties; (ix) disseminate Project reports to the ADB, the Fund and other stakeholders; (x) assist

and advise the Project Parties and the Participating Provinces on Project implementation; and (xi) provide secretariat support to the Project Steering Committee. The DCU shall be chaired by a Project Director who shall be the deputy secretary general, MAFF. The Project Director shall be assisted by two (2) deputy Project directors who shall be responsible, respectively, for: (i) Project coordination, planning, monitoring and evaluation, and reporting; and (ii) financial and administrative matters. The Project directors shall be assisted by qualified staff.

3. MAFF, NCDDDS, NiDA shall each appoint a Project manager who shall report to the Project Director. The so appointed Project managers, to be assisted by qualified staff, shall be responsible for carrying out the activities of their respective area. The Borrower/Recipient shall ensure that the Project managers are appointed within one (1) month of the Effective Date of the ADB Financing Agreement.

4. The Borrower/Recipient shall, within one (1) month of the Effective Date of the ADB Financing Agreement, designate the Council for Agriculture and Rural Development (CARD) to assume the role of the Project Steering Committee, which shall meet on a quarterly basis to carry out the following: (i) provide policy guidance; (ii) review Project progress; and (iii) resolve policy issues related to the Project. The CARD may be supported by and receive inputs from the Borrower/Recipient's Supreme National Economic Council on policies and regulations that support smallholder farming communities.

5. The Borrower/Recipient shall ensure that NCDDDS and NiDA coordinate closely with other agencies and institutions, including allocating required Project resources thereto, to ensure successful implementation of their respective sub-components.

Sub-National Level Implementation

6. The Borrower/Recipient shall ensure that the implementation of the Project at sub-national level is in accordance with its decentralisation and deconcentration systems and procedures and that the associated fiduciary risks related to this are appropriately managed.

7. The Borrower/Recipient shall ensure that eligible Project activities at the sub-national level are: (i) included in the Commune Investment Plan (CIP); (ii) endorsed by the NCDDDS Project manager; and (iii) submitted by the NCDDDS Project manager to the DCU for incorporation into the Project AWPB.

8. The Borrower/Recipient shall ensure that in the implementation of Project activities at the sub-national level, the NCDDDS Project manager shall utilize financial and administrative procedures, including reporting requirements, consistent with the provisions of the Borrower/Recipient's Organic Law of 2008, as amended from time to time, and the NCDDDS Project Implementation Guidelines and Manuals.

9. The Borrower/Recipient shall ensure that the provincial units of NCDDDS provide or facilitate the provision of administrative and technical support for the preparation and implementation of Project activities at the sub-national level.

The Selection of the Participating Communes

10. The Borrower/Recipient shall ensure that the selection of the Communes participating in the Project (hereinafter "Participating Communes") take into account the Commune database poverty score maintained by the Borrower/Recipient's Ministry of Interior with priority given to the poorer Communes and those that have the potential to increase agricultural production and productivity. The Borrower/Recipient shall further

ensure that the urban and/or urbanizing Communes are excluded from being among the Participating Communes.

Flow of Funds

11. The Borrower/Recipient shall ensure that the Financing proceeds allocated to the Commune councils for the implementation of sub-components 1(a) (b) and (c) are duly made available: (i) as an addition to the funds allocated by the Borrower/Recipient to the Commune/Sangkat Fund (C/S Fund); (ii) using the same formula as the C/S Fund; and (iii) to each Participating Commune as a block grant for works, goods and technical services agreed with NCDDS.

Accounts and Audits

12. The Borrower/Recipient, through the Lead Project Agency, shall: (i) maintain, or cause to be maintained, separate accounts for the Project including separate accounts for the Loan and the Grant; (ii) have such accounts and related financial statements audited annually, in accordance with appropriate auditing standards consistently applied, by independent auditors whose qualifications, experience and terms of reference are acceptable to the Fund and the ADB; (iii) furnish to the Fund, as soon as available but in any event not later than six (6) months after the end of each related Fiscal Year, certified audit reports and consolidated financial statements as well as the report of the auditors relating thereto (including the auditors' opinion on the use of the proceeds of the Financing as well as on the operations of the Pooled Imprest Accounts, counterpart funds, and statements of expenditures) in the English language; and (iv) provide the Fund such other information concerning such accounts and financial statements and the audit thereof as the Fund shall from time to time reasonably request.

