



Enabling poor rural people  
to overcome poverty

The International Fund for Agricultural Development

**KINGDOM OF CAMBODIA**

**PROJECT FOR AGRICULTURAL DEVELOPMENT AND ECONOMIC EMPOWERMENT**

**PROJECT DESIGN REPORT**

Main Report and Annexes

Asia and the Pacific Division  
Programme Management Department

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## CURRENCY EQUIVALENTS

Currency Unit	=	Cambodian Riel (KHR)
US\$ 1.00	=	KHR 4,100
KHR 1.00	=	US\$ 0.000244

## WEIGHTS AND MEASURES

International metric system, unless specifically described in text; except:

1 acre (ac)	=	0.4047 hectares (ha)
1 hectare	=	2.47 acres

## FISCAL YEAR

1<sup>st</sup> to 31<sup>st</sup> December

## ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
AQIP	Agricultural Quality Improvement Project
AusAID	Australian Agency for International Development
CARDI	Cambodia Agricultural Research and Development Institute
CAS	Country Assistance Strategy
CBAPP	Community-Based Agricultural Productivity Project
CC	Commune Council
CDB	Commune Database
CDHS	Cambodia Demographic and Health Survey
CDRI	Cambodia Development Research Institute
CBRDP	Community Based Rural Development Project
CEW	Commune Extension Worker
CIP	Commune Investment Programme
CMDGs	Cambodian Millennium Development Goals
COSOP	Country Strategic Opportunities Programme
CSES	Cambodia Socio-Economic Survey
C/S F	Commune <i>Sangkat</i> Fund
DALRM	Department of Agricultural Land Resource Management
DAO	District Agriculture Office
DANIDA	Danish International Development Agency
DfID	Department for International Development (UK)
D&D	Decentralisation and De-concentration
DRC	Department of Rice Crop
DST	District Support Team
FBS	Farm Business School
FMM	Financial Management Manual
FSS	Farmer Field School
FWUC	Farmer Water User Community
GCCTS	Group Conditional Capital Transfer Scheme
GDA	General Directorate of Agriculture
GDP	Gross Domestic Product
GRF	Group Revolving Fund
GPS	Global Positioning System
GIZ	Deutsche Gesellschaft fuer Internationale Zusammenarbeit (German International Cooperation Agency)
HRD	Human Resource Development
HPI-1	Human Poverty Index
ICPM	Integrated Crop and Pest Management
IDA	International Development Association

ID Poor	Identification of Poor Household Programme, Ministry of Planning
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IGRF	Improved Group Revolving Fund
IRR	Internal Rate of Return
IPA	International Procurement Agency
IPM	Integrated Pest Management
JFPR	Japanese Fund for Poverty Reduction
MAFF	Ministry of Agriculture, Forestry and Fisheries
LST	Labour Saving Technology
M&E	Monitoring and Evaluation
MDGs	Millennium Development Goals
MEF	Ministry of Economy and Finance
MFI	Micro-finance Intermediary
MIS	Management Information System
MOI	Ministry of Interior
MoWA	Ministry of Women's Affairs
MoWRAM	Ministry of Water Resources and Meteorology
MRD	Ministry of Rural Development
MVF	Most Vulnerable Family
NAL	National Agricultural Laboratory
NCDD	National Committee for Sub-National Democratic Development
NCDDs	NCDD Secretariat
NGO	Non-Governmental Organization
NIPMP	National Integrated Pest Management Programme
NLU	Nong Lam University (Ho Chi Minh City)
NPDD	National Programme for Democratic Development
NPV	Net Present Value
NSDP	National Socio-economic Development Plan
O&M	Operation and Maintenance
PIM	Project Implementation Manual
PDOWA	Provincial Department for Women's Affairs
PDOWRAM	Provincial Department for Water Resources and Meteorology
PDA	Provincial Department of Agriculture
PDRD	Provincial Department for Rural Development
PM	Procurement Management
PPF	Project Preparation Facility
RAU	Royal Agricultural University
RIF	Rural Infrastructure Fund
RIMS	Results and Impact Management System
RPRP	Rural Poverty Reduction Project in Prey Veng and Svay Rieng
RULIP	Rural Livelihoods Improvement Programme in Kratie, Preah Vihear and Ratanakiri
SA	Social Assessment
SAW	Strategy for Agriculture and Water
SOP	Standard Operating Procedures
TA	Technical Assistance
TCP	Technical Cooperation Programme
TOR	Terms of Reference
TOT	Training of Trainers
TSSHP	Tonle Sap Poverty Reduction and Smallholder Development Project
UNCT	United Nations Country Team
UNDAF	United Nations Development Assistance Framework
US	United States
USAID	United States Agency for International Development
UXO	Unexploded Ordinance
VAHW	Village Animal Health Worker
VEW	Village Extension Worker
WB	World Bank
WFP	World Food Programme

## MAP

### Cambodia

#### Project for Agricultural Development and Economic Empowerment

*Design report*



IFAD

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

Map compiled by IFAD

26-7-2010

## EXECUTIVE SUMMARY

### Background and Rationale

1. Since reaching peace and political stability in 1998, Cambodia has embarked on a successful reconstruction and development path resulting in impressive economic growth particularly over the last decade reaching around 8% per year. Growth has been accompanied by significant poverty reduction with the national poverty rate declining from 50% in the mid 1990s to around 30% of households by 2007. Poverty remains largely a rural phenomenon as 92% of the poor live in rural areas.
2. While other sectors registered strong growth, agriculture still represents the main source of employment in Cambodia. The recent economic crisis (2008-09) has highlighted both the fragilities of the country's narrow base for development and the importance of the agricultural sector as a source of national growth and of livelihoods for rural populations. Government is clearly aware of this potential with the Royal Government of Cambodia's Rectangular Strategy's intending to make agriculture a leading sector of the national economy, expand food security and reduce poverty.
3. Poor and very poor rural households generally have little land and own very few small livestock. Livelihoods are extremely dependent on rice production but given the low yields obtained, food insecurity is still a reality in many areas. With a Global Hunger Index of 19.91 Cambodia's hunger and nutrition situation is deemed serious and in fact very close to countries considered to have an alarming situation such as Laos which has an index of 20.2.
4. Opportunities for improving production techniques of poor rural households both in rice and other crops include: (i) adoption of better farming technologies and the use of higher quality inputs, especially good quality rice seed; (ii) introduction of improved post-harvest technologies which could reduce current high levels of weight loss and related quality loss, (iii) promotion of integrated farming systems, involving the cultivation of higher value crops (e.g. fruits and vegetables), livestock and aquaculture; and (iv) adoption of better soil and water management techniques which will improve the yield increase from input use, especially fertilizer, and reduce risks related to use of new technologies.
5. A second set of opportunities lie in improving commercial linkages between smallholder farmers and buyers. However, this requires enhanced agricultural and business support services, an initial capital base, and better and more sustainable access to financial services for working capital purposes. Since reaching peace and political stability in 1998, Cambodia has embarked on a successful reconstruction and development path resulting in impressive economic growth particularly over the last decade reaching around 8% per year.. Growth has been accompanied by significant poverty reduction with the national poverty rate declining from 50% in the mid 1990s to around 30% of households by 2007. Despite a marked reduction in the proportion of Cambodians living below the national poverty line, inequality has increased. This trend is especially pronounced in rural areas and large segments of the rural population where poverty is most pervasive which have not been able to take advantage of opportunities generated by a dynamic economy.
6. Project design is consistent with the objectives of the 2007-2012 COSOP, specifically it's first strategic objective of sustainable improvement of the livelihoods of the rural poor. It is also closely aligned with the Government's policies for rural development including the Rectangular Strategy's resolve to make agriculture a leading sector of the national economy and a key source of sustainable economic growth, as well as expand food security and reduce poverty. In addition it is well aligned with the National Strategic Development Plan, the Strategy for Agriculture and Water (2010-2013) and RGC's policy on Promotion of Paddy Production and Rice Export.

### Project area, Target Group and Targeting Strategy

7. The average poverty incidence in the five provinces, taking all existing communes, averages 22%. The Project will target 246 communes in 36 districts in the provinces of Kampot, Kandal, Prey Veng, Svay Rieng and Takeo where poverty incidence is highest, averaging 26%. The project's aim to benefit directly around 90,000 rural households, of which about 49,000 will be the primary project beneficiary households.
8. The project will target resource poor rural women and men and their households. Landless and land-poor farmers, rural youth and women headed households usually included in the poorest

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<sup>1</sup> Source: IFPRI, 2011. The GHI measures the severity of hunger and malnutrition.

category will be a priority for project assistance. To include the land-poor the project will pursue a proper balance between improving agricultural productivity and supporting some of the poorest and most vulnerable sections of rural populations.

9. Beneficiaries of project activities will be selected through a two-stage approach. First, communes and districts have been selected ex-ante within the five project provinces based on poverty incidence and headcount, potential for agricultural production and cost efficiency criteria. At a second stage, during implementation, households within selected communes are chosen based on participatory wealth ranking (as per past IFAD projects) and on assessment (including self-assessment) of willingness to participate. The project will also make use of ID poor data for household level targeting when such information is found to be adequately up to date..

### **Development Objective**

10. The project goal is to improve the livelihoods of poor rural people in the target communes of Kampot, Kandal, Prey Veng, Svay Rieng and Takeo provinces. The development objective (PDO) is to improve agricultural productivity and to diversify the sources of income of rural households living in poverty in the selected provinces.

### **Components**

11. The project has three closely inter-related and demand-driven components: (i) Improved Access to Financial Services, (ii) Improved Access to Technology and Markets and (iii) Project Coordination and Management.

12. **Improved Access to Financial Services:** this component includes three sub-components: (i) Group Conditional Capital Transfer Scheme, (ii) Capacity Building for Improved Access to Finance and (iii) Support to Existing Group Revolving Funds.

13. In a departure from existing practices in Cambodia, the project will set up a Group Conditional Capital Transfer Scheme (GCCTS) which will transfer funds to village based Improved Group Revolving Funds (IGRFs) over a three year period conditional on their performance through a set of milestones. It will also support training to households members of the IGRFs in terms of financial literacy, support group linkages with MFIs and provide specific support to past IFAD supported group revolving funds in the project area in terms of access to financial services and linkages to MFIs. FAO will support technical assistance to MAFF on rural finance activities and also contribute financially through a TCP facility.

14. The expected outcomes of this component include a minimum of 980 Improved Group Revolving Funds (IGRFs) established and experiencing a substantial increase in the size of their fund after three years of operation. Moreover, it is expected that a high proportion of the 49 000 IGRF member households display improved financial literacy and access to financial services through use of savings and credit opportunities in Microfinance Institutions (MFIs).

15. **Improved Access to Technology and Markets:** this component will finance three sub-components: (i) support to innovation in capacity building, (ii) applied training and capacity building and (iii) small rural business development. The component will enhance farmer capacity in appropriate agronomic, marketing and post-harvest management techniques combined with support to the development of off farm activities and linkages to markets.

16. The project will include the Netherlands Development Organisation (SNV) as implementation partner and co-financier for the sub-component on small rural business development and also providing technical assistance on the development of training packages and knowledge dissemination. In addition, the project will support the adaptation and scaling up of the National Bio-digester programme to poor beneficiaries and create an additional rural business development opportunity in project areas.

17. The project will also establish an innovative partnership between the Ministry of Agriculture and Forestry (MAFF) and the International Development Enterprises (iDE) to substantially expand the successful Farmer Business Advisor programme to new provinces and communes. This will provide beneficiaries with access to an additional source of extension support and high quality inputs as well as provide an exit strategy for some of the project activities.

18. This component is expected to achieve a series of outcomes that will support economic empowerment of target households and contribute to agricultural development in the project areas. These include: (i) improved and innovative training packages and approaches being developed and



used, (ii) Beneficiaries are able to effectively use the funds made available through the GCCT Scheme for improved production and marketing, (iii) poor rural households diversifying income sources through adoption of improved technologies for non-rice crops, livestock, aquaculture and non-land based income generating activities, (iv) successful establishment of sustainable private extension agents (Farm Business Advisors) and associated input supply chain in project areas, (iv) establishment of around 75 profitable contractual linkages between farmer groups and agricultural markets or other business ventures and (v) pro-poor bio-digester technology being successfully adapted and 4,000 bio-digesters benefiting project beneficiaries.

**19. Project Coordination and Management.** The project will finance three main sub-components: (i) MAFF Project Support Unit (PSU), (ii) Ministry of Women's Affairs (MoWA) Implementation Support Unit (ISU) and (iii) project coordination and administration tasks carried out by the Provincial Administrations.

### **Implementation**

20. Ministry of Economy and Finance (MEF) is mainly responsible for providing inter-agency coordination when required, providing sufficient counterpart contribution, processing Withdrawal Applications (WAs), approving of procurement actions and other necessary documents in a timely manner. MEF will assign one officer of its Department of Investment and Cooperation to work full-time on the project for the duration of the project.

21. The Ministry of Agriculture, Forestry and Fisheries (MAFF) through the MAFF PSU will be the Executing Agency and will take responsibility for overall project management, coordination and reporting while agencies and line departments of MAFF will undertake the majority of technical work at national level.

22. Ministry of Women's Affairs (MoWA) is assigned key roles in project implementation at national level while the National Committee for Sub-National Democratic Development Secretariat (NCDDs) plays an important role in facilitating liaison and coordination with the Provincial Administrations.

23. Partner Agencies, including SNV, iDE and FAO will implement the activities entrusted to them with a large degree of management autonomy under an umbrella agreement with the Project. Key service provider agencies operators will be contracted directly by MAFF and, in the case of capacity building for non-land-based activities, by MoWA..

24. The proposed monitoring system is founded on each household receiving a unique beneficiary identification number. This will be given to them when the groups are formed in the form of a project beneficiary ID card (which is linked also to the group IDs in which the household participates). The project will have a dedicated unit within MAFF-PSU for monitoring, evaluation, learning and knowledge dissemination. In particular, it will measure the performance of the various external service providers involved in the project, the beneficiaries' experiences with the Improved Group Revolving Funds, the quality of trainings provided and technology adoption. It will include progress monitoring and studies based on qualitative and quantitative methods, in particular to provide lessons on some of the innovative features of the project with potential for scaling up.

### **Project Costs, Financing and Benefits**

25. Estimated project costs are of around USD 42.3 million over a six year implementation period and include USD 2.4 million of contingencies. An IFAD grant and a loan of USD 17.5 million each will finance most of the project activities. FAO will fund the financial literacy support activities through a Technical Cooperation Programme (TCP) facility of USD 0.3 million. SNV will provide financing of technical assistance, studies and operating costs relative to the Small Rural Business Development activities of the project, as well as for component 2.1 totalling almost USD 0.7 million. iDE funding of around 0.4 million will include technical assistance management support for the expansion of the FBA network. Government funding is estimated at USD 4.7 million of which USD 2.3 million represents taxes and accounts for 55% of all project equipment expenditure and around 20% of total project recurrent costs. Finally, beneficiaries will be expected to contribute with USD 2.1 million, which includes USD 0.9 million of cost sharing for the Improved Group Revolving Funds' service provider and around USD 0.7 million in contributions for accessing the Rural Business Stimulus Facility grants. The financial and economic analysis suggest satisfactory returns from project investments and sufficient incentives for participation of project beneficiaries. The overall economic rate of return is estimated at 19%.

## Sustainability and Risk Mitigation

26. There are four key elements of project design, which will contribute to the **sustainability** of project benefits, which include: (i) the design and updating of training materials and innovation in capacity building; (ii) the focus on building the capacity and empowering beneficiary households in both components of the project; (iii) IGRF members are expected to contribute to paying the operating cost of the service provider (record keeping, accounting and reporting) on an increasing basis over the typical three year cycle, and; (iv) the partnership with iDE for expanding the FBA network to project areas and promoting the integration of FBAs and CEWs will provide a market-based alternative for providing extension services and high quality inputs to the beneficiaries beyond the investment phase of the project.

27. The key implementation **risks** that may hamper the achievement of project development objective are mainly related to: (i) the delivery and coordination capacity of implementing institutions; (ii) the scaling up features that create a risk in terms of quality of service delivery; (iii) the innovative features of the project, and; (iv) how likely can the risk averse poorest rural households adopt improved technical package and effectively invest in raising their productivity.

28. Regarding delivery and coordination capacities, **mitigation** measures include: (i) an overall greater emphasis on external service providers relative to direct implementation by central and decentralized government institutions; (ii) extra technical assistance for M&E and to support procurement and financial management and; (iii) project implementation set under the responsibility of MAFF PSU which has accumulated substantial experience in implementation of previous IFAD projects.

29. The scaling up risk that result from the coverage of five provinces (almost 250 communes) is mitigated by a design with two well integrated components further reduced by the following measures: (i) a phased approach to project implementation with the first 12 months; (ii) inclusion of mobile technical support teams to reinforce district level training implementation; and, (iii) the use of external service providers to add implementation capacity to government staff.

30. The innovative pilot on rural business development may encounter difficulties in finding new ventures and linkages between project beneficiaries and supply chain agents. The risk mitigation measures include: (i) a partnership with SNV who has experience in this area; (ii) the modest scale of the pilot that reduces risk exposure, and; (iii) using a fund approach whereby funds can more easily be reallocated to other project activities during project implementation.

31. With regard to the risk aversion factor, the whole strategy of this project is indeed conceived to offer a safe learning environment that will enable the target group to overcome this obstacle. The factors to create such an environment have been identified based on the lessons learned from past practice. Access to capital has been made conditional on successful training and application of such technologies and paced with the development of group and individual capabilities.

### LOGICAL FRAMEWORK

Results hierarchy	Indicators	Means of verification	Assumptions
<b>GOAL<sup>2</sup></b>			
Improved livelihoods for poor rural people in the target of Kampot, Kandal, Prey Veng, Svay Rieng and Takeo Provinces	<ul style="list-style-type: none"> <li>Value of household assets owned by participating households increased on average by 25%<sup>3</sup></li> <li>Decrease in prevalence of chronic malnutrition in children under five which are part of households benefiting from the project from current baseline of 30%<sup>4</sup> to 10%.</li> <li>Average annual per capita food consumption by targeted households increased by 25% from USD 324<sup>5</sup>.</li> </ul>	Main impact study budgeted under component three will include a baseline and two follow-up quantitative surveys and will be consistent with RIMS	
<b>DEVELOPMENT OBJECTIVE<sup>1</sup></b>			
Improved agricultural productivity and diversification of income sources for rural households living in poverty in the five provinces.	<ul style="list-style-type: none"> <li>Around 90,000 households directly benefiting from project activities by PY6<sup>6</sup></li> <li>Average wet season paddy yield of targeted households increased by 15% from average of 2.2t/ha to average of 2.5t/ha</li> <li>Average dry season paddy yield of targeted households increased by 15% from average of 3.2t/ha to average of 3.7t/ha</li> <li>Average value of household non-rice agricultural production of targeted households increased by at least 20% from current average of USD 480 after three years<sup>7</sup></li> <li>Average labour productivity of target households increases by 15% from an average of USD 4.5 per labour day across project beneficiaries<sup>8</sup>.</li> </ul>	Main impact study Study on the impact of Applied Training Activities budgeted and scheduled for PY3-6 (including MTR and project end review) Qualitative Review of Applied Training budgeted and scheduled for PY2-3 before MTR and PY4-5 before project end Case studies of farmer organizations budgeted and scheduled for PY2-6	No major natural or man-made disasters Continued economic growth at national level generating employment opportunities Households have access to a range of quality food products Efficient and equitable intra-household resource allocation towards food
<b>OUTCOMES AND OUTPUTS</b>			
<i>Component 1 – Improved Access to Financial Services</i>  Targeted households improve financial literacy and increase level of investment and/or savings	<b>Outcome indicators:</b> <ul style="list-style-type: none"> <li>980 IGRFs established and functional by PY4</li> <li>Respectively 80%, 70% and 60% of IGRF members achieve training milestones and receive first, second and third conditional capital transfer in years 1, 2 and 3 of their operation.</li> <li>At least 440 IGRFs provide co-payment for service provider in year 2 and 3 of their operation and at least 392 IGRFs provide full payment in year 4</li> <li>785 IGRFs increase the size of their initial fund of USD 3,000 by 30% after three years<sup>9</sup></li> </ul>	Main impact study Project database/MIS (including MicroBanking database) Review of Revolving Fund Approach in PY3 before MTR	Continued strong performance by MFI and banking sector in Cambodia External service providers perform satisfactorily Finance tools promoted are appropriate to raise savings and investments. Continued strong

<sup>2</sup> All targets refer to increases relative to a control group and obtained maximum three years after project intervention. Details can be found in Section II.B.

<sup>3</sup> The value of assets is based on a household asset index as used by IFAD RIMS as a proxy for poverty, where assets and household characteristics are aggregated using principal components analysis. Detailed data will not be available until after the baseline survey.

<sup>4</sup> Results from the 2010 RIMS survey for RPRP have been used as baseline. Values will be updated following the baseline survey.

<sup>5</sup> Food consumption is to be expressed in real terms. The Cambodia Socio-Economic Survey (2009) indicates that rural households on average spend USD 27 monthly on food and non-alcoholic beverages. Accurate values for the project area will be updated following the baseline survey.

<sup>6</sup> As explained in the PDR, this includes 49,000 primary beneficiaries (i.e. those that benefit from all key project interventions/components).

<sup>7</sup> Current value will be updated following the baseline survey.

<sup>8</sup> Labour productivity is measured as return to total labour in USD terms.

<sup>9</sup> The 30% growth does not include replenishments to the fund, i.e. second and third transfers.

	<ul style="list-style-type: none"> <li>24,500 IGRF members have doubled their savings in their MFI/Bank account three years after initial project support</li> <li>On average IGRF members report improved access to MFI credit compared to non-beneficiary comparable households two years after initial support<sup>10</sup></li> <li>Average annual number of transactions with MFIs for IGRF members is on average higher than that of non-beneficiary comparable households<sup>11</sup></li> </ul> <p><b>Output indicators:</b></p> <ul style="list-style-type: none"> <li>Contract with specialist service provider for accounting, record keeping and reporting finalized successfully in PY1</li> <li>Contract with specialist service provider for capacity building in financial literacy and linkages to MFI finalized successfully in PY1</li> <li>49,000 beneficiaries registered as members of an IGRF and trained in financial literacy by PY4 (of which at least 50% are women)</li> <li>For each IGRF at least one woman elected as one of the three group leaders</li> <li>500 other existing GRFs are supported in project communes</li> </ul>		<p>government commitment to agricultural development and implementation of project activities through decentralized structures</p> <p>Cambodian government continues to promote rice production and exports</p> <p>Technology adopted by farmers is appropriate to raise productivity</p> <p>Continued economic growth in Cambodia generates appropriate market opportunities in non-rural sectors</p> <p>Continued availability of quality agricultural inputs in project area</p> <p>Absence of extreme weather events or new pests/diseases</p> <p>Women household members are able to actively participate to the extent envisaged</p>
<p><i>Component 2 – Improved Access to Technology and Markets</i></p> <p>Targeted households use improved production technologies, establish market linkages, and diversify income sources</p>	<p><b>Outcome indicators:</b></p> <ul style="list-style-type: none"> <li>70% of trained farmers still adopt recommended technology and/or report increased expenditure on inputs two years after project intervention</li> <li>10% of IGRF members engaged in new or scaled-up non-land based income generating activities by PY5</li> <li>75 small rural business matching grants approved and implemented efficiently by PY6</li> <li>Land and non-land based training packages developed (minimum 10 and 4 respectively), updated and endorsed by MAFF and MOWA by PY2</li> <li>Around 200 Farmer Business Advisors providing extension services and supply of farm inputs to approximately 10,000 beneficiaries in a sustainable way by PY 3</li> <li>4,000 pro-poor bio-digesters constructed and operating by PY4</li> </ul> <p><b>Output indicators:</b></p> <ul style="list-style-type: none"> <li>490 CEWs trained and working by PY4, of which 50% are women</li> <li>49,000 beneficiaries trained in first and second year packages by PY5</li> <li>6,000 outstanding farmers trained in first and second year packages by PY5</li> <li>3,800 beneficiaries trained in non-land based income generating activities, of which at least 70% are women by PY5</li> <li>400 improved seed variety demonstrations conducted by PY5</li> <li>400 crop diversification demonstrations conducted by PY5</li> </ul>	<p>Main impact study</p> <p>Project database/MIS (including MicroBanking database)</p> <p>Study on the impact of Applied Training Activities budgeted and scheduled for PY3-6 (including MTR and project end review)</p> <p>Qualitative Review of Applied Training budgeted and scheduled for PY2-3 before MTR and PY4-5 before project end</p> <p>Case studies of farmer organizations budgeted and scheduled for PY2-6</p>	
<p><i>Component 3 – Project Coordination and Management</i></p>	<p><b>Output indicators:</b></p> <ul style="list-style-type: none"> <li>MAFF PSU working effectively to coordinate national and sub-national project implementation</li> </ul>	<p>Observation by project national team and feedback from provincial district</p>	

<sup>10</sup> Qualitative indicator seeking to capture beneficiaries' experience in seeking credit services from MFIs.

<sup>11</sup> Values for current and expected number of transactions will be added following the baseline survey planned at implementation. Target and non-target households are expected to have similar number of transactions in a without-project scenario.