13. The Borrower/Recipient shall permit the Fund to undertake: (i) a special audit which may involve independent financial and performance auditing and review to ensure transparency, financial integrity and objective performance assessment of the goods and works procured from the proceeds of the Financing; and (ii) financial and performance monitoring and review, including spot checks, from time to time during and after the Project Implementation Period. Such audit(s) and review(s) shall be carried out by external auditors and/or the Fund.

Annual Work Plan and Budget

14. The Annual Work Plan and Budgets (AWPBs) and procurement plans shall be approved by the ADB on behalf of the Fund.

Project Performance Management System

15. The Lead Project Agency shall develop a Project performance management system on the basis of the Project design and monitoring framework to monitor and evaluate the Project's performance and impacts. The baseline data shall be collected and processed prior to the initial investment in each Commune, covering both target and control groups, and periodic surveys shall also be carried out.

Project Review

16. The Borrower/Recipient, the ADB and the Fund shall conduct semi-annual reviews throughout Project implementation to: (i) assess implementation performance and achievement of Project outputs; (ii) examine financial progress; (iii) identify issues and constraints affecting the Project, and work out time-bound action plan(s) for their resolution.

17. The Borrower/Recipient, the ADB and the Fund shall conduct a comprehensive mid-term review to assess implementation progress and to determine appropriate revisions to the Project implementation arrangements and resource allocations in order to ensure successful Project completion. The Borrower/Recipient shall submit to ADB and the Fund:

- (i) quarterly progress reports on the implementation progress of the Project; and
- (ii) within three (3) months of Project completion, a comprehensive Project completion report to evaluate Project design, costs, performance, social and economic impact, and other details as agreed with the ADB and the Fund. The Borrower/Recipient, the ADB and the Fund shall also conduct post-evaluation of the Project three (3) years after the Project Completion Date.

Schedule 2*Allocation Table*

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

Category	Loan Amount Allocated (expressed in SDR)	Grant Amount Allocated (expressed in SDR)	Percentage
I. Civil Works	972 000	972 000	28% of total expenditure
II. Livelihood Improvement Groups	677 000	677 000	36% of total expenditure
III. Extension Services	782 000	782 000	36% of total expenditure
IV. Equipment and Furniture	0	0	0%
V. Vehicles and Motorcycles	0	0	0%
VI. Survey, Monitoring and Auditing	215 000	215 000	36% of total expenditure
VII. Capacity Development and Training	0	0	0%
VIII. Consulting Services	0	0	0%
IX. Recurrent Costs			
a) Incremental Staff	656 000	656 000	30% of total expenditure
b) Operations and Maintenance	523 000	523 000	45% of total expenditure
X. Unallocated	425 000	425 000	
TOTAL	4 250 000	4 250 000	

Schedule 3

Special Covenants

For the purposes of this Agreement the Borrower/Recipient shall ensure that the following provisions are complied with:

1. *Loan Disbursement.* the Borrower/Recipient shall ensure that all disbursements under the Financing shall be made in accordance with ADB's *Loan Disbursement Handbook* (January 2007, as amended from time to time).

2. *Ineligible Activities.* the Borrower/Recipient shall ensure that the Loan and Grant proceeds do not finance: (i) the construction of buildings or other structures to be used by the police, other security forces, religious organisations or political parties; (ii) the general administration and operating costs of the local government in the Participating Communes; (iii) any investment that has negative impacts on the environment, minority or disadvantaged people, or resettlement, and/or requiring land acquisition; (iv) any rural infrastructure investment that has an Economic Internal Rate of Return (EIRR) of less than twelve percent (12%); (v) any investment that is deemed by the Borrower/Recipient to be non viable from either the technical or financial points of view; (vi) LIG with less than fifteen (15) households; (vii) investments where the benefits would be restricted to less than fifty percent (50%) of the LIG member households; (viii) irrigation and drainage improvements that would benefit less than ten (10) households; and (ix) irrigation and drainage improvements that would benefit less than ten households. The Borrower/Recipient shall further ensure that the Loan and Grant proceeds do not finance the following, in the absence of the Fund's prior approval: (i) irrigation pumps and engines; (ii) incomplete investments resulting from design or construction flaws; and (iii) investments supported by the Fund or the ADB through other interventions.