KINGDOM OF CAMBODIA: PROJECT FOR AGRICULTURAL DEVELOPMENT AND ECONOMIC EMPOWERMENT (PADEE)  
PROJECT DESIGN REPORT

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Efficient management and coordination by MAFF and all other implementing agencies to support satisfactory project implementation	<ul style="list-style-type: none"><li>• Capable project manager appointed through transparent and competitive process</li><li>• All M&amp;E and gender activities implemented in a timely and efficient way by project implementing institutions</li><li>• Project implementing institutions complete the hiring of external specialist services in a timely and effective manner as required for project execution</li></ul>	team  Project progress reports  IFAD supervision mission reports	
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## I. STRATEGIC CONTEXT AND RATIONALE

### A. Country and rural development and poverty context

#### Country Background, Economy and Poverty

32. The Kingdom of Cambodia has a land area of 181,035 km<sup>2</sup> and is bordered by Thailand to the northwest, Laos to the north and by Vietnam to the east and south, with a short coastline on the Gulf of Thailand to the west. The 2008 Census put the total population at 13.4 million with an annual rate of increase of around 1.6%: projection based on this growth rate implies a population of around 14.0 million in 2011. The overall population density is around 78 persons per square kilometre, although densities are generally higher in the low-lying, agricultural areas in the south of the country and in the Tonle Sap basin, and much lower in the forested and upland areas of the north and northwest. About 80% of Cambodians live in areas officially classified as “rural” by the National Institute of Statistics<sup>12</sup>.

33. Cambodia was afflicted by almost continuous war and civil conflict from 1970 until the early 1990s, including the traumatic experience of the Democratic Kampuchea (“Khmer Rouge”) regime from 1975 to 1979. The peace agreement of 1991 and the UN-organised election of 1993 led to re-establishment of a constitutional monarchy with multi-party democratic institutions of governance. Full peace was established by 1998 and Cambodia has maintained political stability since, while re-integrating itself into the regional and global economies and making important progress in reconstruction and development.

34. Cambodia adopted economic policies based on free markets in 1989 and since then has followed a broadly consistent path of reducing State involvement in the economy and, particularly since 1993, favouring macroeconomic stability and openness to international trade. Annual GDP growth averaged about 8% between 1999 and 2009 (excluding the 2008-09 crisis, ten year average GDP growth stood at around 10%), compared to less than 2% of population growth rate during the same period. This has been driven mainly by the garment, tourism and construction sectors which have also been the most significant sources of non-farm employment.

35. Cambodia’s economic recovery is underway following a setback in 2009. Growth has proven fragile to the global economic and financial crisis with Cambodia being hit harder than comparable countries given its narrow export base. The slowdown in garment exports and tourism arrivals reduced GDP growth to 6.7% in 2008, and the economy contracted by an estimated 2% in 2009, its worst performance in the post-conflict period. Still, GDP growth is estimated to have reached 4.8% in 2010 and is expected to be of 6.8% in 2011 driven by a rebound in exports (particularly garments) and tourism, and the uninterrupted growth of agricultural production<sup>13</sup>.

36. High growth has been accompanied by poverty reduction with the national poverty rate declining from 50% in the mid 1990s to around 30% of households by 2007. According to CSES 2004 and 2007 data, despite a marked reduction in the proportion of Cambodians living below the national poverty line (35% to 30%), the reduction in the proportion in those below the food poverty line was smaller (20% to 18%), while overall inequality increased (Gini coefficient 0.39 to 0.43) during the same period<sup>14</sup>.

37. Poverty is mainly a rural phenomenon in Cambodia: about 92% of the poor are in rural areas although there are pockets of severe poverty in some urban areas, particularly in Phnom Penh<sup>15</sup>. Low agricultural productivity and the impact of floods and droughts, exacerbate poverty. The Cambodian rural economy is dominated by raw agricultural production and has not diversified in ways that could significantly provide jobs for poor rural residents: constraints to economic diversification include relatively poor infrastructure, an under-developed electricity grid and high energy costs, lack of finance for investments and high costs of doing business. In consequence, many Cambodians and especially the rural poor migrate to find work, either seasonally or by permanent re-location to urban Phnom Penh or to the upland and forest provinces with greater land availability. Poor, rural

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<sup>12</sup> Data from the 2008 Census. Rural areas are defined essentially as communes with less than 200 persons per square kilometre.

<sup>13</sup> Data based on latest IMF article IV report (February 2011). All GDP growth data refers to GDP in constant prices.

<sup>14</sup> World Bank: Poverty Profile and Trends 2007

<sup>15</sup> See World Bank: Poverty Profile and Trends 2007

Cambodians have relatively low education levels and are at a disadvantage in competing for jobs in the industrial and service sectors. Migration brings its own problems including social disruption and the vulnerability of migrant workers to abuse.

38. A high proportion of the poorest families in any village are typically landless, women-headed households with a high number of dependent children and lacking adult labour-power. Cambodian women enjoy equal economic rights with men in law but in practice they face additional challenges and may find it more difficult than men to escape from poverty. Cambodian women take a large degree of responsibility for managing household affairs and often engage in small business activities but they are under-represented in elected offices and positions of public authority and find it difficult to make their voices heard. Rural women have to combine agricultural work with domestic responsibilities. Women may find it difficult to exercise effective ownership of land and other assets, which may lead to divorced or widowed women becoming landless.

39. According to the 2008 census data, about 26% of Cambodian households are women headed and nearly 12% of women are widowed, divorced or separated; these figures are much higher than the corresponding proportions among men. Although girls' primary school enrolment rates are now similar to that of boys, adult women have lower education levels than men<sup>16</sup>. Domestic violence is a serious problem especially amongst the poorest households. A high proportion of the poorest families in any village are typically landless, women-headed households with a high number of dependent children and lacking adult labour-power.

40. Although overall population growth has slowed, the labour force is growing much faster – the median age is about 21<sup>17</sup> and young people who were born during the baby boom years of the 1980s and 1990s are now searching for employment opportunities.

#### **Agriculture and Natural Resources Sector**

41. Despite growth in other sectors, agriculture still represents the main source of employment in Cambodia and the recent economic crisis has highlighted the importance of the sector as a source of growth. While growth in other sectors has absorbed a significant amount of rural labour over the last ten years, agriculture still employs around 60% of the labour force (when including forestry and fisheries activities). The share in rural areas is even higher at 70% (2007 CSES data). In addition, agriculture currently makes up about 29%<sup>18</sup> of total GDP (compared to slightly more than half of the country's GDP in 1990). The sector expanded at an annual rate of 4.4% over the 1998 to 2008 period, driven by increases in productivity and in cropped area: this is a high growth rate when compared to other East Asian and Pacific countries. Most importantly, the sector has continued expanding during the crisis with agricultural GDP registering an estimated 4.9% growth in 2009 and 4.4% in 2010.

42. The total area of cropland in Cambodia is about 25,000 square kilometres, or 14% of the total land area. About 60% of the land area is classified as forest. Rice is by far the dominant crop, accounting for about 80% of the cropped area. Wet rice cultivation is concentrated in the low-lying provinces of the southern part of the country and the Tonle Sap basin, while the higher areas in the north and northwest are dominated by forest, plantation and upland crops. Livestock production, while important, is mainly by smallholders as an additional activity to rice growing. Rice production has grown faster than the overall agricultural economy, so that Cambodia has become self-sufficient in rice and exports significant quantities of paddy, mainly through informal channels to Vietnam, as well as smaller amounts of milled rice. Other cash crops such as cassava are also exported to Vietnam without processing.

43. Timber production and freshwater fisheries are major commercial activities in Cambodia. Although the forestry sector has been subject to a moratorium on logging for most purposes since 2002, in practice a considerable amount of production continues. Traditionally rural Cambodians harvest a wide range of natural products for processing, sale or domestic use. Although many of these products are of declining importance, most Cambodian rural households continue to rely on firewood for cooking fuel and catches of wild fish and small aquatic creatures make an important contribution to their diet.

44. The land ownership system in rice-farming areas of Cambodia results from the distribution of collectivised land to households in the late 1980s and developments since that time. Population

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<sup>16</sup> Census 2008 estimates female illiteracy at 29.1% and male illiteracy at 14.4%.

<sup>17</sup> Census 2008

<sup>18</sup> Statistical Yearbook 2008



growth has increased pressure on land while sales forced by poverty, debt or domestic emergencies, and in some cases expropriation of land, have resulted in smaller average plot sizes and increased inequality in land distribution. A 2005 survey found that 80% of holdings were less than 2 hectares; however holdings over 2 hectares accounted for 50% of all land. About 37% were less than 0.5 hectare and thus probably too small to provide for household consumption<sup>19</sup>. Land ownership is governed by the Land Law of 2001 and despite the large titling effort that has been taking place, with donor support, since then most agricultural land is still not covered by formal land titles. Large areas of the forest estate have been awarded to commercial interests as concessions, often with accompanying criticism from civil society organizations (mainly on account of lack of transparency, failure to respect the rights of existing land users, weak control over the uses made of concession land and low productivity). The Government has also introduced a social land concession program aimed at distributing vacant land to the rural poor, although so far this is on a much smaller scale than the economic land concessions.

45. Cambodia's total water resources are very large, consisting of average annual rainfall of 1000mm to 1500mm in most areas and cross-border flows of river and groundwater. However effective water availability for agriculture is highly seasonal and often unpredictable. About 90% of all rain falls between May and September. Cambodia's irrigation infrastructure is largely a legacy of schemes constructed by mass mobilisation of labour under the Democratic Kampuchea regime: these schemes were characterised by unrealistic ambitions and by very poor standards of design and construction. Most investment in irrigation since 1980 has gone into rehabilitating and improving the more promising parts of these Khmer Rouge systems: this is often the easiest course as it avoids land acquisition issues, although better technical solutions might be available. In 2006, only about 17% of the rice crop was fully irrigated, with the remainder being fully or partially dependent on rainfall<sup>20</sup>. In most areas only one crop is grown per year, either a rain-fed wet season crop or in areas subject to annual inundation, a recession crop, with some supplementary irrigation used for both types.

46. Cambodia is vulnerable to the effects of global climate change because of the importance of agriculture and natural resources in the livelihoods of the majority of the population, and particularly of the poor, and because of the low level of technical and institutional preparedness. Like most countries in Southeast Asia, Cambodia is expected to see an overall increase in temperature as well as higher and more intense rainfall. Total rainfall and river flows are expected to increase but to be more highly concentrated in a shorter, more intense wet season, compared to the present. The frequency of extreme events such as windstorms, floods and droughts may increase. Some low-lying areas may be affected by sea level rise or by secondary effects such as salt water intrusion.

47. Despite the progress made in recent years there is scope for further gains in rice productivity, in crop diversification and improved livestock production. Constraints faced by Cambodian farmers include poor soil quality, small and fragmented plots, lack of water, lack of access to quality inputs including improved seeds, lack of access to finance (particularly for poorer households), inefficient production techniques and high post-harvest losses. Poor road infrastructure is also a constraint (although the rural road network has improved greatly in recent years it is still far below the standard found in neighbouring countries) as are high energy costs and lack of access to electricity. Climate-related risks discourage investment, as may insecure land titles (although this does not seem to be a major concern to farmers in the traditional rice-growing areas where land holdings are fairly stable).

### **Policies and Development Plans**

48. The overall objectives of the Royal Government of Cambodia are expressed in the "Rectangular Strategy for Growth, Employment, Equity and Efficiency" adopted in 2005 and updated in 2009. The Rectangular Strategy is based on development in four key areas: agriculture, infrastructure, the private sector and capacity building and human resources development, while good governance is placed at the core of the strategy.

49. The National Strategic Development Plan elaborates the principles of the Rectangular Strategy. The NSDP was adopted in 2006 and has been updated for the period 2009 to 2013. The NSDP commits Cambodia to achievement of its Millennium Development Goals and sets ambitious targets for expansion of agricultural production and exports, including expanding the irrigated area to 33.5% of the rice crop and achieving average rice production of 3.0 tonnes per hectare by 2015<sup>21</sup>.

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<sup>19</sup> Data from ABiC 2005

<sup>20</sup> FAO data.

<sup>21</sup> From 2.58t/ha in 2008

50. The Strategy for Agriculture and Water (SAW) is a joint responsibility of the Ministries of Agriculture and of Water Resources<sup>22</sup>. The SAW has five national programs: Capacity Building; Food Security; Agriculture And Agri-Business (Value Chain) Support; Water Resources, Irrigation And Land Management and Agriculture and Water Resources Research. It provides a strategic framework for the implementation of the NSDP. The strategy emphasizes the development of the agribusiness sector as one of its priority areas and recognizes the potential income loss to the country, and related vulnerabilities, from export of unprocessed agricultural commodities. It has committed to improve competitiveness of processed agricultural exports, particularly rice, through a wide range of strategic interventions which improve sector competitiveness. The Government has produced an overall implementation plan for the SAW for the period 2010-2013.

51. The Policy on Rice Production and Export policy recognizes the strategic importance of rice production to Cambodia's economy and lists a number of policy measures and related investment priorities, and identifies responsible institutions for implementation, to promote rice production and exports. It identifies the potential of milled rice to improve the balance of Cambodia's exports, which are heavily dependent on the garment industry at present. The policy promotes a value chain approach combining increases in productivity with investments in processing and exploitation of niche markets, for example for organic rice. The policy targets exports of 1 million tonnes of milled rice by 2015.

52. Cambodia has engaged in progressive piloting and implementation of decentralisation reforms since 1996, with a key achievement being the establishment of directly elected Commune Councils as the lowest tier of government in 2002. The Strategic Framework for Decentralisation and Deconcentration Reforms (2005) established a vision for integrated administrations at Provincial and District Level. An Organic Law (2008) established the basis for indirect elections of Provincial and District Councils which took place in 2009. The Government has developed a 10 year National Program for Sub-National Democratic Development under the leadership of NCDD<sup>23</sup>, and is beginning a first 3-year phase of implementation referred to as "IP3." Fiscal decentralisation measures include the establishment of the Commune Fund in 2003 and the passage of a Sub-National Finance Law in 2011.

53. Cambodia has a system of bottom-up, participatory planning based on the five-year Commune Development Plans and annual Commune Investment Programs. Priorities identified in local planning are adopted into sector and agency programs through annual District Integration Workshops. Under the D&D reforms, new guidelines for District and Provincial planning have been adopted in 2011.

## **B. Rationale**

54. The rationale for IFAD assistance results mainly from the high poverty levels and increased inequality in rural areas in the context of a growing and dynamic economy such as Cambodia's, combined with potential for agricultural led poverty alleviation. With a Global Hunger Index of 19.9<sup>24</sup> Cambodia's hunger and nutrition situation is deemed serious and in fact very close to countries considered to have an alarming situation such as Laos which has an index of 20.2.

55. This situation is a consequence of the specific drivers of economic growth in the country, the characteristics of the agro-ecological zones in the five selected provinces and the poverty characteristics of the target group which limit its ability to take advantage of economic opportunities that arise both in on and off farm activities.

56. Economic growth in Cambodia has mainly been fuelled by the tourism, construction and garment sectors. While significant poverty reduction has been achieved, the relatively narrow economic base for growth has resulted in large segments of the population not being able to take advantage of economic improvements. This is particularly true of rural areas and the IFAD target group and is translated into growing inequality figures (see Annex II for details).

57. Poor and very poor rural households in the selected provinces, which constitute the bulk of the project's target group generally have less than 1 hectare of rice land and none or very few small livestock. For poor households, the single most important livelihood is rice production but given the

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<sup>22</sup> Ministry of Agriculture, Forests and Fisheries and Ministry of Water Resources and Meteorology

<sup>23</sup> National Committee for Sub-National Democratic Development, which has its secretariat in the Ministry of the Interior

<sup>24</sup> Source: IFPRI, 2011. The GHI measures the severity of hunger and malnutrition. It varies between a value of 5.2 (Gabon, Mauritius, China) and 39 for countries with an extremely alarming situation like Congo and Burundi.

low yields obtained (between 2 to 2.5 Mt/ha of paddy) they can be food insecure for some months in the year. Low yields have several explanations and the first is the poor soil quality in a significant share of the rice growing areas (soils generally with both low nutrient levels and low water holding capacity). This means that they require the use of considerable amounts of fertilizer if even moderate yields are to be achieved. Inputs are not always available to poor farmers given their low asset base, lack of access to and high cost of credit. Other identified key constraints to increased productivity by farmers include: (i) inefficient production techniques, (ii) high post-harvest losses and inefficient marketing practices and (iii) lack of efficient rural infrastructure.

58. While there are multiple constraints to livelihoods improvement and poverty reduction, the project is focusing on those that have been found to be most binding to poor households. In particular, very poor farmers are known to be risk-averse and to lack the means to adopt improved technologies. The intervention strategy aims to create a safe learning environment for farmers to invest in productivity improvements and diversify their income base. It will include a menu of capacity building, market linkages and access to finance options that allows differentiated paths for improved livelihoods.

59. While infrastructure rehabilitation and construction (such as roads and irrigation systems) are important for the development of rural areas (see Annex I for more details) these have been left out of project activities in order to simplify project implementation, especially given the known difficulties in achieving successful rehabilitation and functioning of irrigation systems in Cambodia which would require very specific efforts. Moreover, it was found that even without larger scale irrigation, there would be sufficient interesting opportunities remaining to increase farm productivity and diversify income sources for poor rural households. Finally, road rehabilitation has been a constant priority of donors in Cambodia and also a major target of commune and district budget spending.

60. There are significant opportunities to improve production techniques of poor rural households both in rice and other crops. The experiences of the national Integrated Pest Management (IPM) program show there are substantial productivity gains to be achieved from improved practices (reviews comparing treatment and control groups indicate ability to increase average yields for wet and dry season between 25 and 50%<sup>25</sup>). It is estimated that less than 4% of farmers in Cambodia actually use quality seed although use of third generation or commercial seed of a rice variety can increase yields by a minimum of 10-15% if combined with good agricultural practices. Finally substantial benefits can be obtained from the introduction of improved post-harvest technologies which could reduce current high levels of weight loss (about 15-20%) and related quality loss (10-30% of market value).

61. Despite cross-border trade in paddy being quite efficient (trader gross and net margins do not exceed 10 and 5% respectively and Cambodia farm gate prices closely mirror FOB prices in Vietnam deducted of transportation costs<sup>26</sup>), lack of working capital is still a constraint particularly for smallholders leading them to sell paddy immediately after harvest. Moreover, in the case of vegetables, grading and adequate post-harvest practices can substantially increase farmer revenue (around 20 to 25% on average) as suggested by the experience of Farmer Marketing Schools<sup>27</sup>.

62. The project follows a series of IFAD financed interventions in Cambodia which focus on agriculture and rural livelihoods. To some extent they follow a similar development approach: a combination of training of poor households in improved agricultural practices and off farm activities, access to finance through group revolving funds, decentralized provision of agricultural services and rehabilitation of rural infrastructure. This project's strategy attempts to strike a balance between innovative features and building on the experience of previous IFAD projects.

63. The project presents an opportunity to provide additional support in improving access to financial services to previous IFAD supported revolving fund groups that are still at their early development stages in the three overlapping provinces. Finally, the project presents an opportunity to test innovations to improve the current IFAD intervention model in the country and also support knowledge development. These include an evolution of the revolving fund model with increased

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<sup>25</sup> For more details see Kamp "Impacts from the Cambodian National IPM Program 2000-2007 – A Synthesis of Assessments and Case Studies", 2007, Danida.

<sup>26</sup> Data on trader and farm gate prices collected by ACI cross-border survey (July 2010). Comparison of annual average paddy farm gate prices in Cambodia with FOB prices in Thailand indicate that Cambodia farmers receive more than 50% of international prices (above 60% when accounting for a 75% quality adjustment factor to Thai 5% broken rice).

<sup>27</sup> Implemented by CAMIP, a CIDA financed project that worked with the Agricultural Marketing Office at MAFF.

involvement of the formal financial sector and technical assistance support by FAO, a stronger focus on institutional development at MAFF for continuous knowledge accumulation in capacity building and extension through a partnership with SNV. In addition, the project relies on a more demand-driven approach to capacity development including an innovative partnership for the development of sustainable proximity extension services between MAFF and iDE. Finally, the project is also focusing on the creation of sustainable linkages between poor smallholders, buyers and markets, development of farmer organizations and providing demand-driven pro-poor welfare enhancing technology with an important gender focus such as bio-digesters. Regarding the latter the project would build on similar experiences of IFAD with SNV in other Asian countries.

64. Project design is consistent with the objectives of the Country Strategic Opportunities Programme 2007-2012 (COSOP) as agreed between IFAD and Royal Government of Cambodia (RGC). First, the project's objective in respect of the support provided by IFAD is entirely consistent with the first strategic objective of the COSOP on sustainable improvement of the livelihoods of the rural poor. The project's implementation arrangements will support the achievement of the COSOP's second strategic objective, which includes promoting pro-poor D&D and local governance for agricultural and rural development through institutional support.

65. The design is closely aligned with the Government's policies for rural development including the Rectangular Strategy's resolve to make agriculture a leading sector of the national economy and a key source of sustainable economic growth, as well as expand food security and reduce poverty. In addition it is also well aligned with the National Strategic Development Plan (NSDP) in acknowledging that improving lives of the rural poor needs complementing Cambodia's traditional engines of growth (tourism, garment exports, and construction).

66. The project design will also contribute to the objectives of the Strategy for Agriculture and Water (SAW) (2010-2013) and RGC's policy on Promotion of Paddy Production and Rice Export mainly by supporting farmer productivity improvements but also linkages to agribusinesses and small rural business development. Finally, the project's overall focus on farmers organized in groups is consistent with the Government's support to farmer organizations.

## **II. PROJECT DESCRIPTION**

### **A. Project area and target group**

#### **Project Area**

67. The project will be implemented in five southern provinces of Cambodia: Svay Rieng, Prey Veng, Kandal, Takeo and Kampot. These provinces have a total land area of about 21,000km<sup>2</sup><sup>28</sup> : around 11% of the land area of Cambodia, but have a population density around three times the national average<sup>29</sup>. Over 90% of the population of these provinces live in Communes classified as rural.

68. The population of the five provinces is overwhelmingly ethnic Khmer Buddhist; there are no indigenous minority groups but there is a small population (1 – 2%) of Cham Muslims who largely live in separate villages but engage in similar livelihood activities to the Khmer.

69. The rate of population growth in the five provinces is below the national average, probably as a result of out-migration to Phnom Penh and elsewhere. Although the growth of the total population is small, the growth of the labour force is much larger, due to the large numbers of young people born during the baby boom years of the 1990s that are now coming into adulthood.

70. Within the five target provinces the project will be implemented in 246 out of 535 Communes, located in 36 Districts out of a total of 50. Following consultations with the local authorities, between five and eight target Communes were selected in each District from those with a poverty headcount over 19% and with a total of more than 200 poor families; and with more than 500 hectares of rice cultivation. Districts with an insufficient number of eligible Communes were not selected. The resulting 246 selected communes present an average poverty rate of 26.4% versus 22.3% for the 535 existing communes.

71. The target Districts are predominantly found in flat, low-lying areas. All the project districts share a tropical monsoon climate with a wet season from May to October during which 90% of annual

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<sup>28</sup> Source: District Information System

<sup>29</sup> According to Census 2008 the total population of the five provinces was 4.1 million at that time.

rain falls. Average rainfall is around 1,200mm per year with coastal Kampot seeing about 1,500mm per year. Maximum temperatures vary relatively little, keeping between 30°C to 35°C throughout most of the year, while minimum temperatures fall to around 20°C in December-January and around 25°C in March – April<sup>30</sup>. Large areas of Prey Veng, Kandal and Takeo provinces are subject to seasonal inundation from the flooding of the Mekong river system.

72. Rice farming is the predominant economic and agricultural activity: over 80% of families describe rice farming as their main occupation and over 90% of the cultivated area is rice land. In most areas, one rice crop is grown per year – either a rain-fed wet season crop in areas that do not flood, or a recession crop in the dry season in inundating areas. In general, recession crops are grown with improved rice varieties and larger amounts of fertiliser and other inputs. These produce higher yields, although the traditional aromatic varieties often grown in the wet season have a higher market value. Supplementary irrigation is used for both wet season and recession crops. In limited areas with adequate irrigation, double cropping is possible. Tubewells are quite widely used for irrigation of rice and vegetables in Prey Veng and Svay Rieng.

73. Most farmers grow vegetables for their own consumption or for sale in small quantities, while commercial-scale vegetable growing is practiced on the river banks where there is a continuous water supply. In some districts of Kandal province vegetable and fruit growing is more important than rice production. Smallholders keep livestock: cows, pigs, chickens and ducks, usually as a supplementary activity to rice growing. There is a small number of larger enterprises raising pigs or chickens.

74. More than half of households in the target area supplement their income with off-farm work, either locally or by family members migrating to work and sending remittances home. Average income of rural households is estimated at around USD 1,000 per year, excluding rice cultivation.

75. About 10% of rural households do not own any agricultural land. Of those that do own land, only about 21% hold formal titles, mainly as a result of the systematic land titling conducted by the Ministry of Land in some areas in recent years. Other households usually have a “soft” title verified by the local authorities; this is usually regarded as sufficient proof of ownership for purposes such as land sales or collateral for loans.

76. There are few areas of natural forest in the target provinces, with the exception of upland areas in Kampot and northwest Takeo, and some coastal mangrove forests in Kampot. Natural resource based livelihood activities are relatively unimportant although catches of wild fish and aquatic animals make a significant contribution to local diets.

77. All five provinces share a border with Vietnam and this has important effects on the local economy. Surpluses of paddy and other raw agricultural produce find a ready market in Vietnam. Due to lower costs of inputs, most notably energy costs, in Vietnam, there is very little development of either agricultural input or processing industries on the Cambodian side of the border. As agriculture becomes more mechanised, these linked industries and services have the potential to generate employment for the expanding labour force in the target provinces.

78. In addition to importing inputs such as seeds and fertiliser, and exporting raw produce to Vietnam, some areas of the target provinces now have access to electricity from the Vietnamese grid. Where electricity supplies are available on the Cambodian side the retail price is generally five to ten times higher than that paid by Vietnamese farmers and small enterprises<sup>31</sup>.

### **Poverty in target area**

79. The estimated poverty headcount of the target provinces varies from around 20%-25% in Kampot, Takeo and Kandal to over 35% in Prey Veng and Svay Rieng (compared to a national average of around 30%)<sup>32</sup>. There are marked differences in poverty levels within as well as between provinces, and increasing inequality results in significant numbers of poor households even in the less poor Districts. At the household level, poverty is often associated with lack of land, high numbers of dependents and few or no able-bodied adults, leaving female-headed households with young children particularly vulnerable.

80. Households in the target Districts, and poor households more so, are vulnerable to economic

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<sup>30</sup> Statistical Yearbook 2008

<sup>31</sup> Survey conducted by UNCDF, 2010

<sup>32</sup> Data presented here on poverty figures use analysis based on 2007 CSES data. The selection of communes is based on poverty figures from the Commune Database (CDB) for 2010 which present slightly lower poverty rates.

stress due to ill health, animal diseases and loss of crops as a result of drought or flood. Land conflicts, either between local residents or (more rarely) with powerful outsiders, can also threaten a family's livelihood. Alcoholism and domestic violence also affect living standards and household members' wellbeing.

### **Target group**

81. The project will target resource poor rural women and men and their households, and smallholder rice farmers in particular. To avoid excluding the land-poor from project benefits, the project will pursue a balance between improving agricultural productivity and supporting some of the poorest and vulnerable sections of rural populations through appropriate non-farm interventions.

82. Beneficiaries of project activities will be selected through a two stage method. First, communes and districts have been selected within the five project provinces as explained above based on poverty incidence and headcount, potential for agricultural production and cost efficiency criteria<sup>33</sup>. At a second stage, during implementation households within selected communes will be chosen based on participatory wealth ranking (as per past IFAD projects) and on assessment (including self-assessment) of willingness to participate and ability to fulfil the project associated tasks responsibly. Therefore, group composition will be based on households rather than individuals. However, the project will ensure that at least 50% of household representatives in the groups are women.

83. Three broad beneficiary categories are identified through the wealth ranking process: poorest, poor and medium poor. Landless and land-poor farmers, rural youth and women headed households usually included in the poorest category will be a priority for project assistance.

84. Among smallholder farmers, those in the poorest category generally have less than 0.5ha of rice land – insufficient for subsistence needs in most areas – and few or no animals. “Poor” households may have 0.5 to 1 ha of rice land and some animals, while those in the medium category may have 1 – 2ha of land. It should be noted that these figures are approximate: 0.25ha of irrigated land will produce enough rice for a family's needs in some districts of Takeo, while 1ha of rain-fed rice land may be needed for that purpose in parts of Svay Rieng. Households in the poor and poorest categories generally supplement their own-farm income by wage labour, either locally or by family members migrating to work.

85. Landless families are generally entirely dependent on wage labour or on petty business activities (home handicrafts, food stalls etc) for their income. However, as migrating to work requires an initial outlay such as a cash payment to an employer or agent as well as the costs of travel this option may not be available to the poorest.

86. Rural youth, particularly young women, can be considered a vulnerable group and face difficulties finding employment or livelihood opportunities locally. The low level of education of the rural poor, lack of experience and lack of access to capital and (critically, in Cambodian culture) connections make them vulnerable to exploitation and abuse.

87. Eligibility criteria for beneficiary selection will be modified in some instances to include the members of existing groups supported by the RPRP<sup>34</sup> and CBRD<sup>35</sup> projects; to include outstanding farmers who will participate in key capacity building activities; and households outside the target group may benefit from small business development activities and related technical assistance where this will result in benefits to the project target group.

### **B. Development objective and impact indicators**

88. The project development objective (PDO) is “improved agricultural productivity and diversification of income sources for rural households living in poverty in the selected provinces of Kampot, Kandal, Prey Veng, Svay Rieng and Takeo”.

89. The PDO is well aligned both with RGC strategic objectives in agriculture and Strategic Objective two of IFAD's country strategy as agreed with the government, namely: “sustainable

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<sup>33</sup> Detailed criteria and final selection are presented in Annex II to this report. Cost efficiency translates into an adequate balance of number of communes per district to justify the District Support Team (DST) and also facilitate logistics of implementation of project activities.

<sup>34</sup> in Prey Veng and Svay Rieng

<sup>35</sup> In Kampot

improvement of the livelihoods of rural poor men and women in the project areas through community empowerment, productivity improvement and improved access to assets, productive resources, rural services, rural infrastructure and markets”.

90. The proposed PDO has three key indicators: (i) average wet and dry season paddy yield of targeted households increased by 15%, (ii) average household non-rice agricultural production of targeted households increases by 20% and (iii) average labour productivity of targeted households increases by 25%.

91. Regarding PDO indicator (i) average paddy yields will be measured separately for wet and dry season and targets reflect an average across all project target beneficiaries. For all indicators it has to be noted that the target increases are meant to be relative to the performance of comparable households that do not take part in the project (control group), that the impacts are to be felt no later than 3 years following project intervention in a given area and that relative change is only meant to relate to those households that benefit from both project components (i.e. around 49,000 out of the total 90,000 direct beneficiaries).

### **C. Components/outcomes**

92. The project has three components: (i) Improved Access to Financial Services, (ii) Improved Access to Technology and Markets and (iii) Project Coordination and Management. The components are closely inter-related as the intervention logic is to combine sustainable improvements in access to financial services (conditional capital transfers to poor households, credit and savings opportunities) with applied training in both on and off farm activities and promotion of market linkages. The components are also fully integrated in terms of their approach which focuses on beneficiary choice and a substantial increase in the range of potential alternative investments. This includes both on and off farm activities as well as financial investments in the form of fixed deposit accounts or other savings instruments.

#### **Component 1: Improved Access to Financial Services**

93. Under this component the project will finance the activities of three inter-related sub-components: (i) Group Conditional Capital Transfer Scheme, (ii) Capacity Building for Improved Access to Finance and (iii) Support to Existing Group Revolving Funds.

94. Given the dynamic economic situation of the project areas, the poverty characteristics of the target population and the incidence of existing group revolving funds in project areas at different development stages, a three-pronged strategy to support access to financial services in a sustainable way is warranted:

- Formation of groups of poor households (as per past IFAD approaches) for the purpose of constituting improved group revolving funds (IGRFs) and re-capitalizing poor families through an immediate increase in their asset base;
- Support to improvements in individual households' ability to manage cash flows through incentives to savings, building capacity in financial literacy and improving linkages with MFIs;
- Specific support to existing groups through a combination of capacity building in financial literacy for individual households and providing a range of options for improvements in access to financial services.

95. Departing from existing practices in Cambodia, the project will set up a Group Conditional Capital Transfer Scheme (GCCTS) which will transfer funds to village based Improved Group Revolving Funds (IGRFs) over a three year period conditional on their performance. In addition, the project will support training for household members of the IGRFs in terms of household finance and budget, support group linkages with MFIs and provide specific support to existing RPRP groups in terms of access to financial services and improving the likelihood of their sustainability.

96. Through re-capitalization, improved financial literacy and linkages to MFIs for poor rural families, the component will form the basis for the development of activities under component two which focus on on- and off-farm businesses and income generating ventures. The approach is expected to further broaden the range of possible choices and investments for poor households in the target areas (including options for savings with financial institutions).

97. The expected outcomes of this component include a minimum of 980 IGRFs established and experiencing a substantial increase in the size of their fund after three years of operation. In addition, a significant number of IGRFs are expected to be able to provide full payment for accounting and record keeping services provided by external service providers. Moreover, it is expected that a high proportion of IGRF member households display improved financial literacy and access to financial services through use of savings and credit opportunities in MFIs. The main expected outputs include a minimum of 49,000 beneficiary households registered as members of an IGRF and receiving training in financial literacy. In 50% of the registered household representatives in established IGRFs and trainees in financial literacy are expected to be women. At least 500 existing GRFs from past IFAD projects in project communes are also to be supported under this component.

98. **Sub-component 1.1 - Group Conditional Capital Transfer Scheme (GCCTS).** A GCCTS will be set up at the start of the project and work through the Cambodian banking system to transfer funds to the IGRFs over a three year cycle per group. Financial transfers are conditional on the performance of the group according to objective criteria (see details in Annex IV to this document) and will be made in equal annual amounts, amounting to USD 80 per member per year. An IGRF with 50 members would thus receive a total amount of USD 4,000 per annum or USD 12,000 over the period of three years. Given the total number of groups and their size it is expected the total project funds allocated to the GCCTS to be around USD 11.8 million.

99. *Improved Group Revolving Funds.* The process of setting up an IGRF will follow that of past and ongoing IFAD projects, namely through a series of meetings at commune and village level, strong involvement of Commune Councils and village authorities in the process and with selection of beneficiaries ultimately being conducted through a participatory wealth ranking exercise<sup>36</sup>.

100. The project will, however, include innovations to the concept of revolving funds as practiced in Cambodia in an effort to improve the quality of operations and reporting, as well as aligning stakeholder incentives to increase the likelihood of success. These are detailed in Annex IV of this document and include: (i) transfers to IGRFs being conditional on objective performance criteria over a three year cycle with positive remuneration incentives to local project staff also being performance based, (ii) engaging an independent external service provider to carry out recordkeeping, accounting and reporting, (iii) increasing the size of the groups to 50 members to allow economies of scale thereby improving the financial feasibility of an external service provider model and reducing costs to the groups, (iv) include a savings component within IGRFs which will be held as share capital and can be used as collateral for emergency loans and (v) encouraging a small compensation to the IGRF leadership (leader, deputy leader and treasurer, at least one of which has to be female) who are in charge of following up loan repayments and maintaining the petty cash. The training of the IGRF members will emphasize the responsibility that these leaders have towards the membership, especially in view of their remuneration.

101. All IGRF members will attend a monthly meeting, while loan appraisal and approval will be delegated to a Loan Committee comprised of the three leaders (leader, secretary, treasurer) and four members. Leaders and members will, as part of the first year training, be encouraged to reduce the twice-a-year- seasonality of loans that seems to characterize loan cycles in past IFAD projects and they will be encouraged to apply for loans in any month of the year, thus reducing seasonality<sup>37</sup>. It will also enable the IGRF to better play a role as financial mediator, allowing its members to avail of business opportunities and meet financial needs at the time when they actually occur, rather than being forced to spend money at a time set by the group, or the project or the season.

102. The group leader and deputy are elected by the group in a similar fashion as in past IFAD projects (such as RPRP). The treasurer and the four loan committee staff will be elected out of the top 10 members who have achieved the highest score in an exam on financial literacy (see Annex IV). Remuneration of the entire loan committee (comprised of leader, deputy, treasurer and four

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<sup>36</sup> The latest IFAD COSOP Mid-Term Review Report (June 2010) highlighted the strengths of the wealth ranking approach relative to other options for targeting at village level.

<sup>37</sup> It is thought that the strong seasonality of RPRP loans has partly been encouraged by the training of the groups and as a convenient shortcut to facilitate recordkeeping, monitoring and reporting. As a result, usually all members received their loans on the same day and they all had to pay back on the same day. This was practiced for the wet season and for the dry season so that effectively, in most cases there were only two days per year that loans were disbursed, and two days that loans were repaid.



members) will be related to loan interest collected from the members amounting to around 20%<sup>38</sup> of annual interest earning (more details provided in Annex IV).

103. The distribution of responsibilities aims at a smooth functioning of the IGRF's operations with meetings taking place periodically at a given date and the service provider attending the meeting and processing any transactions real-time (in the eventuality of the service provider not attending the IGRF meeting then she/he will visit the IGRF later and process the transactions on the basis of the cash-in and cash-out vouchers prepared by the IGRF treasurer). In either case, the service provider will provide a set of reports to the IGRF's leader on a monthly basis.

104. *External service provider to IGRFs.* The revolving funds under PADEE will be supported in terms of accounting, record-keeping and reporting by a service provider that is selected competitively. The service providing organization may be an NGO, MFI, accounting or bookkeeping firm or any other organization that would qualify based on the eligibility criteria set in the Project Implementation Manual. Among other criteria it will be selected on the merit of their technical and financial proposals and on their ability to act as a partner by investing some of their own resources. The project will offer a package of basic infrastructure of hardware, software, communications and training to potential service providers depending on the specific offers made through the procurement process. The service provider will employ a number of field agents equipped with laptop computers which serve as terminals connected to a central IT system in Phnom Penh. Thus, while attending IGRF meetings, the service provider's field agent will record and process transactions in the central database in Phnom Penh in real time mode.

105. *GCCTS central IT system.* The project will finance the set up of a central IT system in Phnom Penh that will be operational and accessible at all times via the internet. This way the project will capitalize on the advanced internet connectivity in Cambodia. Access will be provided to:

- The individual staff of service providers for the purpose of posting transactions such as loan disbursements, repayments, payment of remuneration to loan committees and external service providers, etc.
- Project staff for the purpose of monitoring & evaluating the IGRF lending activities including loan approvals, repayment ratios and portfolio qualities, loan purposes, etc. In addition, through data aggregation at commune and district levels, project staff will also be able to use the information on IGRF performance as one of the criteria in assessing performance by CEWs in a given commune, as well as that of the District Support Teams (DST).

106. The central IT system in Phnom Penh will be operated by two senior local IT technical experts that act as system administrators and who provide support to the service provider agents in the field, as well as to the project's M&E unit.

107. *Cost sharing arrangements.* The project will finance the cost of the service provider on a declining scale from 100% in the first year, to two thirds in the second year and one third in the third year. As of the fourth year, the full cost of the service provider will be paid by the IGRFs. It is estimated that the cost to an IGRF will be less than 2.5% of the annual value of the fund. Including the cost of the IGRF committee members the total operating cost would be around 6% (which is a modest amount compared with the 18 to 24% that most GRFs in Cambodia are charging annually). It also compares favourably with operating expenses of MFIs in Cambodia which range between 12 and 23% (for the five main ones).

108. Initially the central IT system experts will also be paid by the project but gradually their cost, and the cost of operating the IT centre will be transferred to the external service provider entity.

109. *Changing role for community facilitators.* The project will continue to support poor rural household members of IGRFs at the commune level through community facilitators as per past IFAD experiences (so-called Commune Extension Workers - CEW). Under the project, however, the role of the CEWs in relation to the operation of the IGRF will be scaled down relative to past practices due to the presence of the external service provider who will take over the responsibilities of recordkeeping, accounting and reporting. This will increase the opportunities for CEWs to advise and mentor beneficiaries on their potential financial investments and linkages with MFIs. In addition, CEWs will also support the selection by beneficiaries of new agricultural technologies and investment

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<sup>38</sup> This is based on a successful former FAO project in Battambang where the remuneration of the group leaders is set at 10% of interest collected. But in that GRF the cost of the service provider (as a %age of interest earnings) is much higher compared to PADEE because of lower economies of scale.

opportunities and participate actively in the creation of interest groups around particular commodities and supporting linkages to markets (more details below under component 2).

110. *Implementation of sub-component.* The Project Support Unit at MAFF (MAFF PSU) will manage the GCCTS and authorize transfers to the IGRF accounts with financial institutions. CEWs, the DSTs and Provincial Support Teams (PST) will work together to set up the groups. The service provider for supporting the operation of IGRFs will be selected through a competitive process with eligibility and selection criteria clearly defined in the Project Implementation Manual (see Annex IV for details). Potential service providers will be invited to make proposals as to how to operate the database infrastructure, service the IGRFs and as to their participation as a partner, and what they will contribute regarding amount of skills, and/or management, and/or finance. MAFF PSU will receive FAO technical support for implementing this sub-component given the lack of sufficient capacity in rural finance. In particular, FAO will be responsible for the selection of the most qualified service provider, providing training and technical assistance to the service provider and MAFF PSU. In addition, FAO will be responsible for further adjustments to the project's strategy for improved group linkages with MFIs by supporting a continuous dialogue with such institutions and also finalizing a strategic document on the project approach for linkages at the time of project mid-term review.

111. The contractual arrangement between the selected service providing company and the project must be of a long term nature because services will continue to be needed after the project ends. The contract can be of a Public Private Partnership (PPP) nature whereby the project provides the office facilities and hardware, including the cost of the two senior local IT experts for management of the central information system while the service provider company will operate this at a fee, payable on an increasing scale by the IGRFs. Conditional on service provider performance (based on objective criteria) the whole system will pass fully to the service provider's accounts by the end of the project. IGRFs can opt-out of the scheme during and after the project if they want to dissolve their IGRF and individualize the balance of their fund, although this will not be encouraged.

112. **Sub-component 1.2 - Capacity building for improved access to finance.** Given the progress in rural finance in Cambodia and the economic empowerment dimension of the project, group members will in the first year follow training modules on household budgeting and finance and will be presented with simple cases of income generating small investments. CEWs and group members will also be trained to interact and transact with financial institutions such as MFIs in general and with one MFI of their choice in particular.

113. As part of the training an account at the MFI of their choice will be opened and a small amount of 4,000 Riel will be provided by the project to facilitate an opening deposit<sup>39</sup>. In addition, project beneficiaries will be encouraged to save with the MFI, as part of the financial literacy training. This will help the IGRF members to build-up a track record with the MFI and this in turn will help them to qualify for loans that selected group members may want to avail of as part of the rural business development sub-component (part of component 2), or for individual loans for production purposes. Such small rural enterprise groups could consist of members from more than one IGRF and also include non-project beneficiaries. They could, depending on the MFI and their investment project, qualify for either individual loans or solidarity group loans. The linkages with MFIs will substantially expand the investment possibilities of project beneficiaries (including credit and savings options).

114. CEWs, IGRF members and IGRF officers will receive training on the procedures and operation of the IGRF. The three officers and four loan committee members will receive additional training on basic loan appraisal, understanding reports provided by the external service provider that handles their accounts (sub-component 1.1), and on the responsibility of the officers vis-à-vis the members of the IGRF. The importance of governance and transparency will be particularly emphasized.

115. *Implementation of sub-component.* The training modules on household budgeting and finance will be developed through an FAO TCP facility, which will also include technical assistance and training of trainers and capacity building of the selected training service provider. The training of groups and individuals will be implemented by a specialist service provider hired by the project. The MAFF PSU will conduct the procurement process and FAO will support the MAFF PSU in the technical specifications of the selection process, ensuring quality of the training packages and contractual implementation. The hired external service provider will have a performance based

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<sup>39</sup> Most MFIs require a minimum opening deposit. For AMK this is 1,000 Riel, for ACLEDA Bank 10,000 Riel, for HKL and PRASAC 20,000 riel and for Sathapana 40,000 riel. If larger opening deposits are required than 4,000 Riel the IGRF member will need to add the difference him/herself.

contract and be different from the entity responsible for support to IGRFs under sub-component 1.1. This is to ensure a neutral attitude to capacity development of IGRFs and individual households as to their options in access to finance. CEWs will be responsible for ensuring adequate implementation of the trainings by the service provider, and will report to DST and PST.

116. **Sub-component 1.3 – Support to existing GRFs.** The PADEE project will also target a selection of existing IFAD supported groups in the project provinces. Existing groups include the groups supported under RPRP, CBRDP and also other interest groups in the PADEE selected communes. The project will first finance a mapping exercise on the status of all the RPRP and CBRDP groups and also other potential groups in project targeted communes. According to MAFF, there are around 740 existing GRFs previously supported by IFAD in PADEE targeted communes. However, the number of other farmer organizations supported by other donors and RGC funds is not known and therefore it has tentatively been estimated that under the project around 1,000 groups would receive support in the form of short technical assistance in financial management and options for improvement.

117. From the 1,000 groups, the project will provide more substantial support to around 500. Criteria for eligibility are that the group: (i) must be in a commune that is included in the PADEE project, (ii) has at least three years of operation at the time of contact and (iii) members are willing to participate actively. Selection of the 500 groups will be based on qualitative and quantitative assessments of need and perceived benefits and the decision will be taken by the Provincial Support Team in close collaboration with the external service provider hired to support existing GRFs. The selection will be done in coordination with the District Support Team, CEWs and Commune Councils of the relevant communes.

118. The groups that will be included for additional support will receive the same first year training as new groups, on household budget and finance, group governance and on dealing with MFIs, including the opening of a savings account. They will not receive any other training after the first year but for the purpose of their existing GRFs they will be offered optional strategies for the future of their GRF, which include : (i) start using the services of an external service provider for handling their accounts, records and reports (because these groups are smaller, both in membership (25 members per group) and in size of the fund (USD3,300), the cost of the external service provider as in sub-component 1.1 would be higher as percentage of the fund and therefore a less frequent service option with fewer annual visits by the provider may be required) and (ii) continue as they have been operating (RPRP type of GRF) while receiving additional brief technical support on financial management and group operations.

119. *Implementation of sub-component.* The mapping of the existing groups will be conducted under FAO implemented activities in the first project year. The support to selected groups will be provided by the same service provider as in sub-component 1.2 (the activities under 1.3 will be part of the package agreed with the service provider).

## **Component 2: Improved Access to Technology and Markets**

120. Under this component, the project will finance three interrelated sub-components: (i) support to innovation in capacity building, (ii) applied training and capacity building and (iii) small rural business development.

121. As per the project's intervention logic this component will link closely with Component 1 to enhance farmer capacity in appropriate agronomic, marketing and post harvest management techniques, as well as support development of off farm activities and linkages to markets. This component should thus ensure that project beneficiaries are capable of effectively utilizing the funds made available through the Group Conditional Capital Transfer Scheme. It focuses on generating innovative capacity building technology, making good quality services accessible to farmers, combined with applied training around interest groups for improved use of technology and access to markets.

122. The component is expected to achieve a series of outcomes that will support economic empowerment of target households and contribute to agricultural development in the project areas. These include: (i) improved and innovative training packages and approaches being developed and used, (ii) farmers adopting improved production and marketing techniques, (iii) poor rural households diversifying income sources through adoption of improved technologies for non-rice crops, livestock, aquaculture and non-land based income generating activities, (iv) successful establishment of sustainable private extension agents (Farm Business Advisors) and associated input supply chain in

project areas, (iv) establishment of around 75 profitable contractual linkages between farmer groups and agricultural markets or other business ventures and (v) pro-poor bio-digester technology being successfully adapted and 4,000 bio-digesters benefiting project beneficiaries.

123. The main corresponding outputs for the component include cascade training of trainers covering provincial and district support teams and around 490 CEWs (of which 50% are women), IGRF beneficiaries associated in common interest groups and trained in first (Basic and Plus One training packages) and second year on-farm packages, and a significant number of outstanding farmers in the project communes trained along with IGRF beneficiaries as part of interest groups in on-farm activities of their choice. It also includes a significant number of seed and crop diversification demonstrations being conducted in the project target areas and the formation of around 320 interest groups, which are trained in non-land based income generating farm activities (of which 70 % of members are women).

124. **Sub-component 2.1 - Support to innovation in capacity building.** The sub-component will contribute to improving the quality of MAFF's extension methodologies and materials, as well as support innovation and development of capacity development approaches for off farm activities. This will be mainly for support to the target project beneficiaries but will also have positive externalities for other similar initiatives in Cambodia. In addition, activities will include demonstration of innovative practices and options for farmers to complement the demand driven trainings in sub-component 2.2 (see below) as well as make funding available for innovative capacity building experiments.

125. *Continuous development of improved training materials for land based activities.* There is a significant amount of good technical extension materials available in Cambodia, but these have clear weaknesses, particularly in terms of relevance to poor rural smallholders (see Annex IV for details): (i) they are often dispersed among different agencies in MAFF and other institutes and do not have a common approach as a 'Package', (ii) they lack recent updates (based on research and change in farmers situations), (iii) they do not include more practical or advanced modules and (iv) they lack a more business orientated approach, including greater focus on marketing, post harvest management and other activities. The project intends to build on IFAD's accumulated knowledge in capacity building of poor households in Cambodia (see more in section II D), leverage and optimise existing knowledge on capacity building and help MAFF improve coordination of its contents and delivery in a continuous process which includes constant updates of information and practices.

126. The approach is flexible and consistent with a demand-driven process where choice by farmers takes centre stage. A modular approach will be developed to facilitate updating and provide room for farmers to express their interests and select relevant topics within a thematic area<sup>40</sup>. Farmer Field Schools (learning by doing, experimental education and group learning) will be used as a vehicle to disseminate adoption of new technologies but there will be a shift in training approach from simple delivery to involving farmers in adoption through associating training with utilization of their IGRF funds, as well as dissemination outside the school. As per poor farmers' risk diversification strategies, the capacity building materials will consist of a range of packages that include production and marketing and cover a broad range of topics in agriculture, livestock and fisheries.