3. *Rural Infrastructure.* the Borrower/Recipient shall ensure that Commune investment proposals for rural infrastructure to be financed under the Loan or Grant: (i) are processed through the existing procedures followed for preparation of CIP; and (ii) include approximately 10% of the budget for operations and maintenance of the infrastructure. The Borrower/Recipient shall also ensure that infrastructure financed under the Loan and Grant is technically and financially sustainable and that the design shall: (i) be based on sound engineering practice; (ii) be within the local implementation capacity, (iii) maximize potential local employment and income benefits, including the use of labour-based appropriate technology; and (iv) use whole life costs estimates to compare options. In addition, the Borrower/Recipient shall ensure that the maintenance requirements of the infrastructure are consistent with the local technical and financial capacity.

4. *Unexploded Ordnance.* The Borrower/Recipient shall ensure that all contracts contain a provision whereby in the event that should Unexploded Ordnance (UXO) clearance is required in a particular Project site, the services of a reputable and experienced mine security organisation acceptable to the Fund and the ADB are engaged by the contractor to certify that the area is clear of UXO.

5. *Agricultural Support.* the Borrower/Recipient shall ensure that: (i) the target population for membership of LIGs is selected in strict compliance with the selection criteria agreed upon between the Borrower/Recipient, the ADB and the Fund; and (ii) Project activities related to agricultural support services are implemented in accordance with national agricultural policies and guidelines.

6. *Counterpart Funds.* the Borrower/Recipient shall ensure that: (i) adequate counterpart funds required during the Project implementation period are provided on

timely basis to the relevant agencies; (ii) annual budgetary appropriation requests are submitted in a timely manner; and (iii) appropriated funds are disbursed promptly when needed for Project implementation purposes.

7. *Environment and Social Safeguards.* the Borrower/Recipient shall ensure that: (i) all Project activities are implemented in strict conformity with the Borrower/Recipient's relevant laws/regulations and the requirements of ADB's Environment Policy (2002); (ii) all Project activities give special consideration to the participation and practices of ethnic minority population in compliance with IFAD's *Policy on Indigenous Peoples* (2009), as appropriate; (iii) proposals for civil works include confirmation that no involuntary land acquisition or resettlement is required under the Project. In the event of unforeseen land acquisition or involuntary resettlement under the Project, the Borrower/Recipient shall immediately inform the ADB and the Fund and prepare the necessary planning documents in compliance with ADB's *Involuntary Resettlement Policy* (1995); (iv) women and men shall be paid equal remuneration for work of equal value under the Project; (v) recourse to child labour is not made under the Project; (vi) the measures included in the Gender Action Plan prepared for the Project are undertaken, and the resources needed for their implementation are made available, in a timely manner; and (vii) all necessary and appropriate measures to implement the Gender Action Plan to ensure that women can participate and benefit equitably under the Project are duly taken.

8. *Anticorruption Measures.* The Borrower/Recipient shall: (i) undertake necessary measures to create and sustain a corruption-free environment for activities under the Project; (ii) institute, maintain and ensure compliance with internal procedures and controls for activities under the Project, following international best practice standards for the purpose of preventing corruption, money laundering activities, and the financing of terrorists, and shall require all relevant ministries and agencies to refrain from engaging in any such activities; (iii) comply with requirements of IFAD's *Policy on Preventing Fraud and Corruption in Its Activities and Operations* (2005, as amended to date); and (iv) ensure that the Good Governance Framework is implemented in a timely manner. The Borrower/Recipient shall also ensure that: (i) each Accountability Working Group (AWG) within the Participating Provinces is actively engaged to allow potential Project beneficiaries and other stakeholders to channel and address any complaints they may have on the implementation of the Project; and (ii) after conducting any necessary investigation, the AWG shall immediately report to the Fund any malfeasance or maladministration occurred under the Project.

Key reference documents

Country reference documents

National Strategic Development Plan (NSDP) 2006-2010 and Rectangular Strategy II.