127. The project will finance cooperation between MAFF central technical departments and institutions with expertise in extension and training methodologies that can assist in the longer term development of the extension services within MAFF. SNV, a project partner will support MAFF in the review the existing extension materials (including analysing documentation and interviews with relevant stakeholders on extension methods), identification of the main detailed extension/training needs of farmers based on experiences in the country and characteristics of the project target beneficiaries, determination of the approach to training and validation of materials produced by MAFF and relevant stakeholders. The SNV partnership will cover meeting costs for participatory development and testing of methodologies and conduct trainings as appropriate to ensure sufficient capacity in the project to deliver upon any new approaches. SNV's role will be split in two parts with an initial system development at project start and annual facilitation to assess the implementation.

128. *Support to on-farm adaptive research and demonstrations.* In order to support the development of tailored training materials and recommendations, the project will support CARDI to implement approximately 60 multi location variety trials, mostly concentrating on the core issues for farmers in

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<sup>40</sup> For example current Integrated Crop and Pest Management for Rice FFS has a session dedicated to pesticide training, which may not be relevant if farmers are not spraying, or if they have already received training from another program.

the project districts, i.e. crop varieties, water management and fertility. It is expected that a number of these will focus on fertilizer response experiments.

129. The project will also seek to complement the demand driven trainings in sub-component 2.2 with demonstrations of innovative technologies and techniques that can support productivity improvements and efficient diversification. Approximately 400 diversification demonstrations will be financed in project target areas and implemented by GDA. These will go beyond just traditional crops cultivated in project provinces - with the intention of providing farmers with alternative crops that not only increase food security, but improve soil fertility through rotations and improve the economic viability of the farming enterprise. Lastly the project will fund 400 seed variety demonstrations (mainly paddy and in line with the RGC Rice Policy) to improve farmer awareness of the potential of the newly released varieties. These will be closely linked to the trainings given under Component 2.2, and wherever possible be conducted on the field of a farmer who is a direct beneficiary of the project.

130. The project will specifically source certified and commercial seed for demonstrations respectively from CARDI and the GDA (through the agriculture research stations). It is expected that the demonstrations will generate demand for commercial seed from farmers. For the longer term seed supply through the community seed groups the project will provide working capital to CARDI and the research stations for foundation and certified seed production with the understanding that this will be used to fund subsequent years of seed production.

131. *Internship program.* As part of supporting innovation, the project will finance an internship program in collaboration with the Royal University of Agriculture (RUA). Selected students in their final year will conduct research for their undergraduate/masters thesis on relevant topics under the project, which may include assessment of the impact of various interventions, case studies, benchmarking, documentation and management of the adaptive research trials, examination of technical and marketing issues, etc. An important aspect of this activity will be the feedback of the information into project management.

132. *Grants for innovation in capacity building.* The project will set up a small fund for innovation that is managed by a committee including MAFF-PSU, DEA, DRC and a representative from CARDI. The fund will provide financing based on research demands by MAFF central departments, PDA and external entities such as NGOs and other. Requests for proposals will be made annually and assessed by the committee based on clear eligibility and selection criteria such as proposals being innovative and expected to be relevant to project beneficiaries (details on criteria are detailed in the Project Implementation Manual). Examples of potential pilots include Commune Information and Advisory Centres (single window support facility) and innovative monitoring techniques for real time data collection at the field level by extension staff.

133. *Improving capacity building approaches in non-land based income generating activities* The project will also provide funds to support development of new training packages and identifying opportunities in terms of off farm activities. Under the sub-component, funding will be provided to develop approaches and options for 'non-land based' productive activities, which will be coordinated by MoWA-ISU and implemented by specialist service providers. In a process similar to the one described above for on-farm capacity building, SNV will support MoWA in coordinating with other relevant stakeholders to find interesting opportunities in development of non-land based business for rural households and develop appropriate training packages and approaches (including vocational training and linkages with industry). A stocktaking exercise will be conducted that includes the numerous initiatives already underway in the country by Government, NGOs and donors (including past and ongoing IFAD projects). Moreover, the project will finance a study on new opportunities for non-land based income generating activities.

134. *Implementation of sub-component.* The overall responsibility for implementation will come under MAFF-PSU (for on-farm activities) and MoWA-ISU (for non-land based activities). SNV in conjunction with designated persons from the GDA will be responsible for overall coordination of the development of training modules. The technical content will generally be the responsibility of the relevant line department with marketing and business management modules (where deficient) generally being outsourced, and institutions such as IRRI requested to assist in development of harvest and post harvest techniques. Regarding non-land based packages, these will be developed under the coordination of MoWA ISU, namely through MoWA's economic empowerment department which will work closely with SNV. The land based multi location trials will be implemented by CARDI, while the crop diversification and the improved seed demonstrations will be implemented by the GDA

in close collaboration with MAFF-PSU. In addition, SNV will take the lead role in the supervision of the internship program and the grants for innovation in capacity building.

**135. Sub-component 2.2 – Applied training and capacity building.** This sub-component follows directly from the preparation of materials under sub-component 2.1. It will be strongly aligned with component 1 in that it will include: (i) preparatory activities (setting up the fundamentals for IGRF formation (through village meetings etc) and training of trainers), (ii) applied training of farmers strictly integrated with funding transferred under the GCCTS (technical trainings will be sequenced with the GCCTS disbursements to the IGRFs to ensure that beneficiaries have access to funds to carry out planned activities), (iii) continuous technical assistance by CEWs in a facilitation and advisory role and (iv) partnership for the expansion of the Farm Business Advisor model in project areas for sustainable proximity extension services and availability of high quality inputs at village level. The sub-component will build capacity of support staff and of farmers by delivering a series of demand driven “capacity building packages” on a selection of rural on farm and non-land based activities.

**136. Capacity building of local service providers and implementation support.** The project will continue the trend of a decentralized and multi-disciplinary approach to extension adopted under past IFAD projects, which has so far been satisfactorily reviewed. Under the sub-component there will be recruitment and training of Community Extension Workers mainly during the first year of the project (see details on process in Annex IV). There will be two CEWs per target commune, one male and one female. The CEWs will be trained in project concepts, gender, participatory techniques, social mobilization, wealth ranking, financial literacy, IGRF management and a range of technical trainings<sup>41</sup>. In communes selected under the project where CEWs already exist (as part of RPRP) PADEE will engage their services through the Extension Associations (if applicable) on a performance-based contract. The project will ensure that these CEWs receive refresher training on the specific concepts and project approaches. Separate training processes will be provided for female CEWs on gender issues, which will be coordinated by the PDOWA.

**137.** The project will finance training of district and provincial level staff as part of a cascade training approach. Within the District Agricultural Office (DAO) and Provincial Department of Agriculture (PDA) transparent processes will be followed to select the members (or hire from the public on contract if necessary e.g. active retired PDA employees) who will be trained and resourced to provide full administrative, management and technical support to the CEWs and beneficiaries. In addition, as a new feature vis-à-vis past approaches (given the number of trainings and to ensure high delivery quality and constant backstopping), the project will set up and train a mobile team of technical specialists (MST) to deliver the planned trainings and provide technical support to the project beneficiaries under supervision of the DST and PST. In order to make a significant impact district staff from each of the 5 project provinces would receive intensive hands-on training followed by refresher courses based on needs identified under sub-component 2.1.

**138.** The project will support and involve existing Village Animal Health Workers (VAHW) and outstanding farmers in project communes. In the past VAHWs have been trained, but not necessarily supported in their efforts to establish a service in the village. The project will reinforce the role of the VAHW by entering into a contract with them to provide veterinary cover for a period of one year on all chickens and pigs procured. A village meeting will be held to advise all villagers of the need for preventative care of their livestock and the dates when the service will be provided.

**139.** Regarding outstanding farmers, they have been found to be a relevant low cost method for facilitation of dissemination of information within a group of peers<sup>42</sup>. The project will train outstanding farmers and create more permanent links between them and sustainable sources of information, i.e. DAO and PDA's, input suppliers, traders or media. The expectation is not that these farmers will play an active role in extension, but rather that they will act increasingly as mentors and change agents for the other farmers, and participate in the trainings to share their experiences of how to achieve good results. Outstanding farmers would be selected by surveying the farmers (selected through the wealth ranking) as to who they perceive as the best farmers in their village, consulting the village chief and commune council and inviting the individuals to join the training sessions. From 3 to 5 may be invited to join any class and a selection will also receive advanced training at provincial level.

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<sup>41</sup> Training of CEWs on gender, financial literacy, IGRF management and linkages with MFIs has been included under other sub-components but is mentioned here for clarity purposes.

<sup>42</sup> Source is CAVAC Inception Report and 2010 Work Plan, “Putting CAVAC on the Road”, AUSAID

140. *Evolving role of Commune Extension Workers.* In addition to a reduced burden of GRF accounting and management, the CEWs' role in supporting groups and individual households will evolve from past and ongoing IFAD approaches in Cambodia. First, the CEW will be expected to become more of an advisor and facilitator to different IGRF in the commune, providing a menu of options to IGRF members and supporting them in identifying common interests and potential economic activities for investing their funds. These will be linked to the applied training provided by the project. As a facilitator, the CEW will seek to link groups and farmers that have common interests and also share information about potential linkages to buyers and traders outside the commune in collaboration with the activities under sub-component 2.3.

141. The CEW's role will also evolve towards that of a mentor for the groups by backstopping and following up their training, making sure trainers are present and reporting on the quality of training delivered. CEWs will support screening, appraisal and evaluation of farmers' business plans, as well as facilitate review meetings and ensure positive peer reviews of implementation of individual business plans by groups. Most importantly, they will encourage farmers to attend trainings, explain the conditionality aspects of project interventions and ensure that beneficiaries are applying their learning in conjunction with their investments from the revolving fund. It is expected that she/he will make regular visits to farmers to inspect fields, animals and ponds supported under the project to assess their progress and to provide support and encouragement. The CEW will have regular contact with the DST if problems arise that are beyond his/her capability to solve.

142. In addition the CEWs, generally being farmers themselves, are expected to lead the adoption of the new and improved technologies promoted by the project and drive innovation. Some of these CEWs may also emerge as leaders of groups or grassroots organizations. This new approach means that CEWs will have fewer direct responsibilities when it comes to delivering individual technical trainings, as these will be the responsibility of more prepared trainers such as the district support team.

143. *Group formation and phasing.* The project support through the CEWs and decentralized structures will involve the Commune Councils (CC) to help identify the project beneficiaries through a participatory wealth ranking method at village level and facilitate the organization of initial training sessions for IGRF members and outstanding farmers from the community.

144. For the purposes of training in a typical target commune, the project will follow a phased approach over a 3 year cycle. The approach is to start with two 'training classes' per IGRF in year 1 and gradually move towards the formation of 'interest groups' around particular commodities or income generating activities in year 2 for the purpose of more advanced applied training. Classes and interest groups will be established by the CEW, assisted by the MST, DST and PST. In the third year support and follow up will be provided to the interest groups and IGRF. The CEWs will be responsible for organizing all group members with an understanding of the purposes of the group, support preparatory activities for component 1 including facilitating selection of IGRF leaders, deputies and bookkeepers and facilitating linkages with the specialist service providers under component 1.

145. During the first year of training the classes will be introduced to the concepts and benefits of group formation. Following successful performance in trainings and managing of funds, interest groups will be offered to develop into cooperatives or other legal entities. For those that show interest and are deemed promising by CEWs and MST, study tours to nearby villages where such activities have been implemented will be organized for group leaders and other key players (such as the village chief, commune elders or commune council members, as appropriate). Groups with strong performance will be eligible to partake in the activities under sub-component 2.2 on small rural business development

146. *Applied training to households and interest groups.* In the first year the households that are part of the IGRF training classes at the village level will receive a basic training package, including modular rice training and one subject of the training class's choice. In the second year, interest groups (for example on poultry or vegetables) will be identified for applied and demand driven advanced training. All beneficiaries included in the IGRF will be surveyed and be helped to form into interest groups. In addition, outstanding farmers in the community with the same specific interest will also be eligible to attend the applied training. It is envisaged that groups of 10 to 15 people plus around 2 to 3 outstanding farmers will come together for these activities, and 2 or 3 of these interest groups will join together for training sessions.

147. *Generally*, three suitable farmers will be selected by the group to act as demonstration/experimenting farmers and will be given incremental inputs. In the case of using FFS the demonstrations/trials will be used as field classrooms. Training will be carried out by trainers from the MST, facilitated by the CEW and supported as necessary by the DST and PST staff.

148. The MST and DST will provide the technical training to the groups on the particular subjects with backstopping from the PST. The project will also leverage the considerable investments in training into the wider community by allocating time to the CEW to provide services to other farmers, by assisting the Commune Councils to develop the agricultural components of the Commune Plans (annual plans, development plans and five year rolling plans) and by supporting the CC for field days and exposure within the commune. Farmers and interest groups that are particularly successful in each commune are eligible for awards to be given with involvement of Commune Councils and village authorities.

149. The project will finance the delivery of the packages developed under component 2.1, and will include funding for items such as demonstrations, small amounts of critical inputs (mostly seed), best farmer awards, seed storage (IRRI super bags or similar), extra trainers for specialized topics, field days and exposure/exchange visits. In the first year of the project this will include the delivery of a training package to two groups of approximately 25 to 30 farmers per village. In the second year this will entail the delivery of training (up to two packages per group) for two to three special interest groups in a village. The project will provide funding for facilitation, supervision and backstopping by the decentralized provincial and district level MAFF and MoWA structures.). Regarding non-land based income-generating activities, the project will also support hiring of specialized service providers in training to be selected under MoWA-ISU supervision for implementing selected training packages.

150. *Farm Business Advisors (FBA) and sustainable commune level support.* Through PADEE, MAFF will partner with iDE (co-financier and project implementation partner) to expand the FBA network into project areas in an innovative partnership for sustainable proximity extension services. The project will fund (through iDE) the selection and training of FBAs to work closely with the CEWs. Under this activity iDE would provide the management and backbone structure of the FBA business structure, while PADEE would finance the training of the FBAs and their initial start up support (mainly for travel). The FBA is an autonomous commune level value added input seller, who supplies technical advice and inputs to his clients and is backstopped by a distribution system and agronomic technical support network. The partnership will not only make high quality inputs available to PADEE beneficiaries at village level, but also make the FBA agronomy call centres available to CEWs and provide extra support for farmers (including the supervision of the demonstrations, carrying out the instructions of the training specialists, ensuring profitable success is achieved through timely attention to weed/pest control, soil management and fertilizer applications).

151. *Implementation of sub-component.* Implementation will be the responsibility of the MAFF-PSU and MoWA-ISU (for non-land based activities). In the case of on farm trainings the majority will be implemented by the district level trainers of the MST, with support as required from the PST. CEWs will have a key role in facilitation and follow up of groups in partnership with the FBAs (implemented by iDE) who will also play an important role in supplying high quality inputs to beneficiaries. MoWA central and decentralized services will take the lead in the off farm activities and gender related capacity building. While gender mainstreaming trainings and activities will directly be implemented by PDWA (province and district level), the specific off farm trainings will be outsourced to specialist service providers with MoWA-ISU supervising adequate implementation of contracts. The Commune Councils will be encouraged to actively participate in the selection of the best interventions and subsequent awards and field days.

152. **Sub-component 2.3 – Small rural business development.** The sub-component will provide an enhanced development opportunity for those target beneficiaries that have the potential to take “the next step”, after the first step of investing profitably their IGRF loans in applied training under sub-component 2.2. The objective is to assist small farmers in capturing economies of scale upstream (inputs) as well as downstream (post harvest, marketing) similar to those that larger farmers enjoy. This would include: (i) improving market access, in particular access to more stable and premium markets by enabling farmers to deal with large buyers as a group, (ii) supporting improved quality production and the introduction of standards, and (iii) improved and shortened supply chains with fewer intermediaries. In all cases, farmers will have to collaborate in one form or another, through groups and/or through more formal type of cooperatives/associations.



153. The project will have SNV as implementation partner and co-financier for this pilot activity given their experience in inclusive value chains and collaboration with IFAD in other countries. This is an innovative pilot and is a departure from past and ongoing IFAD projects in Cambodia that have included market linkages activities mostly through the work of CEWs, DST and PST staff and which have achieved only modest success (see more below in section on lessons learned).

154. The sub-component will mainly target direct PADEE beneficiaries (including IGRF members, outstanding farmers and farmers associated with groups that were supported under previous IFAD projects). In addition, there are a number of supply chain agents not necessarily located in project target areas that can benefit from the sub-component activities as long as they can demonstrate business linkages that are beneficial to the project target group.

155. *Rural business development services.* The project will support the costs of conducting a selection of studies on key supply chains of interest, technical assistance and costs associated with the operation of the information sharing network which includes the business development facilitator SNV and the PDAs, DOAs, PDoWAs, DoWAs, FBA (iDE) and CC and CEWs. The sub-component includes funding for mapping and analysis of farmer associations and supply chains, as well as case studies of farmer organizations.

156. Once potential linkages between project beneficiaries and buyers are identified, the rural business development facilitators will provide specific technical assistance on setting up a bankable business proposal for presentation to financial institutions and for funding under project matching grant funds, if appropriate. Not all business opportunities will require investment and, even if investment were required, not all would qualify for grants. The project will also include support for supervising and providing assistance towards implementation of the small grants and linkages with buyers. Finally, the business facilitator will monitor the activities of beneficiary farmers and agribusinesses and report to the MAFF PSU.

157. *Stimulus facility for small rural business development.* The stimulus facility is intended to help demonstrate the benefits to small farmers of forming groups and linking into supply chains and thus capturing some of the economies of scale derived from group collaboration, as well as support organizational development of farmer groups. The facility's operating rules including eligibility and selection criteria are detailed in the PIM. It will follow a flexible mechanism with grants being awarded through a competitive process and can be either used for continued investment in 'software' (business or technical skills of the groups or cooperatives) or 'hardware' (tools and equipment needed to facilitate the linkages). In case the stimulus facility is directly used by existing cooperatives, associations or private supply chain actors the funds can only represent a maximum of 25% of the total investment required according to the business plan. In such cases, although not an eligibility criterion, combination of different funding sources for the business plan including a bank loan will be considered as one of the selection criteria. In particular, bundling of financing can be achieved by farmers creating larger groups and applying for support from the stimulus facility.

158. Given the present lack of group marketing and farmer association development in the project areas, as well as the innovative features of the facility its size is of USD 225,000 with a total of around 75 sub-projects being expected during project implementation (average grant of around USD 3,000).

159. *Pro-poor bio-digester programme.* As part of the PADEE approach in scaling up successful ventures and providing new investment opportunities for poor rural households, the component will also support the development of a pro-poor bio-digester programme. This is an innovative new enterprise that will result in the adaptation of a successful bio-digester program to the needs of the rural poor, while scaling up such operations. This has significant positive effects in terms of innovation and improving the livelihoods of rural poor (including particularly women). It also provides an interesting alternative investment opportunity for PADEE beneficiary households for using funds received through the GCCTS. Under this component the project will finance adaptation of the technology to fit the needs of poorer households, refresher training to existing National Bio-digester Programme masons to be able to construct this adapted technology, marketing and promotion activities, construction of around 4,000 bio-digesters and support training of trainers in use of manure-based slurry and household waste-based slurry. In addition, the project will finance costs for audit of the technology for inclusion in the existing MAFF carbon credit scheme.

160. *Implementation of sub-component.* Implementation of business development services and the stimulus facility will be the responsibility of SNV in close collaboration with the MAFF-PSU. SNV will hire a number of specialists and will also use its own staff in technical support, supervision and reporting on progress. The National Biogas Programme (NBP), as part of MAFF will, together with its

existing partners take responsibility for implementation of the pro-poor bio-digester programme. SNV will provide technical assistance to the NBP activities.

### **Component 3: Project Coordination and Management**

161. Under this component the project will finance three main sub-components: (i) MAFF Project Support Unit (PSU), (ii) MoWA Implementation Support Unit (ISU) and (iii) project coordination and administration tasks carried out by the Provincial Administrations.

162. **Sub-component 3.1 – MAFF Project Support Unit.** The project will finance the equipment, staff costs, and office O&M of 13 staff within the MAFF PSU, including a 3 person M&E team. The project will finance equipment, costs of staff for the team at the PSU and office operations and maintenance costs. In addition, the project will finance international procurement technical assistance and a national financial management consultant (for the three initial project years). The project will finance annual audits of the accounts by an independent firm and funding for training and workshops (in particular technical coordination meetings with provincial staff which have been successful under previous IFAD projects).

163. Regarding M&E, the project will finance a number of studies, workshops, publications and dissemination initiatives. It will also fund dedicated international technical assistance to support initial development of the project's management information system (details are provided under sections III B and C of this report). Finally, the project will finance support for a project focal point with the Ministry of Economy and Finance and another with NCDDs.

164. **Sub-component 3.2 – MoWA Implementation Support Unit.** The project will finance the costs of setting up and maintaining a project support unit at MoWA that includes two gender coordinators and two economic empowerment coordinators, as well as a manager and a financial officer. The ISU will support coordination and implementation of gender mainstreaming activities under the project, as well as the hiring of service providers for development of training materials and for applied trainings to interest groups (component 2). In addition, the project will finance studies including stocktaking of gender mainstreaming in agriculture and an assessment of drudgery patterns of women in target areas. Finally the project will finance refresher training of MoWA staff in gender analysis, mainstreaming and other topics and training of provincial district and commune staff. More details are provided under sections III B and C of this report. MoWA support to the ongoing IFAD RULIP project will be consolidated within the ISU (ISU staff working on RULIP will be funded from RULIP project funds).

165. **Sub-component 3.3 – Provincial management.** In order to support project implementation, the project will support staff within the functional units of the Provincial Administration (one Planning and Investment Officer and one Finance Officer) in each of the project provinces. Overall coordination of the project in each province will be the responsibility of a Provincial Project Director who is a senior official of the Provincial Administration – probably a Deputy Director of Administration – who is also responsible for implementation of the NCDDs “IP3<sup>43</sup>” programme in the province. The intention is that NCDDs, MAFF and the Provincial Administration will sign a Memorandum of Understanding ensuring that PADEE will benefit from backstopping support from the IP3 advisory team, particularly the Provincial Finance Adviser. The project also supports operating costs for a District Project Director within each District Administration. The project will support necessary equipment and operating costs for these roles and will also support two consultants (on M&E and agriculture). These teams will have a leading role in supporting annual planning of project activities coordination of different stakeholders and timely and effective implementation of project activities.

### **D. Lessons learned and compliance with IFAD policies reflected in project design**

166. The project reflects the successful review of IFAD's targeting strategy in past projects as highlighted by RULIP and RPRP supervisions. This includes a first stage of geographical targeting using objective criteria and a second through a village participatory wealth ranking exercise. The current project builds on the materials developed and experience acquired by MAFF staff on this analytical and targeting tool.

167. The overall project intervention logic is an evolution of past IFAD projects which have received generally good reviews, being found relevant to the needs and strategies of the country and able to

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<sup>43</sup> “IP3” refers to the first three-year implementation plan of the National Programme for Sub-National Democratic Development, led by NCDD.

target poor segments of the population and improve their livelihoods through a combination of capital transfer in revolving funds and technical training on on-farm and off farm activities<sup>44</sup>.

168. *Lessons on group revolving funds.* While IFAD has been making extensive use of Group Revolving Funds in Cambodia with reportedly a good degree of success, it is recognized that more detailed studies on the topic are lacking, in particular studies with appropriate sampling strategies that support generalization of some of the conclusions (see more below on M&E). The key study assessing revolving funds in the IFAD country programme produced in January 2010 only covered 17 GRFs from CBRDP and RPRP, when RPRP had a total of more than 1000 GRFs set up. Still, the study's qualitative findings, the experiences from supervision missions and also field work during preparation activities suggest that GRFs can be a sound option for poor households that have a very small capital base and would have difficulties in interacting with MFIs. As a result, the project intends to retain certain important qualities of GRFs (such as social mobilization and group formation, appraisal of individual small business plans and productive use of funds, flexibility and ability to capitalize the fund) while avoiding some of their perceived weaknesses and take advantage of developments in the rural finance sector. In particular, the project intends to capitalize on the strengths of MFIs in terms of range of services offered (savings, deposits, loans, insurance) and potential to support development of small rural businesses. Finally, the project seeks to overcome some of the capacity constraints in MAFF on rural finance by providing continuous technical assistance support at the PSU through the partnership with FAO.

169. Project design will shift the focus of interventions in several aspects: (i) IGRFs will retain those functions in the group that the GRFs have been proven to handle well while the functions that they are not as good at (accounting, record keeping and reporting) will be outsourced to a professional external service provider, (ii) by reducing the burden on households in terms of managing and keeping records of the group revolving fund the project will focus on improving household's financial literacy levels and ability to interact with MFIs., (iii) the project will promote savings through training and opening of individual accounts with MFIs, (iv) by freeing up CEW<sup>45</sup> time from supporting GRF operations and accounts as in the past, the role of these facilitators can evolve towards mentoring and supporting household and interest groups.

170. *Lessons learned on capacity building.* The project will take on board the lessons learned from RPRP and RULIP in terms of focusing on more practical trainings and providing greater support for adoption by the training group, as well as provide incentives to outstanding farmers to disseminate their knowledge outside the group.

171. The project will generally continue the approach adopted in the past, which is consistent with Government policy, i.e. a decentralized and multi-disciplinary approach to extension at the provincial and district levels. However it will try to improve on certain perceived weaknesses of past IFAD interventions through the following: (i) the adoption of a modular approach to training to make it more demand driven and easier to update, (ii) a combination of training and use of funds transferred by the project around small businesses profiles from farmers that will be peer reviewed and supervised by CEWs, (iii) more in-depth and applied training approach with farmers gathered in interest groups, (iv) an enhanced role for district teams as key trainers and added support through a mobile technical team at provincial level to provide extra capacity for training delivery (in the past CEWs often ended up responsible for trainings with negative impact on quality), (v) including support for development and updating of training materials as well as validation by MAFF in order to ensure more consistency in trainings and avoid too many gifts as part of training materials (which distort incentives), (vi) the incorporation of outstanding farmers from the community in the interest groups trained to support dissemination of best practices and improve learning and (vii) creating a partnership with iDE for expansion of the FBA network in order to ensure supply of high quality inputs to project beneficiaries and allow them to sustainably benefit (including after project conclusion) from the services of business oriented proximity extension services.

172. Regarding non-land based capacity building activities the experience from RPRP and RULIP is that these are difficult to develop on a large scale given limited opportunities in the current typical trainings provided by MoWA. The project design has therefore provided more emphasis to development of new ideas and concepts in off-farm businesses development (including linkages with

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<sup>44</sup> See for example the recent IFAD COSOP Mid Term Review (June 2010).

<sup>45</sup> One key learning from past projects is how CEWs are overly focused on management of GRFs, which results in less time being spent on mentoring and advice to farmers. The changing role of CEWs in project design has been discussed in detail in section II C of this report.

industry and vocational training) and makes more use of external service providers both for materials development and support to farmers. It has also limited the amount of funds allocated to such activities as per the examples of RPRP and RULIP and to secure that exclusively sustainable market driven ventures are promoted.

173. One key lesson from past projects is the need for incentives to be well aligned for improved training quality (including both trainer effort and capacity and trainee interest and attendance). The project design therefore includes a new incentive scheme which has several key features, such as: (i) transfers to beneficiaries through the GCCTS are conditional on performance in a three year cycle (includes training attendance and good use of the funds in combination with selected applied trainings), (ii) use of mobile phone technology to track beneficiary attendance and satisfaction with training delivery (see more details under M&E) which is combined with real time information on performance of IGRFs (assessed through the central IT system with information supplied in real time by the service providers) and (iii) annual rewards to the best farmer group initiatives and performance of common interest groups in their selected initiatives.

174. *Lessons on approach to development of farmer organizations.* One key aspect of past and ongoing IFAD interventions is that the targeting based on wealth ranking is not necessarily conducive to groups of farmers being formed around common interests (such as joint marketing of a given commodity, bulk buying of inputs or other rural businesses). As a result, RPRP and RULIP groups that combined revolving funds and trainings in agricultural practices have not really developed into farmer organizations with some few exceptions (which received substantial support from district and provincial staff and still remain at a very early stage). As a result of such experience, the project design will include several new features: (i) starting with a village level group selected through wealth ranking for the purposes of targeting the poor and establishing a IGRF, (ii) splitting the initial group into two training classes for the purposes of basic training and then use CEWs as facilitators of forming interest groups around specific rural activities (such as poultry production or other) to receive further more advanced training, (ii) including outstanding farmers from the community chosen by the target beneficiaries in the interest groups to facilitate change, (iii) reinforcing trainings on leadership and group development and (iv) adding a small rural business development sub-component in partnership with SNV to develop linkages between groups of farmers and buyers in different parts of the country and support development of farmer organizations.

175. *Lessons on marketing and rural business development.* Past IFAD projects in Cambodia have included market linkages activities but mostly relying on Commune Extension Workers (CEW), District and Provincial support teams. Some progress has been achieved but the project design seeks a more professional approach by engaging an experienced business enabling service provider that is also an implementation partner and co-financier (SNV), while simultaneously leveraging the substantial network of project field staff and facilitators to reduce transaction costs. Such business and market facilitation will be a good complement to the other project activities focused on access to finance and capacity building on production and marketing technologies. There is also scope to leverage the large number of farmers and groups that have received support from IFAD in recent years under such type of activities (RPRP and RULIP projects).

176. *Lessons on project implementation and learning.* While there has been an overall good track record in IFAD project implementation in Cambodia, the performance of M&E has been seen as quite weak both in supervision mission reports and the COSOP mid-term review of 2010. The project seeks to improve M&E performance through: (i) more resources dedicated to M&E system establishment and operation, (ii) leveraging the information included in a central database of IGRFs which is fed directly by service providers supporting record keeping of funds, (iii) including a number of specific studies with a mix of qualitative and quantitative methods to improve knowledge accumulated through the project (in particular on group revolving funds and capacity building approaches) and (iv) support more knowledge dissemination through publications, the project website and other outlets to key stakeholders in the country.

177. Project design complies with key IFAD policies and strategies in relation to Gender, Targeting and Rural Finance as described in Annex 12.

### III. PROJECT IMPLEMENTATION

#### A. Approach

178. The project implementation approach is based on the coordination of the components and concerned agencies in delivering effective support to the economic empowerment of the poor rural beneficiaries organised in the IGRF. Gender mainstreaming and the specific needs of poor rural women are taken into account in all aspects of project design and implementation. Formation of the IGRF groups will be based upon participatory wealth rankings and assessment of willingness and capacity to participate, and the capacity building support provided to the groups will consist of a basic common curriculum plus options selected by the beneficiaries. The structure of the Group Conditional Cash Transfers (GCCT) Scheme is designed to provide incentives for active engagement by the beneficiaries. The re-designed role of the Commune Extension Workers (CEW) is expected to facilitate project beneficiaries to identify and take advantage of opportunities available to them and in particular to build links between poor farmers and market actors including buyers and traders.

179. PADEE introduces innovations in sustainable access to finance, technology and markets for poor smallholder farmers by building upon the experience of previous IFAD-supported projects in Cambodia. Therefore, the implementation arrangements for PADEE will reflect those of the previous projects and make maximum use of the institutional capacity and experience developed. However, as PADEE introduces significant changes to the strategy and balance of activities compared to earlier projects, the implementation arrangements are adjusted to reflect this as well as lessons learned in the area of project administration.

180. The Royal Government of Cambodia (RGC) is in the early phases of a 10 year National Program for Sub-National Democratic Development (NP-SNDD) which will decentralise many aspects of development planning and public expenditure management to Provincial, District and Commune Councils. This program has far-reaching implications for parts of the administrative system. It is envisaged that technical agencies at Provincial and District level will report directly to a unified administration at each level, while maintaining vertical sectoral linkages. The “voice” of local communities in their development and the accountability of the administration to local communities will be strengthened. IFAD has engaged with and supported the pilot phases of decentralisation in Cambodia since 1998 and remains committed to working with the emerging decentralised structures. In PADEE, it is expected that implementation through the decentralised structures will ensure a high quality of coordination between agencies at local level and enhance a demand-driven approach to service delivery. PADEE will cooperate with the initial implementation phase of NP-SNDD (known as IP3), implemented by NCDD, to the mutual benefit of both programs.

181. The increased use of private sector service providers is a particularly important feature of the PADEE implementation strategy. A number of key service providers will be engaged by the project at national level to perform tasks requiring specialist technical expertise. The involvement of these service providers will ensure high implementation quality while also broadening the experience and strengthening the capacity of the government staff who work alongside them. At the local level, the possibility exists to engage service providers to enhance the range of options for training support available to the project beneficiaries.

182. The capacity building approach is based on MAFF's multi-disciplinary extension strategy. Training approaches will be integrated at two levels: first, integration of production techniques with marketing, gender and post-harvest management to form “packages” which will be constantly updated in close collaboration with the technical agencies; and second, promoting integration of knowledge of improved production and marketing technologies with access to finance and practical application of techniques around small rural business activities.

183. The project aims to enhance the sustainability of the IGRF groups through a gradual transfer of the costs of supporting the groups (particularly the book-keeping and reporting functions) to the groups themselves, financed by interest on loans made. The larger size of the IGRF groups, the emphasis on financial literacy as a pre-condition for grant support, the efforts to build links between the IGRF groups and micro-finance institutions and the provision of support through private sector agencies are all intended to contribute to this end.

184. Support to the IGRF groups will be phased in over a three-year period after project inception, so that the maximum number of groups receiving support will be reached in 2015. Each group will receive GCCT transfers, conditional on achievement of eligibility criteria, over three years and will

also receive a structured program of capacity building, with a basic training package and a “plus one” package in the first year, and demand-driven trainings to interest groups provided in Year 2.

185. The project will finance the operational cost of service provider support to the IGRF groups on a reducing scale for the three years of project intervention per group. Costs will be covered 100% in the first year, two-thirds in Year 2 and one-third in Year 3, with the balance of costs (and all costs after Year 3) financed from interest on loans. This increasing contribution from the IGRFs reflects their increasing ability to pay for the services of the provider in relation to the increasing size of the fund.

## **B. Organizational framework**

186. Ministry of Economy and Finance (MEF) is the official Representative of the Borrower/Recipient, i.e. Kingdom of Cambodia, and responsible for: (i) Providing inter-agency coordination when required; (ii) Fulfilling the government fiduciary oversight and management responsibilities; (iii) Providing sufficient counterpart contribution in a timely manner to finance the Project activities, including payment of government staff salaries; (iv) Timely processing WAs, approval of procurement actions and other necessary documents according to the SOP. MEF will assign one officer of its Department of Investment and Cooperation to work full-time on PADEE for the duration of the project.

187. MAFF will be the Executing Agency. MAFF will take responsibility for overall project management, coordination and reporting while agencies and line departments of MAFF will undertake the majority of technical work at national and sub-national levels. Ministry of Women's Affairs (MoWA) and NCDDs are assigned important roles in project implementation at national level while key technical tasks will be contracted to private sector (or non-profit) service providers. At sub-national level, project implementation arrangements will be aligned with the emerging decentralised administrative structures.

188. MAFF will assign project management, coordination and M&E tasks to its Project Support Unit. This is a result of the positive experience of MAFF-PSU in implementing previous IFAD-funded projects since 1998, and the available capacity within MAFF-PSU after the closure of the RPRP at the end of 2011. MAFF-PSU will be led by a National Project Director and a Deputy National Project Director and will be staffed by five further administrative officials and three support staff. The project will establish an M&E Unit within MAFF-PSU with three staff who will be MAFF officials and/or contracted staff with the appropriate qualifications.

189. The responsibilities assigned to MoWA for overseeing gender mainstreaming within PADEE and for supervision of the off-farm activities training are in line with MoWA mandate and capacity and similar to the role MoWA plays in RULIP. It is expected that by contracting the off-farm activities training to a service provider working under MoWA supervision will result in a high quality of training delivered. MoWA will establish an Implementation Support Unit which will consolidate MoWA responsibilities for PADEE and for RULIP. PADEE will support the ISU Manager and Finance Officer as well as two Gender Officers and two Economic Empowerment Officers who will work full-time on the project.

190. NCDDs is responsible for implementation of the RGC's 10-year National Program for Sub-National Democratic Development (NP-SNDD) which includes capacity building of the Provincial and District Administrations. In line with this mandate, NCDDs will be responsible for ensuring effective communications between MAFF-PSU and the Provincial Administrations, and that the Provincial and District Administrations are able to carry out their roles in project implementation. NCDDs will assign one official as focal point for NCDDs responsibilities for PADEE and for RULIP. This official will be funded by RULIP until the end of that project and will then be funded by PADEE.

191. The technical agencies of MAFF will be responsible for preparation of the on-farm activities training packages, assisted by external consultants as necessary. The technical agencies will also directly implement field trials and demonstrations in cooperation with the sub-national project structures.

192. Key service provider agencies will be contracted directly to MAFF except in the case of off farm activities, which will be contracted by MoWA. These agencies will include: (i) a service provider for capacity building of the beneficiaries in financial literacy (component 1), and (ii) one or more service providers to design, prepare and deliver trainings in non land-based activities (Component 2). In addition, a service provider to support record keeping, accounting and financial reporting of the IGRF groups (component 1) will be contracted directly by FAO.

193. Implementation of sub-component 2.3 (Rural Business Development Services and Rural Business Stimulus Facility, RBSF) will be assigned to the SNV agency who will act as an implementing partner and co-financier. SNV will work in close cooperation with MAFF-PSU and with a RBSF Grants Award Committee which will include representatives from MoWA. Financial management of the grants under the RBSF will be the responsibility of MAFF-PSU. The pro-poor biodigester activities will be implemented by the National Bio-Digester Programme of MAFF with technical assistance from SNV.

194. In each Province, the Provincial Administration (PA) will take overall responsibility for project coordination and management. PA will undertake work planning, administrative and financial management roles and will report to MAFF-PSU with copies of reports to NCDDs. The Provincial Administration will lead AWPB preparation and project coordination at Provincial level but will be closely supported in these tasks by PDA. Similarly, project coordination at District level will be led by a District Project Director who is a senior staff of the District Administration but will be closely supported by the project focal point in the District Agriculture Office. Project M&E at Provincial level will be led by PDA. The Provincial Administration will contract other tasks to Provincial and District level technical agencies following the procedures of the NCDDs Finance and Administration Manual. This arrangement follows the precedent of previous IFAD-funded projects including RPRP. The Provincial Administration itself is a newly created entity but is expected to adopt the development administration procedures, and many of the staff, of PRDC-ExComs<sup>46</sup>. NCDDs provides support and technical assistance to the Provincial Administrations and will ensure adequate capacity. The Provincial Administration will assign a senior official to act as Provincial Project Director. Day-to-day finance and administration tasks will be carried out by the functional units of the Provincial Administration which will include one Planning and Investment Officer and one Finance Officer assigned to work full time on PADEE. The Provincial Administration will contract technical tasks to the Provincial Department of Agriculture (PDA) and to the Provincial Department of Women's Affairs (PDoWA). The PDA Provincial Support Team will include a Provincial Project Director and a Project Manager (in Prey Veng and Takeo) plus a Planning and M&E Officer and a Finance Officer as well as technical staff. The PDoWA team will consist of one Gender Officer and one Economic Empowerment Officer working full-time on PADEE in each province. These departments will each assign two officials to work full-time on PADEE implementation at provincial level as part of the Provincial Support Team (PST). The PST will be assisted by an Agriculture Adviser hired by the project.

195. The District Support Teams consist of one focal point in the District Agriculture Office and one focal point in the District Office of Women's Affairs working full-time on PADEE. Additional technical staff may be employed as members of the Mobile Support Teams or may carry out PADEE responsibilities part time (funded by DSA and operating costs). The District Support Teams are coordinated by the District Project Director who is a senior official of the District Administration. The District Support Teams, together with the Commune Extension Workers (CEW) will be responsible for formation and support of the IGRF groups including facilitation of trainings with the support of technical specialists of PDA. Placing the DST under the District Administration facilitates inter-agency cooperation and conforms to the emerging decentralised structures, but the tasks assigned to the administration itself are limited in line with existing capacity. Moreover, given the amount of trainings to be delivered and the required quality, a mobile team of technical specialists will be hired and trained for the three main years of implementation (2013 to 2015). The team size will vary according to the province (as number of communes covered is different) to ensure an adequate ratio of training groups per trainer annually.

196. The Commune Councils are the lowest tier of government and consist of a directly elected Council led by a Chief and supported by a Clerk who is an employee of the Ministry of Interior. The Commune Councils will participate in local activities in line with their mandate for local development planning and implementation and in particular will coordinate activities with the Commune Extension Workers. CEWs are expected to report project activities and planned trainings to CCs. In addition, CCs will participate in project activities such as field days and rewarding best practices at commune level.

197. One male and one female Commune Extension Worker (CEW) will be recruited (or retained from RPRP) in each Commune. Under PADEE, the CEW will not be required to provide support to the financial management of the IGRF groups and instead will play a broader role in facilitation of group

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<sup>46</sup> Executive Committees of the Provincial Rural Development Committees

formation, selection of priority activities and training and in assisting groups and individual farmers to link to market opportunities.

198. Further details of project implementation arrangements are provided in Annex V.

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

199. *Planning.* Each province will prepare an Annual Work Plan and Budget based on the project costs at appraisal adjusted for actual current market prices of a given year and following consultations with districts and communes under their jurisdiction. All project implementing institutions at national and sub-national level will meet to review and consolidate the AWPBs in September each year. MAFF PSU submits a final AWPB to IFAD for no-objection by November 15th every year. Selected RIMS and other indicators included in the Logical Framework will form the basis of project planning each year, and will be included in Annual Work Plans and Budgets and will be reported against in the Annual Implementation Report.

200. *M&E system.* The system aims to provide reliable information on the effectiveness and impact of project activities in achieving the project objectives. It will include both a Management Information System (MIS) and impact evaluation initiatives. In particular, it will measure the performance of the various external service providers involved in the project, the beneficiaries' experiences with the Improved Group Revolving Funds, and the quality of trainings provided and the level of adoption of learning from applied trainings. Finally the system will measure the effect of the project in contributing towards the overall project objective. The project contains several innovative features, which will be thoroughly evaluated to provide lessons learned for future adoption in projects or by other actors in Cambodia.

201. *Indicators.* In the first instance, these relate mainly to reaching the expected number of beneficiaries and ensuring correlation between beneficiaries reached and main target groups, by monitoring poverty incidence and gender distribution. Other indicators seek to monitor the delivery of project services (mainly conditional capital transfers, financial literacy training, and applied training). Outcome indicators consider the use of services and adoption of learning. Project development indicators aim to capture the effects of project activities on agricultural production, income diversification and poverty levels.

202. *Data collection.* The M&E system will rely on several data collection mechanisms. Inputs, outputs and some selected outcome data will be tracked using an MIS coordinated by the MAFF PSU and this will be tailored to the main project activities and implementing agencies. One of the key elements of the system is the central IT system based on MicroBanker software that will make data on IGRFs available in real time. Another one is the use of mobile phone technology for tracking training attendance and satisfaction, which will be consolidated in the project MIS database.

203. The data will be provided directly by the specialized service provider's field agents through laptops used for field work making use of good internet connectivity in Cambodia. In addition the data will be complemented by information gathered through the CEWs engaged by the project and PSTs. Data on provision of applied trainings will be tracked by MAFF-PSU, MoWA-ISU and decentralized agencies and collated in the MIS. The MIS will also be used to monitor project management and coordination activities. It will support the annual planning and budgeting process and production of half-yearly and annual progress reports during implementation. Finally, it will be the basis for information on the performance-based incentive scheme of PADEE, namely for decisions on transfer of the GCCTS, as well as for assessing performance of trainings and identify opportunities for improvement.

204. *Measuring project impact.* Project impact will be assessed through a number of studies and reviews that will provide information on the main development outcomes of the project but also a continuous stream of information that can be used to improve the project during implementation. The studies include a main impact study with control and treatment groups and associated studies tailored to the different project activities that will complement the information gathered through the project management information system. The main impact evaluation study will be outsourced by MAFF PSU with the support of an international consultancy. Other impact studies on rural finance, farmer associations and applied training will be implemented by project partners FAO and SNV.

205. *Knowledge sharing and lessons learned.* PADEE M&E activities will create and promote products useful also outside project boundaries. Beyond measuring project impact, several studies useful for future policy formulation and development interventions have been budgeted under the



project. This includes studies on the practice of revolving funds in development projects in Cambodia, reviews of Farmer Fields Schools, as well as Case Studies of Farmer Organizations in the country. The outcomes of these studies as well as more general lessons learned will be shared and discussed with both project stakeholders and wider audiences mainly through workshops, technical meetings and a project website, which make up the main knowledge sharing activities of PADEE. Support is also included for publication and dissemination of the above mentioned studies.

206. *Implementation arrangements.* The project will finance a small M&E unit at MAFF PSU consisting of two M&E officers and one database and webpage manager, for the duration of the project. Each province will be supported by one senior M&E advisor as part of the provincial management team for the duration of project implementation. The advisors will provide training on M&E to provincial, district and commune staff and support implementation of M&E activities. MAFF PSU will be in charge of including study results and data in progress reports as well as produce the MTR and final reports. In particular, the MTR study (two years after the disbursements to groups) will assess the ability of the project approach to improve smallholder productivity, namely for the very poor households in order to inform any necessary adjustments to design. In addition, the project approach in financing firstly working capital needs and small investments by farmers will also be assessed at MTR given the implementation of other upcoming projects and potential larger farmer additional investment needs. At the start of the project, there will also be funds for international technical assistance to help set up and train staff in the use of the management information system based on the one used by other IFAD projects and ensuring that integration with data provided by external service providers as well as project partners is efficient.

#### **D. Financial management, procurement and governance**

207. **Financial management.** Although significant improvements have been made in the overall public financial management environment in Cambodia, these have yet to make a substantial impact at the Ministry level. The project will be operating in a high risk environment and financial management arrangements incorporate a number of mitigation measures based on experience with other projects in order to reduce risk to manageable levels.

208. At the national level PADEE would apply the Standard Operating Procedures (SOP) for externally financed projects/programs in Cambodia, issued by MEF, as outlined under sub Decree No. 14 ANK.BK dated 26 February 2007 and its subsequent amendments. PADEE supported activities at the Provincial and District level will follow the administrative structures, systems and procedures of the Provincial Administration Office, in accordance with the Administration and Financial Management Manual, issued by NCDD, dated 22 December 2008.

209. The implementing agencies (IAs) and partners shall implement activities on the basis of the Project Design Document, Project Implementation Manual and the approved AWPB and Amendments which are consolidated by the MAFF PSU based on the AWPB submitted by MoWA ISU and the 5 Provincial Administration Offices. The consolidated AWPB's of MAFF PSU shall include the budgets and work plans as submitted by the implementing partners as contracted.

210. MEF and the MAFF PSU will open and maintain in the National Bank of Cambodia the following USD Bank Accounts: (i) a Designated Account in USD to receive the Loan and Grant proceeds from the Loan and Grant Accounts maintained by IFAD; (ii) a Designated Account in USD to receive the Government Counterpart Funds for the Project.

211. IFAD will advance funds from the Loan and Grant Account to the Designated Loan and Grant Account based on an approved AWPB and cash flow projection which will be on the basis of the quarterly projected project activities. The justification of advances will be based on expenditures statements (withdrawal applications) to be submitted every penultimate quarter which would be the basis for the release of subsequent advances to the Designated Account. MEF shall transfer funds from its resources to the separate Government Counterpart Funds Designated Account based on the approved AWPB.

212. MEF will authorize the opening of the following USD Project Account and USD Sub-National Project Account for the IFAD Loan and Grant: (i) Two Project Accounts at the National Level, which will be maintained and operated by MAFF PSU and MoWA ISU respectively, (ii) Sub-National Project Account for each of the 5 Provincial Administrations and (iii) Sub-National Project Account for each of the 5 Provincial Department of Agriculture. In addition, MEF will also authorize the opening of the

same number and type of USD Project Account and USD Sub-National Project Accounts for the Government Counterpart Funds.

213. The Provincial Department of Women's Affairs will receive advances from the Provincial Administration on a quarterly basis for its activities requiring the PDoWA to report its expenditures on a monthly basis. At the district level, due to the limited accounting and administration functions of the District Administration, the funds to support the project implementation at the district and commune level would flow through an advance facility from PDA, PDoWA also Provincial Administration.

214. MAFF PSU will recruit a Financial Management Specialist (consultant) during the initial project implementation stages with the following tasks: (i) undertake a training needs assessment for all finance staff and develop a five year financial management training plan to strengthen the finance staff in view of the PFM reform agenda; (ii) develop the internal control framework for the PADEE supplementing the generic framework set out under sub Decree No. 14 ANK.BK dated 26 February 2007 and the Administration and Financial Management Manual, issued by NCDD, dated 22nd December 2008 and amendments as such; (iii) the development of the Chart of Accounts (COA); and (iv) to oversee and assist the PSU in the upgrade and adoption of an updated version of the Peachtree accounting software as being used by the Provincial Administration.

215. A Financial Management Specialist (consultant) will be recruited by MAFF PSU to support the Finance Officers in the development of a training programme and to provide periodic training to the project finance staff, which will help mitigate against the constant staff movement.

216. An internal control framework will be developed to supplement the existing generic framework. The framework will provide details of how controls relating to fuel, training, per diems etc. should operate. The purpose is to ensure that all such expenses are properly authorized and that appropriate documentary evidence is available to support the expenditure.

217. The MAFF PSU will procure a Peachtree accounting software, to ensure that it maintains consistency with the Provincial Administration which is currently this software. The software, which is available over the shelf should be adapted and customized to the requirements of the project. A chart of accounts (COA) will be created as detailed in the SOP and FMM of MEF with a clear linkage to the AWPB incorporating additional sub-classification to capture different sources of funds, locations and disbursement categories for the Project. The COA will be prepared with assistance from the Financial Management Specialist and annexed to the Project Implementation Manual.