IFAD reference documents

Project design document (PDD) with all its appendices and supplementary appendices
COSOP 2008 - 2012

Logical framework

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
Impact Livelihoods of the resource poor households in four provinces in Tonle Sap basin improved by 2020.	<ul style="list-style-type: none"> Annual months of food shortage reduced to 1 month by 2020 in target communes. No. of households classified in class 2 poverty reduced by 50% in 196 project communes by 2020. 	<ul style="list-style-type: none"> Annual commune statistics Sample surveys 	Assumptions <ul style="list-style-type: none"> Continued political stability. D&D policy reforms continue to support commune development and investment plans. Risks <ul style="list-style-type: none"> Slow progress in implementation of complementary projects especially transport and power.
Outcome Agricultural productivity increased and access to markets improved in 196 communes in four provinces in Tonle Sap basin.	By 2017 <ul style="list-style-type: none"> Average rice yields increased to over 3.5t/ha (CLTV average 3.65 t/ha in 2007). Diversified farming systems reduce share of hh income from rice by 20%. Marketed production farm and off-farm products increased by 25%. Maintenance/repair costs of rural infrastructure reduced. Participation of the poor and poorest groups at least 10% higher than their % of the population in the target communes. More than 70% of the membership of livelihood improvement groups (LIGs) graduate to become eligible for formal credit services. 	<ul style="list-style-type: none"> Sample crop cuts using FAO methodology Provincial agricultural statistics Household and commune surveys LIG records in Project communes Traffic and origin/destination surveys 	Assumptions <ul style="list-style-type: none"> Government commitments to the Project remain firm. Cambodian food export is not discriminated against due to unfair application of SPS and other safety and quality control measures. Risks <ul style="list-style-type: none"> Assumed rates of technology uptake may not be achieved.
Outputs: 1. Agricultural Productivity Improvement - local planning, research, extension and information delivery services support improved to facilitate increased agricultural productivity by smallholder farmers. 2. Rural infrastructure improved. 3. Rural financial services strengthened and extended to resource-poor smallholder farmers. 4. E-Kiosks established and operational in selected district and commune centers. 5. Enabling environment created that supports smallholder farming communities. 6. Effective project management enables completion on time and within agreed budget.	<ul style="list-style-type: none"> 80% of farmers using improved technology two years after adoption, by sex and socio-economic category. 1,239 of LIGs operating with the membership disaggregated by sex and socio-economic category. Women represent 50% of project trainees and 30% of livelihood beneficiaries. 	<ul style="list-style-type: none"> Sample surveys Provincial agricultural statistics 	Assumptions <ul style="list-style-type: none"> Government priority to support the Tonle Sap Basin Initiative continues. Government remains firmly committed to decentralization and deconcentration policy. Risks <ul style="list-style-type: none"> Institutional and financial inadequacy continues to jeopardize operation and maintenance of assets. Underperforming commune councils will negatively impact project outcomes. Government's commitment to establish an enabling policy and institutional environment to support accelerated agricultural growth may wane.
	<ul style="list-style-type: none"> In project communes 90 kms of rural roads. 2,500 Ha of irrigation and drainage improved 100 commune improved rice storage and dryers operational by 2017. 	<ul style="list-style-type: none"> Commune Council Reports 	
	<ul style="list-style-type: none"> All project communes have access to formal rural credit by 2014. In project communes about 50% of rural loans are made to women by 2012. 	<ul style="list-style-type: none"> MFI records Commune level interviews 	
	<ul style="list-style-type: none"> 20 Kiosks established and operational by 2013 Use of ICT for agricultural information increased 	<ul style="list-style-type: none"> ICT use records at village e-kiosks Interviews 	
	<ul style="list-style-type: none"> Decree, sub decree and implementing guidelines for Good Agricultural Practices developed. Decree, sub decree and implementing guidelines for Farmer Associations developed. Decree, sub decree and implementing guidelines for Seed law developed. New policy decrees published and training systems implemented with 1,500 persons trained. Studies completed and recommended policy directions provided on use of GMO crops and hybrid seeds. 	<ul style="list-style-type: none"> Publication of relevant documents Training records Project progress reports 	
	<ul style="list-style-type: none"> Project implementation is completed within 7 years and all accounts are closed with 7.5 years. 	<ul style="list-style-type: none"> EA Project completion report. 	