218. The MAFF PSU shall submit withdrawal applications on a quarterly basis justifying the advances received based on expenditures reports submitted by the implementing agencies. The withdrawal application will be prepared on a timely basis and submitted IFAD by MAFF PSU within 15 days after the end of each quarter starting from the first quarter after the first disbursement is made.

219. In order to ensure greater liquidity for the project and to facilitate foreign currency payments, the Implementing Partners disbursement will be made through direct payment request to be made by the MAFF PSU through MEF to IFAD. This will also ensure that large payments to the Implementing Partners are adequately managed.

220. Semi-annual and annual financial statements will be prepared individually by each Implementing Agency and consolidated by MAFF. The annual financial statements for the Project are subject to annual audit by an external auditor to be appointed under audit bundling exercise. The audit will be carried out with greater emphasis on internal controls, according to the TOR acceptable to IFAD. The audit reports will be submitted to IFAD within six months after the end of each fiscal year.

221. An audit firm acceptable to IFAD will be selected by MEF under the bundled audit arrangement with other World Bank and IFAD's financed projects in the Cambodia portfolio. The cost of the audit will be financed from Project proceeds. The firm will audit the Project's consolidated annual financial statements. The audit will be performed in accordance with International Standards on Auditing complemented by terms of reference (TOR) acceptable to IFAD. The financial statements will be prepared in accordance with the cash basis of accounting in accordance with International Public Sector Accounting Standards (IPSAS).

222. The auditors will issue separate opinions covering the financial statements, statements of expenditures and the management of designated accounts, as well as a management letter outlining any internal control weaknesses. The audited financial statements and audit report will be submitted to IFAD within six months after the end of each fiscal year and after the Project closing date. The

implementation status of the audit recommendations will be provided by each Implementing Agency in the separate section of quarterly IFRs to be submitted to MEF and IFAD.

223. **Procurement.** Procurement under the project will be carried out in accordance with IFAD's Procurement Guidelines and Procurement Handbook of September 2010. For each contract to be financed by IFAD proceeds, the types of procurement methods, the need for pre or post-qualification, estimated cost, prior review requirements and time-frame are to be agreed between the MAFF PSU and IFAD respectively in the Procurement Plan to be submitted by the Implementing Agencies. IFAD prior review threshold will be established at USD 100,000 for goods and works and USD 50,000 for consultancy services and services.

224. The project includes a number of actions to strengthen procurement capacity of IAs and mitigate procurement risks. In terms of capacity, the project will include an International Procurement Adviser who will be responsible for providing procurement and fiduciary services for PADEE in addition to the MAFF PSU Procurement Officer, while all major procurement of MoWA-ISU will be undertaken by the MAFF PSU limiting MoWA-ISU's procurement to mainly local shopping and some direct procurement linked to local training at the district and commune levels. In addition, the design envisages three implementation partners, SNV, FAO and IDE, which will provide technical advisory support to PADEE. The implementation partners will advise and support the MAFF PSU on procurement of key service providers and major procurement of goods. The technical advisory support includes support in the preparation of major bid documents, review of the technical specifications and also terms of references besides review on contract performance. This will enable and enhance MAFF PSU capacities through on the job training ensuring the quality of the identification, selection and management of various service providers and goods.

## **E. Supervision**

225. Project supervision in the first 12 to 18 months will focus on the key preparatory activities for effectively rolling out the project in the selected communes. The project implementation schedule has been structured in such a way that the initial 12 months are essentially spent making sure all contracts, staff and capacity building materials are in place in order to then move to direct beneficiary support.

226. The first key topic of supervision will be on overall programme management and includes: (i) ensuring that the AWPB for the first year is prepared and is operational and (ii) that central and decentralized level project staff are hired, equipped and knowledgeable about the project approach.

227. The second key focus will be on ensuring that contracts for the key service providers have been finalized and that working arrangements with the implementation partners are adequately implemented. This includes the service providers under components 1 and 2 and will involve both MAFF-PSU and MoWA-ISU. Supervision will focus on ensuring technical quality of the terms of reference and of the procurement process as it is key for project success.

228. The third key topic is the development of training materials, logistics and other preparatory activities for applied training. Supervision will focus on ensuring high quality training materials being developed through a participatory process in MAFF with the support of SNV. It will also evaluate how well prepared and organized provincial and district level staff are for implementing the applied training incorporating new materials and approaches.

229. The fourth will be on the studies for project M&E and the MIS implementation. This includes mainly ensuring that the empirical strategy for the baseline survey is sound as well as that a good service provider is hired. Moreover, the MIS will need to be well articulated with the IGRF database and it is necessary to ensure that central and decentralized staff are aware of reporting responsibilities.

230. Expertise required includes: (i) the Country Programme Manager, (ii) the National Project Director at the MAFF PSU and his staff, (iii) financial management and procurement specialists, (iv) rural finance specialist to support the contractual arrangements for the service providers and the quality of training materials, (v) extension specialist to review progress on preparation of training packages for on farm training, (vi) M&E specialist to review technical details of baseline survey and contractual arrangements for key studies as well as progress in implementation of the M&E system.

## **F. Risk identification and mitigation**

231. The key implementation risks that may hamper the achievement of project development objective are mainly related to: (i) the delivery and coordination capacity of implementing institutions; (ii) the scaling up features that create a risk in terms of quality of service delivery; (iii) the innovative features of the project and; (iv). How likely are the risk averse poorest rural households to adopt improved technical package and effectively invest in raising their productivity.

232. Regarding delivery and coordination capacities, mitigation measures include: (i) an overall greater emphasis on external service providers relative to direct implementation by central and decentralized government institutions, (ii) extra technical assistance being made available on matters (such as M&E) and to support procurement and financial management including support by implementation partners and (iii) project implementation set under the responsibility of MAFF PSU which has accumulated substantial experience in implementation of IFAD projects such as the Rural Livelihoods Improvement Project and the Rural Poverty Reduction Project and can make experienced staff available as RPRP has been completed just before the project starts.

233. The scaling up risk that result from the coverage of five provinces and almost 250 communes is mitigated primarily by a design that focus on only two well integrated components further reduced by the following measures: (i) a phased approach to project implementation with the first 12 months being used for preparatory activities such as materials development, training of trainers and careful design of intervention logistics (ii) inclusion of mobile technical support teams to reinforce district level training implementation and (iii) the use of external service providers to add implementation capacity to government staff.

234. The innovative pilot on rural business development may encounter difficulties in finding new ventures and linkages between project beneficiaries and supply chain agents but this is by definition what innovation does: take risks to explore new possibilities. Nevertheless, the risk mitigation measures include: (i) a partnership with SNV who has experience in this area in Cambodia and elsewhere; (ii) the modest scale of the pilot that reduces risk exposure and (iii) using a fund approach whereby funds can more easily be reallocated to other project activities during project implementation if need be.

235. With regard to the risk aversion factor, the whole strategy of this project is indeed conceived to offer a safe learning environment that will enable the target group to overcome this obstacle. The factors to create such an environment have been identified based on the lessons learned from past practice. Access to capital has been made conditional on successful training and application of such technologies and paced with the development of group and individual capabilities

## **IV. PROJECT COSTS, FINANCING, BENEFITS AND SUSTAINABILITY**

### **A. Project costs**

236. Estimated project costs including contingencies are shown in the table below and are further detailed in Annex 9. Total project costs are of around USD 43.2 million over a six-year implementation period and include USD 2.5 million of contingencies. Project costs were estimated based on prices in Cambodia in July 2011. Price contingencies are estimated at 6% of base costs as a result of domestic inflation average of 3.4% over the project implementation period and international inflation of 0.5%<sup>47</sup>. The KHR/USD exchange rate is assumed stable at KHR 4,100 per USD in line with the past five years and consistent with a relatively fixed exchange rate (with little central bank intervention) in the context of a highly dollarized economy.

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<sup>47</sup> Domestic inflation based on IMF forecasts and international inflation uses The World Bank's MUV index estimates.

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	(KHR '000)			(US\$ '000)			%	% Total
	Local	Foreign	Total	Local	Foreign	Total	Foreign Exchange	Base Costs
<b>A. Improved Access to Financial Services</b>								
1. Group Conditional Capital Transfer Scheme	55,565,981.2	1,948,584.5	57,514,565.6	13,552.7	475.3	14,027.9	3	34
2. Financial Literacy and Linkages with MFI	9,282,127.4	217,300.0	9,499,427.4	2,263.9	53.0	2,316.9	2	6
<b>Subtotal</b>	<b>64,848,108.5</b>	<b>2,165,884.5</b>	<b>67,013,993.0</b>	<b>15,816.6</b>	<b>528.3</b>	<b>16,344.9</b>	<b>3</b>	<b>40</b>
<b>B. Improved Access to Technology and Markets</b>								
1. Support to Innovation in Capacity Building	6,834,925.8	2,538,228.0	9,373,153.8	1,667.1	619.1	2,286.1	27	6
2. Applied Training and Capacity Building	54,980,833.3	4,451,621.8	59,432,455.1	13,410.0	1,085.8	14,495.7	7	36
3. Small Rural Business Development	13,237,534.7	2,344,564.5	15,582,099.2	3,228.7	571.8	3,800.5	15	9
<b>Subtotal</b>	<b>75,053,293.8</b>	<b>9,334,414.3</b>	<b>84,387,708.2</b>	<b>18,305.7</b>	<b>2,276.7</b>	<b>20,582.4</b>	<b>11</b>	<b>50</b>
<b>C. Project Co-ordination and Management</b>								
1. MAFF Project Support Unit	6,569,497.0	4,199,084.1	10,768,581.1	1,602.3	1,024.2	2,626.5	39	6
2. MoWA Implementation Support Unit	1,603,564.3	229,709.6	1,833,273.9	391.1	56.0	447.1	13	1
4. Provincial Management	2,544,441.2	569,144.1	3,113,585.3	620.6	138.8	759.4	18	2
<b>Subtotal</b>	<b>10,717,502.4</b>	<b>4,997,937.8</b>	<b>15,715,440.2</b>	<b>2,614.0</b>	<b>1,219.0</b>	<b>3,833.0</b>	<b>32</b>	<b>9</b>
<b>Total BASELINE COSTS</b>	<b>150,618,904.8</b>	<b>16,498,236.6</b>	<b>167,117,141.4</b>	<b>36,736.3</b>	<b>4,024.0</b>	<b>40,760.3</b>	<b>10</b>	<b>100</b>
Physical Contingencies	447,433.0	-	447,433.0	109.1	-	109.1	-	-
Price Contingencies	9,566,098.5	171,739.7	9,737,838.2	2,333.2	41.9	2,375.1	2	6
<b>Total PROJECT COSTS</b>	<b>160,632,436.3</b>	<b>16,669,976.3</b>	<b>177,302,412.6</b>	<b>39,178.6</b>	<b>4,065.8</b>	<b>43,244.5</b>	<b>9</b>	<b>106</b>

## B. Project financing

237. The table below indicates the proposed project financing in USD by component and financier. The bulk of the financing is provided by IFAD in the form of a loan (USD 17.5 million) and a grant (USD 17.5 million). FAO will fund the financial literacy support activities through a TCP facility of USD 0.3 million. SNV will provide financing of technical assistance, studies and operating costs relative to the Small Rural Business Development activities of the project, as well as for component 2.1 totalling almost USD 0.7 million. IDE funding of around 0.4 million will include technical assistance management support for the expansion of the FBA network in project areas. Government funding is estimated at USD 4.7 million of which USD 2.3 million represents taxes and accounts for 55% of all project equipment expenditure and around 20% of total project recurrent costs. Finally, beneficiaries will be expected to contribute with USD 2.1 million, which includes USD 0.9 million of cost sharing for the Improved Group Revolving Funds' service provider (in accounting and record keeping) and around USD 0.7 million in contributions for accessing the Rural Business Stimulus Facility grants<sup>48</sup>.

	SNV		FAO		IDE		IFAD GRANT		IFAD LOAN		Beneficiaries		The Government		Total		For. Exch.	(Excl. Taxes)	Duties & Taxes
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%			
<b>A. Improved Access to Financial Services</b>																			
1. Group Conditional Capital Transfer Scheme	-	-	-	-	-	-	515.5	3.6	12 675.8	89.6	918.8	6.5	41.2	0.3	14 151.3	32.7	478.6	13 483.5	189.2
2. Financial Literacy and Linkages with MFI	-	-	313.3	12.4	-	-	1 945.7	77.1	49.2	1.9	-	-	216.2	8.6	2 524.5	5.8	53.0	2 229.2	242.2
<b>Subtotal</b>	-	-	313.3	1.9	-	-	2 461.3	14.8	12 725.0	76.3	918.8	5.5	257.4	1.5	16 675.8	38.6	531.6	15 712.7	431.5
<b>B. Improved Access to Technology and Markets</b>																			
1. Support to Innovation in Capacity Building	497.2	20.2	-	-	-	-	1 437.6	58.4	363.5	14.8	-	-	165.2	6.7	2 463.4	5.7	629.1	1 650.9	183.4
2. Applied Training and Capacity Building	-	-	-	-	378.5	2.4	11 057.2	68.9	1 326.8	8.3	-	-	3 284.6	20.5	16 047.1	37.1	1 097.1	13 536.8	1 413.2
3. Small Rural Business Development	171.3	4.4	-	-	-	-	586.1	14.9	1 706.7	43.5	1 275.0	32.5	184.6	4.7	3 923.7	9.1	578.1	3 101.0	244.6
<b>Subtotal</b>	668.5	3.0	-	-	378.5	1.7	13 080.9	58.3	3 397.0	15.1	1 275.0	5.7	3 634.3	16.2	22 434.2	51.9	2 304.3	18 288.7	1 841.2
<b>C. Project Co-ordination and Management</b>																			
1. MAFF Project Support Unit	-	-	-	-	-	-	1 511.3	53.7	743.1	26.4	-	-	558.6	19.9	2 813.1	6.5	1 032.6	1 589.1	191.3
2. MoWA Implementation Support Unit	-	-	-	-	-	-	237.8	49.1	166.9	34.4	-	-	79.9	16.5	484.6	1.1	56.6	382.8	45.2
4. Provincial Management	-	-	-	-	-	-	208.7	24.9	468.1	55.9	-	-	160.1	19.1	836.9	1.9	140.6	617.3	79.0
<b>Subtotal</b>	-	-	-	-	-	-	1 957.8	47.4	1 378.1	33.3	-	-	798.6	19.3	4 134.5	9.6	1 229.9	2 589.2	315.5
<b>Total PROJECT COSTS</b>	668.5	1.5	313.3	0.7	378.5	0.9	17 500.0	40.5	17 500.1	40.5	2 193.8	5.1	4 690.3	10.8	43 244.5	100.0	4 065.8	36 590.6	2 588.1

## C. Summary benefits and economic analysis

### Benefits and beneficiaries

238. PADEE activities are expected to directly benefit around 90,000 households, after allowing for some overlap between activities. This represents almost 20% of households living in the project target communes. The estimated breakdown is the following:

- An estimated 49,000 IGRF member households constitute the primary project target group and will therefore benefit from the full package of project activities, i.e. a combination of conditional capital transfers, technical capacity building on household budget and finance, a range of basic and advanced agricultural production and marketing techniques, as well as non-land based income generating activities and access to the FBA network.
- Around 25,000 members of existing farmer organizations in the five project provinces, (including members from around 700 groups of former IFAD projects CBRDP and RPRP) will receive initial consultation and guidance on their opportunities for improved access to finance within the PADEE project. It is expected that half of the members will go on to benefit from

<sup>48</sup> Part of the beneficiary contribution is expected to take the form of a credit through local financial institutions.

financial literacy capacity building activities, and also receive support to link up with MFIs or the special service provider for record keeping, accounting and reporting, or to individualize their fund balances, depending on their choice.

- Around 6,000 outstanding farmers in IGRF villages or neighbouring villages will be given the opportunity to partake in the IGRF on-farm trainings alongside the IGRF members.
- Almost 700 additional households in project communes (which are not part of IGRFs) are expected to benefit from the non-land based income generating trainings and development of off farm business ventures alongside the IGRF members.
- Out of the 49,000 IGRF beneficiary households, outstanding farmers and others in the project areas, around 1,500 are expected to be involved in business plans through the Small Rural Business Development pilot.
- Around 24,000 households in the project areas will benefit from demonstrations on improved seed and crop diversification, of which 8,000 are expected to be additional beneficiaries (not having benefited directly from other project activities).
- Around 4,000 PADEE households will benefit from pro-poor bio-digesters.

239. Indirect beneficiaries include those of other projects or in other parts of the country who will benefit from the improved training materials being developed as part of PADEE (this includes material for financial literacy, applied on-farm training and off-farm training). It also includes buyers and other supply chain agents associated with the Small Rural Business Development ventures developed by the project. Finally a wide range of service providers (public and non-public) will benefit from capacity building activities including almost 500 CEWs, VAHWs and 200 FBAs, which will result in positive externalities for people living in project target areas that are not directly targeted. Finally, the increased agricultural production and economic activity in project areas and significant coverage by commune is expected to also benefit a larger number of people in target communes and districts through general equilibrium effects.

240. By improving access to finance and to improved agricultural technology and markets, it is expected that PADEE activities will release benefits in terms of more agricultural investments, increased agricultural productivity, and diversification of income sources. Access to credit and on-farm training is expected to yield increased and improved input use at the farm level. Similarly, access to credit and training in non-land based income generating activities will produce benefits in the form of more efficient small-scale livestock production, and increased incomes outside agriculture. More stable incomes due to risk mitigation are also considered a key benefit of the off-farm training, which seeks to create non-seasonal income-earning opportunities for the poorest farmers. Bio-digesters will improve energy efficiency at household level and reduce fuel wood costs, have positive environmental and health effects, generate labour during construction and provide a source of high quality fertilizer.

241. *Gender.* The project will have a positive impact on gender relations through enhancing the role of women and bringing about a transformation of gender relations in the process of social and economic development. It will promote the participation of women in the decision-making processes within the local communities and also at district and provincial levels. All staff training programmes will include gender awareness, analysis and monitoring and specific targets have been set for the selection of women as staff for the project. Gender considerations will be mainstreamed in all project activities through the support provided by the MoWA and PDoWAs. The latter will provide staff to the DSTs, to raise awareness, provide the necessary gender training and introduce gender impact analysis and monitoring as part of the annual participatory impact assessments. Project monitoring activities will involve the commune focal point for women and children. Training and extension activities will be targeted at those responsible for a particular activity, whether men or women or both, and women will make up 50% of the CEWs.

### **Financial and economic analysis**

242. For the financial and economic analysis, three main type of benefits have been considered: (i) on-farm and off-farm training coupled with GCCTS transfers for IGRF members, (ii) on and off farm training for outstanding farmers and others in the community and (iii) stream of benefits from small rural business ventures.

243. Financial analysis based on farm models shows that improved access to credit and thus ability to purchase inputs, coupled with applied on-farm training may increase gross margins by 13 to 31%. The models also display sizeable increases in return to labour for all 6 models, ranging between USD 4.3 to 5.7 per day, all of which are significantly above the opportunity cost of labour at USD 2.9. The financial impact of just using improved seeds is estimated at a 13% increase in gross margin and

returns to labour of USD 4.2 per day. The models for typical off farm income generating activities suggest satisfactory returns to labour of around USD 4.5 per day.

244. The following key assumptions have been used in the economic analysis: (i) 15 year time period of which individual benefits to individual farmer households only last for 5 years; (ii) only 50% of small rural business development ventures produce expected economic benefits with the remainder having an initial economic cost followed by zero net economic benefits over 5 years, (iii) only 70% of farmer households are able to attain the expected on-farm and off farm benefits, (iv) most of economic prices assumed equal to financial prices due to absence of trade restrictions and taxes or duties on agricultural inputs or outputs. Export parity prices for rice, maize and fertilizer have been calculated; (v) economic costs are net of duties, taxes and price contingencies, but inclusive of physical contingencies. All costs directly associated with the incremental production are included as well as all implementation support costs of the project; (vi) opportunity cost of capital is assumed at 12%. Economic benefits of bio-digesters have not been incorporated in the analysis.

245. The economic rate of return for the project was estimated at 19% along with a net present value of USD 7.6 million. The main driver is the benefit of on-farm training for IGRF members (around 49,000 households), which represents 73% of net present value of benefits. A sensitivity analysis was conducted for: (i) increase in costs of up to 10% and 20%; (ii) decrease in benefits up to 10% and 20%; (iii) lagging benefits by one and two years, (iv) lower paddy yield increases (of 10%), (v) lower paddy prices and higher fertilizer prices (10% and 20% differences). All these scenarios, *ceteris paribus*, yielded ERRs above 12%.

#### **D. Sustainability**

246. There are four key elements of project design, which will contribute to the sustainability of project benefits. First, the design and updating of training materials and innovation in capacity building is under the responsibility of the MAFF PSU and involves all key partners with facilitation by SNV. This will ensure that there is appropriate coordination and that materials are mainstreamed and will be used by a range of operators within and outside the project. Funding to up-grade and up-date such materials as the need arises is provided for in the project with benefits spreading beyond project completion for some time at least. All capacity building efforts in terms of approaches and training are also expected to shape professional behaviours and to have a lasting effect beyond project completion. The involvement of SNV as partner that has a strong field presence in Cambodia and a recognized expertise in Knowledge Management will create the long-standing relationships that nurture such elements of sustainability.

247. Second, the focus on capacity building and empowerment of beneficiary households in both components of PADEE is aimed at ensuring that beneficiaries will be able to keep up the improvements in productivity and income diversification activities beyond the life of the project. The sustainability of the activities supported by the project hinges mainly on the consolidation of technical and financial capacity of farmer households for adoption of improved practices and being able to react to a changing environment. To this end, the project supports household farmers both through groups and individually. Financial literacy training including opening of savings account at an MFI and personal experience in development of activity budgets is expected to leave beneficiaries with a good sense of what is a promising investment and more possibilities of benefiting sustainably from financial services that are increasing and diversifying rapidly in rural Cambodia. Moreover, the project introduces the concept of common interest groups, which include farmers outside the main target group to improve chances of sustainability of those farmer organizations that do emerge from the project interventions.

248. Third, IGRF members are expected to contribute to paying the operating cost of the service provider for record keeping, accounting and reporting on an increasing basis and already during project implementation over the typical three year cycle with one group. It is expected that the interest earnings from the fund will be more than sufficient to cover this cost and by the end of the project, the beneficiaries will already be covering this cost in full. This ensures that the beneficiaries, if they wish, will be able to continue this service after project completion.

249. Fourth, the partnership with iDE for expansion of the FBA network to project areas and promoting integration of FBAs and CEWs will provide an alternative for sustainable provision of extension and access to high quality materials for project beneficiaries after the project ends.

## **COUNTRY AND RURAL CONTEXT BACKGROUND**

### **Country Background and Economy**

1. The Kingdom of Cambodia has borders with Thailand, Laos and Vietnam and has around 440km of coastline. Most of the country (around 75% of its area) consists of the Tonle Sap Basin and the Mekong lowlands. To the southeast of the basin the country's geography is dominated by the Mekong Delta which extends through Vietnam. Despite increasing urbanization over the last ten years with annual population growth in urban areas of 2.6% versus 1.5% in rural Cambodia, the large majority of the population still lives in rural areas (around 80%)<sup>49</sup>. In 2008, population density was estimated at 75 persons per square kilometre which is similar to Myanmar, very low compared to neighbouring Vietnam or Thailand and around three times that of Laos. The country's population is ethnically homogeneous with more than 90% of the population being of Khmer origin. The indigenous ethnic minority groups are concentrated in the northern parts of the country.
2. Cambodia is a constitutional monarchy since 1993 with King Norodom Sihamoni as head of State (since 2004). The constitution gives legislative power to the National Assembly (lower house) and Senate (upper house). The country is organized through provincial administrations with provincial governors, districts and communes.
3. Since the political agreement reached in 1998, Cambodia has engaged in a quick transition to a market economy. The country is currently an active member of major regional and global economic institutions such as the Association of South-East Asian Nations (ASEAN), and the World Trade Organization (WTO)<sup>50</sup>.
4. Overall bank intermediation as measured by credit to the economy is still low in Cambodia relative to most countries in Asia. Despite a significant increase (from a very low level in 2000), the total of credit to the economy in 2009 stood at around 26% of GDP, which, according to IMF estimates is just slightly above Lao PDR but significantly lower than most countries in Asia (for example significantly below Mongolia, PNG, Bangladesh, Nepal, Sri Lanka etc). As of end 2010, total microfinance credit outstanding, including ACLEDA Bank, stood at nearly 10% of GDP. This shows the relative importance of the microfinance sector, including ACLEDA Bank, in the economy and in relation to the commercial banking sector. Other commercial banks (excluding ACLEDA) have almost no presence in rural areas which are served mainly by micro-finance institutions. .
5. The banking system was able to survive the financial crisis of 2008-09 which resulted in a collapse of the real estate market in 2009. Still according to the IMF, the reported aggregate ratio of non-performing loans of around 4% is possibly understated (mainly because of issues in asset classification). Still the current economic recovery is providing a good opportunity for banks to improve their balance sheets and reduce vulnerabilities.
6. Government finances remain heavily dependent on external assistance, with USD 360 million of grants and loans disbursed in 2006 growing to USD 625 million in 2009. With the prospect of substantial oil and gas revenues, the government's future fiscal position and the availability of funds for development could improve substantially.

### **Agricultural Sector**

7. Rice is the dominant crop in Cambodia. It represents more than one fourth of Cambodia's agriculture GDP and about half of all agricultural crops' value added. It is grown on 83% of cultivated land by some 4/5 of farmers<sup>51</sup>. The country has achieved an annual rice-surplus since 1995, with rice production growing at an impressive annual growth rate of 6.5% between 1999 and 2009 (annual growth for the last twenty years is 5.4%), well above population growth rates. Production over the last ten years has increased both through area expansion (harvested paddy area grew annually at 2.6 per cent) and productivity improvements (paddy yields have grown at a compound annual growth rate of 3.9% in the period). Increasing domestic surpluses have led to robust growth of rice exports, both formal and informal with Cambodia currently exporting an equivalent of around 2.25 million tons of milled rice (of which around 90% is exported in the form of paddy mainly to Vietnam). Exports of rice

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<sup>49</sup> 2008 General Population Census of Cambodia.

<sup>50</sup> Cambodia became member of ASEAN and WTO in 1999 and 2004, respectively.

<sup>51</sup> Data in this section draws from several sources. The main source is the Cambodian Statistical Yearbook of 2008 published by the National Institute of Statistics, Ministry of Planning.



(at around US\$ 700 million) account for around 15% of total country's exports which are dominated by garments (around 70% of total exports).

8. Despite the large reliance on rice, the agricultural sector has seen some diversification over the last decade. Among non-rice crops, production of maize, cassava and soya beans has seen the most rapid growth (above 20% annual growth in value added since 2002), partly due to increasing demand from the livestock sector. Other crops for which production surged during the last decade include tobacco, peanuts, and sesame, mostly through area expansion. Rubber and fish still represent more than USD 250 million in annual exports, despite more modest growth over the last decade.

9. Cambodia's agriculture sector has high potential to contribute to economic growth and exports. The country is endowed with a good climate, and large land and surface water resource base. In particular, Cambodia has a unique opportunity to become an important agricultural exporter in the region, especially in rice where it is competitive vis-à-vis its neighbours and given overall positive prospects for world rice markets. There is potential for both increasing paddy production and also incorporating more value addition in country through processing. In fact, while yields in Cambodia have improved dramatically, paddy yields of smallholder rice farmers in the project provinces still average around 2.0 to 2.5 Mt/ha (wet and dry season combined), which is far lower than yield levels in neighbouring countries such as Vietnam (4.9 Mt/ha).

10. Rice-based subsistence farming systems dominate in the project area and further intensification provides a good opportunity for development. Households in the five project provinces (Kandal, Kampot, Prey Veng, Svay Rieng and Takeo) focus essentially on rice production. With some exceptions in Kandal province (where rice cropping is not possible in large areas in the wet season because of floods), agricultural income is essentially derived from rice cultivation, which represents on average more than 70% of households' agricultural income<sup>52</sup>. There is potential for further intensification as a consequence of the physical conditions (soil and rainfall pattern in particular) and geographical location (proximity to Vietnamese border and to the port facilities in Sihanoukville facilitates trade). In some cases, particularly Kandal, there are also opportunities for satisfying local growing demand for fruits and vegetables, especially those of urban centres.

## **Policies and Institutional Issues**

11. The Government has prioritized improvements in agriculture and rural development in the Rectangular Strategy II 2008<sup>53</sup>. The strategy highlights its resolve to make agriculture a leading sector of the national economy and a key source of sustainable economic growth, as well as expand food security and reduce poverty. The National Strategic Development Plan (NSDP), recognizes that traditional engines of growth (tourism, garment exports, and construction) need to be complemented by other sources that are more broad-based in order to attain its priority objective of improving lives of the rural poor and achieving the Cambodian Millennium Development Goals by 2015.

12. The Government recently approved the next phase of the Strategy for Agriculture and Water (SAW) (2010-2013) as a strategic framework to implement the NSDP. The strategy emphasizes the development of agribusiness as one of its priority areas and recognizes the potential income loss to the country, and related vulnerabilities, from export of unprocessed agricultural commodities. It has committed to improve competitiveness of processed agricultural exports, particularly rice, through a wide range of strategic interventions which improve its competitive advantages. The Council of Ministers has also recently approved a revised policy paper on rice that sets ambitious targets for production and exports. The paper approved initially in July 2010 recognizes the strategic importance of rice production to Cambodia's economy and lists a number of policy measures (and responsible institutions for implementation) for the next five years aimed at sustaining the different steps of the supply chain.

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<sup>52</sup> The estimate is provided from the survey work conducted for the Social Assessment paper produced as part of preparation of PADEE in January 2010. Despite measurement and sampling issues, the figures are confirmed by direct observation and farm models constructed for the financial and economic analysis of the project.

<sup>53</sup> Royal Government of Cambodia, 25 September 2008. Political Platform of the Royal Government of Cambodia of the Fourth Legislature of the National Assembly, Phnom Penh.

## Constraints and Opportunities

13. There is strong potential for continued growth in rice exports and production diversification, but the sector needs to address several key challenges. While there are few policy-induced distortions which affect the sector, there are a number of factors that lead to low private returns on investments in agriculture such as inadequate knowledge and/or use of efficient production and post-harvest techniques and inefficient provision of key complementary production factors such as irrigation and transport infrastructure (both roads and port facilities) and energy (both for irrigation and processing facilities). In addition, tenure insecurity and formal and informal costs on trade lead to high risks and therefore lower appropriability of the current or potential returns to investments in the sector. Finally lack of access and high costs of finance contribute to sub-optimal investments both at the farm and processing stages of agriculture in Cambodia.

14. Addressing all these constraints is beyond the scope of the project and at present some are already receiving much attention from Government and donors. Examples include facilitating access to finance for agri-business development (proposed IDA-IFC Agribusiness SME Access to Finance Project), supporting land titling (conducted currently by Government with support from the Finnish, Canadian and German Governments as follow-up to IDA co-financed LMAP project), rehabilitation of port facilities which is being carried out with JICA assistance and support to agricultural value chains through AusAID assistance (CAVAC project). More specifically, analysis of binding constraints to improving productivity of smallholder rice-based systems in the project areas identified the following key constraints:

15. **Access to finance.** The Cambodian microfinance industry has been able to attract considerable investment from overseas both in the form of loans as well as in the form of equity from socially responsible investors and international development finance institutions. Between 2000 and 2006 the portfolio of the four main microfinance providers for which data are available (ACLEDA, AMRET, HKL and PRASAC) grew more than eight-fold from USD24 million in 2000 to USD204 million in 2006. Over the same period outreach more than doubled from 175,000 borrowers to 408,000 for the same four microfinance providers, suggesting that in total 40% of Cambodian households have a loan with a rural finance institution. The growth of the industry has created economies of scale and increased competition. As a result interest rates have come down, reflected by the average (un-weighted) portfolio yield declining from 35% in 2006 to 30% per annum in 2010 for 13 MFIs for which this information was available for the four year period (the average annual interest rate stood at 42% in 2003). Competition has also encouraged the introduction of new products including loans that are appropriate to finance inputs for seasonal crops, something that used to be a weakness in the past.

16. Despite the impressive growth and dynamism of the industry, poor smallholders are still lacking access to adequate financial services. They make use of informal financial intermediaries, such as shopkeepers, traders and moneylenders in the form of cash or in the form of supplier credit. Such relationships come at a cost, sometimes in the form of very high interest both in cash or in the form of price discounts for paddy sold. The ability of poor households to link with formal financial institutions also results from lack of collateral, interpersonal communication skills, illiteracy, poor financial literacy and knowledge about existing opportunities and a minimum asset base.

17. **Inefficient production techniques.** Given the predominance of low quality soils in the lowland rice areas, yields are highly dependent on adequate amounts of fertilizer being used, which poor farmers cannot always afford. In addition, improved production and pest management techniques are still not well-known in many areas of the country. In this regard the experiences of APIP and in particular the national Integrated Pest Management (IPM) program show there is substantial productivity gains that can be achieved from improved practices (reviews comparing treatment and control groups indicate ability to increase average yields for wet and dry season between 25 and 50%<sup>54</sup>). Moreover, pesticide usage can be lowered and overall household income increased (under IPM program it was estimated around 18% average increase in income comparing treatment and control groups)<sup>8</sup>. Finally, it is estimated that less than 4% of farmers in Cambodia actually use quality seed although use of third generation or commercial seed of a rice variety can increase yields by a minimum of 10-15% when combined with good agricultural practices.

18. **High post-harvest losses and inefficient marketing practices.** Post-harvest losses can account for up to 15-20% of the total paddy production in Cambodia. The main reasons for this are

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<sup>54</sup> For more details see Kamp "Impacts from the Cambodian National IPM Program 2000-2007 – A Synthesis of Assessments and Case Studies", 2007, Danida

shortage of adequate local storage facilities, drying in sunshine which cause inconsistent moisture content, and packaging in poly-weave bags. While cross-border trade in paddy seems to be quite efficient (trader gross and net margins do not exceed 10 and 5% respectively and Cambodia farm gate prices closely mirror FOB prices in Vietnam deducted of transportation costs<sup>55</sup>), lack of working capital is still a constraint, particularly for smallholders, leading them to sell paddy immediately after harvest. Moreover, in the case of vegetables, grading and adequate post-harvest practices can substantially increase farmer revenue (around 20 to 25% on average) as suggested by the experience of CAMIP's Farmer Marketing Schools.

19. **Lack of efficient productive rural infrastructure.** Poor water management is constraining crop intensification and also restricting productivity. Only about 15% of the cultivated rice area in Cambodia is irrigated versus 28% in Thailand and 33% in Vietnam. Efficient irrigation services combined with technical advice and appropriate inputs allow farmers to obtain substantially higher yields (with estimates varying between 0.5 Mt and 1.0 Mt per hectare) besides greater cropping intensity, and productivity improvements result in substantial increases in land value<sup>56</sup>. Poor state of rural road connections contributes to the high marketing cost of agricultural produce in Cambodia. The cost of transporting one ton of rice within Cambodia is about US\$ 15/Mt per 100 km, compared to US\$ 7.5/Mt in Vietnam and US\$ 4/Mt in Thailand. The recent agriculture public expenditure review carried out by the Bank highlights that rural roads have been one of the most effective forms of public expenditure in rural areas. The analysis shows that BCR for rural roads has increased from 1.6 to 4.1 between 2000 to 2009. Despite major improvements over the past decade, Cambodia still suffers from poor transport infrastructure in rural areas.

20. The Government's ability to deal with these constraints is challenged by its limited revenue and multiple national development priorities as well as entrenched institutional centralisation. The Government always has to depend on development partners for more than 50% of public spending through official development assistance (ODA), of which only a small fraction is invested in agriculture and rural development. Agriculture and rural development sector funding has been historically low with exception of 2006 when the IMF effected debt relief operation. For instance, ODA disbursement to agriculture and rural development was 12.5%, and 15.5%, respectively, in 2008 and 2009. In 2010, the Government expected to mobilise over US\$1 billion from development partners. Of this amount, only 14.5% will go to agriculture and rural development. Proportionally, investment in the two sectors combined is very static. Overall it is found that Cambodia public spending to agriculture GDP is only about 2.9% (2008), while for most countries it is in the 5-12% range<sup>57</sup>.

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<sup>55</sup> Data on trader and farm gate prices collected by ACI cross-border survey (July 2010). Comparison of annual average paddy farm gate prices in Cambodia with FOB prices in Thailand indicate that Cambodia farmers receive more than 50% of international prices (above 60% when accounting for a 75% quality adjustment factor to Thai 5% broken rice).

<sup>56</sup> Himel J, Suon V, and Prak S "Supplementary Socio-Economic Survey. Flood Control and Irrigation Component Flood Emergency Project", 2005. The study is based on ADB-supported irrigation schemes. Also Van Kampfen "Technical Audit of Commune-Sangkat Fund Infrastructure Projects", 2010 estimates yield increases of 1.0Mt per hectare from rehabilitation of canal schemes providing supplementary wet season irrigation.

<sup>57</sup> World Bank (2008), World Development Report (WDR).

## Annex I– Country data sheet

### Cambodia

<b>Land area (km2 thousand) 2008 1/</b>	177	<b>GNI per capita (USD) 2008 1/</b>	640
<b>Total population (million) 2008 1/</b>	14.56	<b>GDP per capita growth (annual %) 2008 1/</b>	5
<b>Population density (people per km2) 2008 1/</b>	83	<b>Inflation, consumer prices (annual %) 2008 1/</b>	25
<b>Local currency: Cambodian Riel (KHR)</b>		<b>Exchange rate: USD 1 = KHR 4,100</b>	
<b>Social Indicators</b>		<b>Economic Indicators</b>	
Population growth (annual %) 2008 1/	1.6	GDP (USD million) 2008 1/	10 354
Crude birth rate (per thousand people) 2008 1/	25	GDP growth (annual %) 1/	
Crude death rate (per thousand people) 2008 1/	8	2000	8.8
Infant mortality rate (per thousand live births) 2008 1/	69	2008	6.7
Life expectancy at birth (years) 2008 1/	61		
		Sectoral distribution of GDP 2008 1/	
Total labour force (million) 2008 1/	7.53	% agriculture	35
Female labour force as % of total 2008 1/	49	% industry	24
		% manufacturing	16
		% services	42
<b>Education</b>		Consumption 2008 1/	
School enrolment, primary (% gross) 2007 1/	112	General government final consumption expenditure (as % of GDP)	n/a
Adult illiteracy rate (% age 15 and above) 2008 1/	23	Household final consumption expenditure, etc. (as % of GDP)	n/a
		Gross domestic savings (as % of GDP)	n/a
<b>Nutrition</b>			
Daily calorie supply per capita	n/a		
Malnutrition prevalence, height for age (% of children under 5) 2008 1/	40		
Malnutrition prevalence, weight for age (% of children under 5) 2008 1/	40		
		<b>Balance of Payments (USD million)</b>	
<b>Health</b>		Merchandise exports 2008 1/	4 290
Health expenditure, total (as % of GDP) 2007 1/	5.9	Merchandise imports 2008 1/	6 510
Physicians (per thousand people) 1/	n/a	Balance of merchandise trade	-2 220
Population using improved water sources (%) 2006 1/	65		
Population using adequate sanitation facilities (%) 2006 1/	28	Current account balances (USD million)	
		before official transfers 2008 1/	-1 675
		after official transfers 2008 1/	-1 053
		Foreign direct investment, net 2008 1/	795
<b>Agriculture and Food</b>			
Food imports (% of merchandise imports) 2008 1/	n/a		
Fertilizer consumption (hundreds of grams per ha of arable land) 2007 1/	0		
Food production index (1999-01=100) 2007 1/	165	<b>Government Finance</b>	
Cereal yield (kg per ha) 2008 1/	2 805	Cash surplus/deficit (as % of GDP) 2008 1/	n/a
		Total expense (% of GDP) <sup>a/</sup> 2008 1/	n/a
		Present value of external debt (as % of GNI) 2008 1/	42
		Total debt service (% of GNI) 2008 1/	0
<b>Land Use</b>			
Arable land as % of land area 2007 1/	22	Lending interest rate (%) 2008 1/	n/a
Forest area as % of total land area 2007 1/	57	Deposit interest rate (%) 2008 1/	1.9
Agricultural irrigated land as % of total agric. land 2007 1/	n/a		

a/ Indicator replaces "Total expenditure" used previously.

1/ World Bank, *World Development Indicators* database CD ROM 2010-2011

## ANNEX II: POVERTY, TARGETING AND GENDER

### Poverty

1. The Human Poverty Index in the 2009 UNDP Human Development Report (HDR) places Cambodia 87th out of 135 countries in terms of income poverty. In Asia, India, Nepal, Laos, Bhutan, Bangladesh and Timor-Leste are ranked below Cambodia. The 2006 HDR gave Cambodia the third lowest ranking in Asia after Papua and New Guinea and Bangladesh. The Human Development Index for Cambodia in 2010 is 0.494. The indicators of health and education are still low but improving rapidly.
2. Over the decade from 1993/04 to 2003/04, income poverty in Cambodia declined on average by about 1% per year. Using household expenditure data, the Cambodia Socio-economic Survey (CSES) 2003/04, estimated that 4.7 million from a population of 13.0 million (34.7%) were living below the poverty line, of whom 93% or 4.37 million were living in rural areas. Similarly, 2.44 million people were living below the food poverty line in rural areas, 93% of the total. Poverty is overwhelmingly a rural phenomenon.
3. According to most recent CSES data, poverty reduction observed over the previous decade (1994-2004) continued over the period 2004 to 2007. Over these three years, the poverty headcount index for Cambodia as a whole relative to the overall poverty line fell from 34.8% in 2004 to 30.1% in 2007, although wide variations exist between provinces. The decline in poverty during this period reflects substantial and statistically significant growth in real per capita household consumption (the measure of living standards used in Cambodia). This increase (averaging 21% for the population as a whole) was driven by rates of economic growth during these years that exceeded 10% per annum. The picture of welfare improvements amongst the bottom two quintiles is reinforced by improvements in a wide range of variables related to ownership of consumer durables, service delivery and human development outcomes. Cambodia is on target to achieve a number of the CMDGs targets.
4. The conclusion that poverty has declined is supported by other indicators and the poverty gap has also declined throughout the country. Broadly speaking, women as well as men have benefited from economic growth and rising average consumption, as significant numbers of young rural women have found employment in the garment industry. At the same time the construction industry provides employment outside the rice production season for many men who migrate from the provinces to the major urban centres, and to Thailand and Vietnam. Restaurants and hotels also employ young adults from the countryside.
5. While per capita consumption has risen and poverty has fallen, the richest quintile and people in urban areas have benefited the most. Nationally, inequality, as measured by the Gini Coefficient, has risen between 2003/04 and 2007 from 0.39 to 0.43 and in rural areas from 0.33 to 0.36. There is a need for continued monitoring of inequality, and for active policies to improve access for the poor to productive resources, capital and affordable services, to ensure that they can benefit from – and contribute to – national economic growth.
6. According to the COSOP, in terms of occupation, households engaged in agricultural activities experience high levels of poverty (41 per cent) and account for 48 per cent of the poor.<sup>58</sup> The rise in inequality nationally can be attributed primarily to differences in access to rural infrastructure, markets and services and to lack of adequate public investment in the agriculture and natural-resource-based sectors.
7. The majority of poor people, about 70%, live in the Plains and Tonle Sap basin areas. Poverty is most severe in the Tonle Sap and Mountain/Plateau regions and in districts close to the borders with Thailand and Laos in the North and North-east and with Vietnam in the East.<sup>59</sup> While the Mountain/Plateau regions record the highest rural poverty rate because of low population density, they have fewer people living below the poverty line (0.65 million).
8. According to the HDR 2009, Cambodia ranks 137 out of 182 countries in terms of human development. Infant and child mortality rates are still high (66 and 83, respectively), per 1,000 live births.<sup>60</sup> Nearly one third of children under age five is underweight (moderate and severe).<sup>61</sup> The

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<sup>58</sup> Cambodia COSOP 2007, p. 2

<sup>59</sup> *Ibidem*

<sup>60</sup> Data from the CDHS 2005 quoted by [www.foodsecurityatlas.org](http://www.foodsecurityatlas.org) (WFP)

<sup>61</sup> Data from WHO (2003-2008) quoted in UNICEF Cambodia website

maternal mortality ratio is estimated at 450 per 100,000 live births,<sup>62</sup> amongst the highest in Asia. Estimated adult HIV prevalence rate for people aged 15–49 is 0.8%;<sup>63</sup> main drivers are considered prostitution and migration. According to the 2008 census data, the total literacy rate was 78% (above the 67% measured in 2003/04 through the CSES survey), with male literacy accounting for 85% and female literacy accounting for 71%. The literacy rate is highest in Phnom Penh and much lower in rural areas. Access to potable water is under 40% in rural areas and less than 10% for the poorest half of rural population.

### Poverty in target provinces

9. Nearly one third of the total Cambodian population is concentrated in the five targeted provinces and is approximately equal to 4.12 million people. The provinces are among the most densely populated areas in the country, recording an average population density of 208 persons/sq. km, which is almost three times higher than the national average.

10. The large majority of people living in project area is Khmer and Buddhist, with more than 2% and 1% of people belonging to the Muslim minority group of the Cham living respectively in Kampot and Kandal provinces. Average size of households ranges from 4.2 people (in Prey Veng and Svay Rieng) to 4.9 people (in Kandal). More than 17% of households is women headed, of which 68% have one or more children below 5 years of age. According to the Provincial Profiles 2009, there are no ethnic minority groups in the five provinces, but there is a limited number of Muslim Cham.

11. The main occupation of nearly 81% of families living in the five provinces is rice farming. According to the Social Assessment (SA) for project preparation undertaken in targeted provinces, about 1 million hectares of the cultivated land of the five provinces is planted to rice, equal to 93.1% of the total cultivated area, followed by vegetables. In most of the cases, only one single rice crop – be it wet season rice or dry season rice – is grown. After rice cultivation, most of agricultural land is left fallow. In some cases double rice crops are cultivated on same parcel of land, one following another. Nearly 60% of income of the sample households is derived from farming activities in their own farms and working on other people's farms. In addition to crops, farmers also raise livestock, in particular poultry, pigs, cattle and buffaloes, and practice, to a very limited extent, some aquaculture.

12. Families whose main occupation is not rice production engage in several activities, including vegetable production (1.1%); fishery (1.4%); non-farm activities, such as handicraft making, food production, textile and clothing production; trading; and repairing and transport services (6%). In drought-prone areas of Svay Rieng province, particularly along the border with Viet Nam, farmers have also started growing cassava. The SA shows that there are also families having a member employed in government-related jobs (nearly 6%) or private sector (about 15%). An increasing number of people work in factories, generally garment factories (mostly women) and construction companies (mostly men), either in provincial cities, Phnom Penh, or to lesser extent in Thailand and along the Viet Nam border; most of them are young women.

13. Excluding income from rice production, a household earns on average over KHR 4 million/year (about USD 1,000/year) from various sources and saves about KHR 0.75 million/year (about USD 181/year). Excluding income from rice, seasonal non rice crops and livestock, about 68% of households were reported to live on less than USD 0.5/day.<sup>64</sup>

14. Members of landless households, who consist mainly of women-headed households, are sometimes hired to undertake farming work in the fields of other villagers or in neighbouring villages and some unskilled non agricultural work in the village. In some cases, these people migrate in search for wage employment. According to the Provincial Profiles (2009) and as emerged from field work, migration has been on the rise in the targeted provinces, including among women, and young women in particular.

15. Farmers living in the targeted provinces may have different types of farmland, which include rice, vegetable, home gardens, pasture/grazing land, forest land, and pond land. Rice land is the most important asset for the majority of them given that their major occupation is rice farming. According to the SA, average rice landholding is estimated at 1.3 ha/family.<sup>65</sup> The SA also estimates that more

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<sup>62</sup> WHO\_Reproductive Health Indicators Database (July 2007)

<sup>63</sup> UNAIDS, 2008

<sup>64</sup> SA, p. 62

<sup>65</sup> SA, p. 43

than half of the households (about 50-60%) have rice land equal to or less than 1 hectare and that about 30% have more than 1 hectare up to 2 hectares of land.<sup>66</sup> According to the Provincial Profiles 2009, families with rice land of less than one hectare are about 59% in Kampot, 70% in Kandal, 44% in Prey Veng, 33% in Svay Rieng, and 57% in Takeo.

16. The Provincial Profiles 2009 record that families who do not own any rice land are about 4% in Kampot, 10% in Kandal, 5.3% in Prey Veng, 4% in Svay Rieng, and 5% in Takeo. According to SA, agricultural landlessness rate is estimated at about 7-16% across the five provinces and average size of homestead land at 0.004 hectare/household.<sup>67</sup> The main reasons for landlessness include land fragmentation as some portions are given to marrying children; sale of land to cope with treatment of sickness, debt, or inability of widows to undertake certain agricultural activities after the husband's death; and long-term migration. Moreover, in some cases, evictions have also been reported as causes for landlessness.

17. The latest figures<sup>68</sup> from the WB (published in 2009 based on 2007 data<sup>69</sup>) show that poverty incidence in the five provinces varies between 25% to 45%, which compares to a country wide national average of 30% and of 35% for rural areas<sup>70</sup>. According to the data, Svay Rieng and Prey Veng are the poorest of the five, with poverty rate as high as 35-45%.

### Gender issues

18. Women constitute more than 50% of the active labour force and head more than a quarter of Cambodian households (25.6%).<sup>71</sup> In the targeted provinces, out of more than 4.5 million people, more than half are women. At provincial level, women-headed households are 18.5% in Kampot and Takeo, 17.7% in Svay Rieng, 17.4% in Prey Veng, and 15.6% in Kandal.

19. Women comprise a major part of garment workers in cities and some market traders in rural areas. Women perform a number of agricultural activities, fish processing and sale (as they often cannot fish either in lakes or ponds), marketing, handicraft making, and run a range of food processing industries and small businesses. However, wage employment opportunities available to women outside the garment sector are still limited and women consistently earn less than men. At the household level, women are also primarily responsible for household food security and nutrition, taking care of domestic animals, and looking after children, old and sick people.

20. While progress has been achieved in primary and secondary school net enrolment rates, there are significant gender gaps at all levels, particularly in secondary and tertiary education: 55% of women have not completed primary school compared to 40% of men, whereas at lower secondary level, secondary/diploma level and beyond secondary level, women's rates are lower (respectively 14.5, 1.4 and 1% versus 22.7, 2.9 and 2.6%). However, compared to the national situation, data of enrolment and illiteracy shows lower gender gaps (tables 5 and 6) and as confirmed by the SA and the field work in the five provinces, girls and boys are increasingly treated more equally and more girls are allowed to go to school, including for secondary education.<sup>72</sup>

21. Migration trends in the targeted provinces show that women migrate more often than men. From interactions with communities and local authorities, it also emerged that young unmarried women are more likely to migrate, especially outside the country and for the long term. Women, especially those married with children, often pointed out they would prefer remaining in the village and find alternative livelihood opportunities (non-farm activities) rather than migrating. Qualitative field work during preparation with village focus group discussions indicated that women complained working conditions are often very bad and unhealthy and that some even contracted malaria. Most of women heads of households declared they are not in the position to migrate, because they cannot afford expenses for travelling and settling down. Female migrants with children usually leave them to elder children, relatives or neighbours.

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<sup>66</sup> SA, pp. 43-44

<sup>67</sup> SA, p. 43

<sup>68</sup> These figures relate to the latest available poverty analysis by The World Bank based on data from the CSES 2007. The data for the CSES 2009 was released in December 2010 and has not yet been analyzed. The problem with CSES 2007 analysis is that it did not include provincial or district level poverty details.

<sup>69</sup> "Poverty Profile and trends in Cambodia, 2007", The World Bank, June 2009

<sup>70</sup> Rural poverty as %age of rural population living below the national rural poverty line, while national average refers to the national poverty line (including urban areas).

<sup>71</sup> General Population Census, 2008

<sup>72</sup> SA, p. 61

22. While women are responsible for families' cash management and household chores, men are traditionally responsible for making most decisions on issues such as finding inter-provincial or migratory employments. However, compared to the past, overall, women have relatively more participatory power in family decision-making process. In the SA sample, the percentage of households with decision-making by men is below 50% in all provinces. While less than 20% of households in the sample are headed by women, more than 20% of them have decision-making done by women. In Svay Rieng and Prey Veng the proportion is higher. In Takeo only about 15% of households have decision-making done by women.

## Targeting

### Geographical targeting

23. The project will be implemented at the national level as well as in selected districts and communes in the five target provinces. The Provincial Departments of Agriculture (PDA) proposed districts and communes to be targeted by the project based on the following criteria: high incidence of poverty and large numbers of poor households, agricultural potential, exposure to natural hazards, food insecurity over the year, vulnerability of women and children, and commitment of the provincial, district and Commune Councils (CCs) and their administrations to work with communities and farmers.

24. To proceed with the final identification of communes and districts, the selection focused on those with a potential for agriculture and for reducing the number of poor households. The analysis used objective criteria for poverty targeting and the CDB data. From a total of 535 communes across 50 districts in the five project provinces, the criteria led to 246 communes in 33 districts being selected. The selection criteria included: (i) exclusion of all urban communes and municipalities, (ii) exclusion of all communes with less than 200 poor households and/or less than 500 hectares of rice cultivation<sup>73</sup> (wet and dry season and recession rice), (iii) elimination of communes with less than 19% poverty rate. For cost effective project implementation, the analysis then added two further criteria: (iv) exclusion of all the districts with five or less selected communes using the above criteria and (v) inclusion of a maximum of eight communes per district by eliminating those in excess of eight with lowest poverty rates. Details on the final selection by province can be found in the two tables below and in the figure in the following page.

25. Selection of Target Districts and Communes in the Five PADEE Provinces:

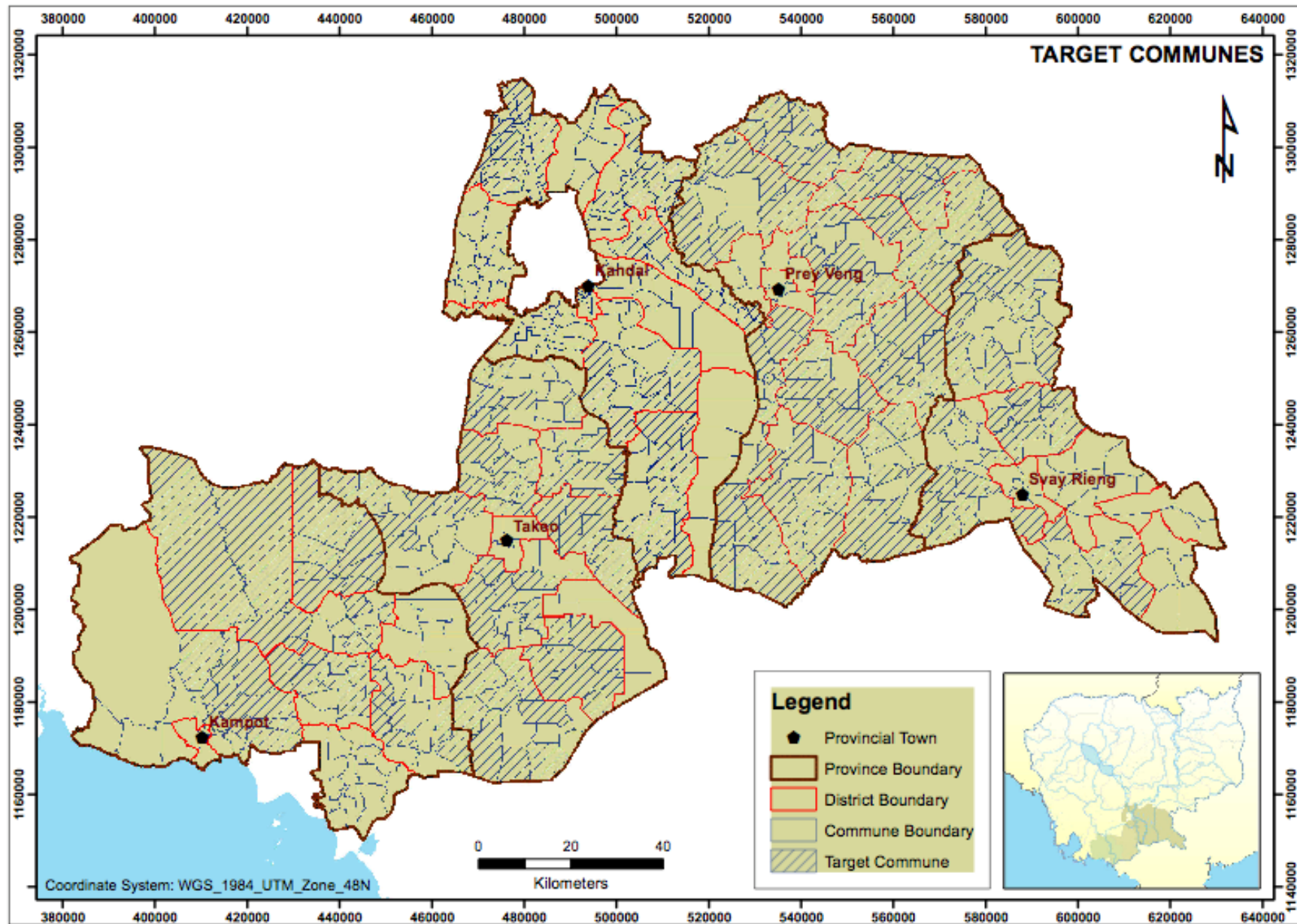
Province	Districts			Communes			Villages		
	Selected	Total	%	Selected	Total	%	Selected	Total	%
Kampot	5	8	63%	36	92	39%	204	482	42%
Kandal	5	11	45%	36	147	24%	295	1,083	27%
Prey Veng	11	13	85%	86	116	74%	921	1,137	81%
Svay Rieng	4	8	50%	30	80	38%	315	690	46%
Takeo	8	10	80%	58	100	58%	632	1,116	57%
<b>Total</b>	<b>33</b>	<b>50</b>	<b>66%</b>	<b>246</b>	<b>535</b>	<b>46%</b>	<b>2,367</b>	<b>4,508</b>	<b>53%</b>

26. Poor households, Poverty Rate and Rice Area:

Province	Households			Poor Households			Average Poverty Rate			Total Area in Rice (ha)		
	Selected	Total	%	Selected	Total	%	Selected	Total	Difference	Selected	Total	%
Kampot	56,000	126,000	44%	13,600	25,500	53%	23.9	19.9	4	57,900	117,600	49%
Kandal	70,000	250,000	28%	16,500	43,300	38%	23.9	17.8	6.1	68,700	145,000	47%
Prey Veng	185,000	242,000	76%	52,500	65,200	81%	28.4	26.9	1.5	260,800	333,800	78%
Svay Rieng	51,000	121,000	42%	13,300	27,800	48%	25.9	22.9	3	77,200	170,900	45%
Takeo	108,000	186,000	58%	29,000	46,600	62%	27.0	25.3	1.7	153,400	248,300	62%
<b>Total</b>	<b>470,000</b>	<b>925,000</b>	<b>51%</b>	<b>124,900</b>	<b>208,400</b>	<b>60%</b>	<b>26.4</b>	<b>22.3</b>	<b>4.1</b>	<b>618,000</b>	<b>1,015,600</b>	<b>61%</b>

<sup>73</sup> Given that rice is the main crop in the project area and due to unavailability of other crop area data, the area under paddy cultivation was used as a proxy for present total agricultural production potential.





### *Household targeting*

27. The target group will include resource poor rural women and men, particularly smallholder farmers, the majority of whom engage in rice production. Considering that the Project focuses on agricultural productivity improvements and diversification there could be some risk of excluding some of the most vulnerable sections of IFAD's target group, despite indirect benefits which are expected to accrue to landless and near landless people through higher demand for labour as productivity increases and lower local rice prices arising from higher yields. Therefore, the project will pursue a proper balance between improving agricultural productivity and also supporting the poorest and vulnerable sections of rural populations in terms of their livelihoods, envisaging interventions specifically tailored to their needs and conditions (mainly off farm activities). Moreover, it will focus on those poor rural women and men that are all willing to participate in the project and capable of fulfilling the associated tasks responsibly.

28. The project will use a participatory wealth ranking process to select the members of the new IGRFs, with all villagers in the target villages and communes invited and with participation of the CCs, village chiefs and district staff, including gender staff and possibly Female and Children Focal Points. The villagers will carry out a village wealth ranking based on their perceptions and definitions of poverty to classify the households into the following categories: (i) poorest; (ii) poor; (iii) medium; and (iv) better off. Where available, the ID Poor methodology can inform this process<sup>74</sup>, although consideration must be taken for when the ID Poor analysis has been conducted given that it is not often updated. Through the wealth ranking, the fifty poorest and poor households will be selected. The result of the wealth ranking exercise will be validated in a participatory manner for a possible modification to ensure that the selected are all willing to participate in the project and capable of fulfilling the associated tasks responsibly<sup>75</sup>.

29. Targeting performance will be monitored by the Project through several M&E activities including participatory assessments carried out by the beneficiaries with facilitation of district staff. This will allow assessing the impact of the Project on the target groups and monitor activities. All data will be disaggregated by gender, socio-economic category, and possibly age, also to monitor group membership and leadership and trainees. Service providers will also be requested to incorporate targeting indicators into their systems and reporting to the project. A useful source of information will be the IT system put in place for IGRF data. Targeting performance will also be assessed at mid-term review.

30. The Project proposes a shift in the traditional IFAD approach in Cambodia in terms of group formation. As per the past approaches (RPRP and RULIP for example), households would first be stratified in socio-economic terms through a participatory wealth ranking process. Then they would be assigned to different groups based on their socio-economic status. In the case of RPRP for example, the poorest would be assigned to a LIG (Livelihoods Improvement Group) and the poor and medium poor to a FSI (Farming Systems Improvement Group).

31. In PADEE, households will be selected through the participatory wealth ranking methodology but will all form part of one bigger group (fifty households) for the purposes of improving their access to finance and creation of an Improved Group Revolving Fund (IGRF). While some rigidity (as in past IFAD approaches) is used for creation of the IGRF, the process is much more flexible in terms of training in on and off farm activities. In fact, selected beneficiary households from a given commune will express their interests in training and will be drawn together by the CEWs and DSTs around common interest groups, which will also include outstanding farmers from the community. Groups will be trained in common interest subjects (such as poultry or vegetables for example) to the extent possible given logistics considerations. Moreover, the project will also provide support to existing farmer groups, associations, cooperatives or organizations, including those previously supported with the assistance of IFAD-financed projects, other donors and NGOs. The latter will be exclusively for farmer organizations in project selected communes and in terms of improving their access to finance (see details in Annex IV).

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<sup>74</sup> The Identification of Poor Households Programme (ID Poor) is led by the MOP in collaboration with the Department of Local Administration (DOLA) of the Ministry of Interior.

<sup>75</sup> There is some degree of flexibility and need for qualitative judgment given the type of project activities and need for participants that are able to take up the project tasks and responsibilities (namely on agricultural business and household finance).

### *Gender mainstreaming*

32. A gender mainstreaming action plan will be developed to include various levels (beneficiaries, components, implementation staff) to ensure maximum participation of women in project activities and the consequent benefits. Activities for gender mainstreaming will be carried out under the overall coordination of the Ministry of Women's Affairs (MoWA), in close collaboration with MAFF.

33. A reputed international or national consultancy will be financed to work with MoWA and MAFF to undertake a stocktaking exercise on the impact of gender mainstreaming in agriculture in IFAD projects in the country. The project will also finance a study assessing drudgery patterns of women in target areas. The outcomes of the stocktaking will inform and fine tune the gender strategy for project implementation as well as the training programme for project staff.

34. *Training to Group Members.* The Project will finance training and awareness raising on gender issues for all groups supported, CCs and/or Women and Children Focal Points. Both male and female group members will be invited to participate. The training will be an integral part of the initial package of trainings received by beneficiary households as part of forming Improved Group Revolving Funds (see also Annex IV) and will be under the overall coordination of MoWA central and decentralized services (such as PDoWA). In particular, successful attendance and completion of the training is a pre-requisite for capital transfer to the IGRF as per the conditions of the Group Conditional Capital Transfer Scheme set up under PADEE.

35. A key principle of PADEE's gender approach is that training in gender will be integrated with all other key capacity building activities by the project. In this sense all key trainings under PADEE and namely the financial literacy course (under component one) and the first year on-farm training package, as well as off-farm trainings will all include topics on gender equality, domestic violence, and HIV/AIDS prevention and education, as well as themes particularly relevant to the topic at hand. The Project will develop appropriate information and communication materials and training contents, in collaboration with organizations that have consolidated experience in addressing HIV/AIDS issues and sensitize on risks and safe behaviours (such as UNAIDS, UNDP, NGOs). The training will also include awareness raising on fair and safe working conditions to reduce risk of exploitation, particularly for young women.

36. Additional specific training will be provided only to women, to promote their empowerment, enhance their capacity to articulate their roles and rights as well as strengthen their political voice in respective households and communities, and fully participate in and benefit from development opportunities, through confidence, self-esteem and self-respect building. Additionally, training on nutritional issues (particularly on recognizing/understanding nutritious vegetables) will also be provided to the women as part of the training package.

37. In planning the time of the training for the groups, consideration will be given to the seasonal calendar, related variations of the workloads, and migration periods, to make sure that the time and period of the training do not represent a barrier to participation. Experience with other IFAD projects in the country shows that participation of men in the gender training is lower compared to that of women and that men tend to ask their wives to replace them for the gender training attendance: attendance needs to be better monitored and it will be made clear that male members can participate with their wives but cannot be replaced by them. In order to facilitate men's participation, they can be exempted from participating in certain modules of the gender training (such as nutrition issues, vegetables), but not others (such as gender equality, domestic violence, etc.). PADEE includes incentives for men and women participation in gender training, such as food for them and the children and need for a minimum attendance due to the conditionality for capital transfers as part of GCCTS.

38. *Training to National, Provincial, District and Field Staff.* In order to further strengthen the guidance and support that field staff requires from national staff, the Project will provide (refresher) training on gender issues and gender mainstreaming in agriculture to senior staff of MoWAs, MAFF and others relevant implementing partners and Government Officials from the five provinces, possibly by the same consultancy who carried out the stocktaking exercise or other service providers also hired under MoWA supervision. The training will cover insofar as possible aspects such as non-farm activities/ participatory community development, migration issues, and HIV/AIDS. The training will also be provided to provincial and district staff. Training to CEWs, Village Animal Health Workers (VAHWs), project service providers/NGOs and other field staff as appropriate will be provided by the district staff and/or service providers.

### ANNEX III: COUNTRY PERFORMANCE AND LESSONS LEARNED

1. The COSOP Mid-Term Review from June 2010 highlighted the relevance and good alignment of IFAD activities in Cambodia with the national strategies and a number of CMDGs. The review stated the good contribution of IFAD projects (RULIP, RPRP and CBRDP) towards eradicating extreme poverty and hunger, and promoting gender equality and empowerment. In particular, the review indicated that IFAD projects in Cambodia with a strong focus on agriculture and the poor and most vulnerable families are setting an example.
2. PADEE benefits from the extensive experience of IFAD and other donor projects in Cambodia, as well as a wealth of analytical work. This includes:
3. *General project design.* A key lesson learned from IFAD and most donor projects<sup>76</sup> in Cambodia (as well as in other countries), is that complexity of project design must be commensurate with the public sector implementation capacity as demonstrated by impact achieved on the ground. The project's objectives and design should be simple and focused. It is important to have a flexible project design framework in an environment of rapidly evolving public policy reforms, which can adjust to changes during project implementation, such as on-going changes in D&D policy. The projects should avoid complex procedures, while management and decision-making structures should be as simple as possible, with delegation of responsibility for implementation and minimal levels of decision-making and interventions.
4. *Targeting* stands out as one of the key advantages of IFAD projects relative to other interventions in Cambodia. The COSOP review and also supervision missions such as the latest RULIP Mid-Term Review all indicate that the targeting strategy based on first geographical poverty mapping and secondly village level participatory wealth ranking is very successful. In particular, the wealth ranking methodology applied and improved over successive IFAD projects in Cambodia has proven very successful at reaching the poorest and most vulnerable segments of rural populations.
5. *M&E and knowledge management.* Several reviews and experiences have repeatedly raised concerns over the quality of project M&E (from IFAD and other) and the difficulties in learning from experiences, as well as disseminating knowledge. This has been highlighted among others in the COSOP Mid-Term Review of 2010 which also highlights the need for capacity building of M&E staff. An example is the stocktaking of GRFs conducted in 2010, which uses a very small sample size. Moreover, while progress on outputs is approximately provided there is lack of quality data on impacts of innovative features of projects including use of appropriate empirical methodologies with control groups (which in the case of a dynamic economy as Cambodia's would be extremely important).
6. *Lessons on access to financial services.* The IFAD Country Strategic Opportunities Programme (COSOP) 2008-2012 states that the formal banking sector does not provide the financial services that poor people need, that the formal banking and MFI sectors exclude the poorest, and that thus there is a need for an alternative. This was the basis for the creation of group revolving funds (GRFs) in the RULIP project and in earlier IFAD projects. The COSOP also mentions that insofar as possible, IFAD would seek to link such revolving funds with formal financial sector institutions. However, such linkages have not taken place in past IFAD projects. Also, unfortunately, there has not been a comprehensive review of revolving funds with appropriate coverage and sampling methods. It is therefore difficult to fully assess the degree of success of the GRF experience. Still from existing documents, focus groups discussions and direct observations during field work some conclusions on the strengths and weaknesses of GRFs in Cambodia can be drawn.
7. The review of GRFs highlights a number of positive features:
  - GRFs have been instrumental in the social mobilization of the majority of the poorest households that had been identified in the village wealth ranking and have been viewed as a useful extension methodology<sup>77</sup>;
  - GRF members know each other well enough to assess the creditworthiness of a member and are appear to apply sufficient peer pressure to achieve an acceptable repayment rate of the loans;

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<sup>76</sup> See for example the completion report of World Bank funded Agricultural Productivity Improvement Project (APIP) (1997-2006).

<sup>77</sup> Report on Assessment of Revolving Funds Programmes in Cambodia Country Programme, IFAD, January, 2010

- GRF members have in general been able to appraise the simple loans that fellow members apply for such as for piggery, chickens, vegetables, different type of handicrafts, some small trade etc. and have been able to provide flexible repayment options;
- GRFs, especially those charging realistic interest rates on loans, i.e. close to market rates, have been successful in growing the size of their fund by retaining interest earned;
- GRFs provide a sense of pride and empowerment to the group. Groups set their own interest rates, generally at a realistic level (18-24% per annum) and the treasurer generally keeps a small amount of cash for when emergency situations occur;
- Most GRFs are charging interest rates close to market rates, which means that market distortions that could potentially hinder development of a sound microfinance sector in the country are limited.

8. In rural and microfinance circles, GRFs are, however, increasingly seen as an outdated instrument that has by-and-large failed to create sustainable institutions. Available evidence, albeit limited, as to the IFAD experience in Cambodia has so far not displayed such a negative scenario. Still, several weaknesses have been highlighted in documents, reviews and supervision mission reports:

- Record keeping is generally weak. This is not only because the GRF record-keepers are unqualified but also because the recording system is a single-entry system. A single-entry record-keeping system will not self-detect errors. Also it is not really possible to design a manual loan recordkeeping system in such a way that arrears can be easily identified. Poor quality records in turn cause poor quality of reports. The reporting system also does not capture the number of borrowers and it doesn't always report correctly on arrears. Introduction of a double entry bookkeeping would make the records more reliable because most errors would be automatically detected within the system. However, the operation of such a system would require a much higher level of book-keeping skills and it would not be feasible simply at village level;
- The GRF leaders including the record keeper of the group are in many cases expected to do the work on a voluntary basis (only in some cases do they get a share of interest payments as incentive). Although this may be feasible for an initial period or perhaps during project implementation given support by project staff (CEWs in the case of IFAD projects), it is not sustainable in the longer term;
- Savings mobilization has generally been neglected. Adding savings mobilization as one of the functions of the current GRF models would, however, further expand and complicate recordkeeping, accounting and reporting tasks;

9. Regarding the options for continuing to use Group Revolving Funds in project implementation and improving the model, an interesting experience is the one of the FAO project in Battambang, which in 2009 used the concept of an external service provider as an exit strategy for 15 revolving funds with a value totalling (at that time) about USD 55,000. The service provider records transactions and provides accounting and reporting services. The agent uses a laptop computer and the FAO-GIZ MicroBanking software. The total membership of 405 is comprised of the Koming Puoy Water Users Community, a small irrigation project. The group leaders receive a small remuneration for collecting the loans (10 percent of the interest collected) and the cost of the external service provider amounts to about 38 percent of interest collected. Although the cost to the groups is rather high, the experience points in the right direction, i.e. that outsourcing of recordkeeping, accounting and reporting functions improves sustainability. The value of the fund had (as of 30 September 2011) increased to about USD 69,000, repayment has been perfect and so has reporting. A list of borrowers, with a list of loan purposes and a trial balance is being sent on a monthly basis to FAO and to the Italian NGO GVC that was tasked with the establishment of the fund.

10. *Lessons on access to technology and markets.* Rural development projects globally point to that investments in technology generation and dissemination, extension and training, and productive infrastructure should be seen as mutually dependent and can be more effective when concentrated in the same locations. Geographical targeting of productive infrastructure investment in areas of high agricultural potential (including population densities and closeness to main domestic and international markets) could improve returns to public investments.

11. Lessons learned from APIP show that seed multiplication through MAFF-owned seed farms failed soon after the end of the project due to inability of seed farms to retain profit after the sale of

seed to farmers, and resulting shortfall of operating resources due to lack of budget from MEF, which brought their activities to a halt.

12. Lessons from APIP also indicate that the value of IPM lies in the adoption of a more complex set of farming practices in integrated crop management systems. Impact assessment of APIP showed that IPM-using farmers (which was promoted as part of a technical crop production package), achieved higher yields than the control group - 2,747 kg/ha for wet-season rice and 3,114 kg/ha for dry-season rice, compared to 2,014 kg/ha and 2,450 kg/ha, respectively. Pesticide use was significantly reduced among IPM farmers and incomes have risen compared to control farmers. The average family income of IPM farm households was 18% higher than that of control farmers and from marginally smaller land holdings. Moreover, the IPM farmers' total incomes were less dependent on rice production than those of control farmers, indicating that there are aspects of diversification in play that indicates that the value of IPM lies in the adoption of a more complex set of farming practices in integrated crop management systems. Another impact evaluation study showed that farmers who attended the FFS had 33% higher yields compared to the control group

13. The quality of MAFF extension staff at district and provincial levels is generally good, but limited staffing levels and insufficient operating budgets limit the length and frequency of farmer visits to sub-optimal levels to maintain desired knowledge diffusion and adoption rates. Lessons learned also indicate that the provision of extension and training services by both public and private providers needs to be more decentralized and more responsive to the priorities of farmers, based on market demand and putting choice by farmers at the centre of the process.

14. Experiences from IFAD funded projects show that private-sector and other non-government providers of agricultural extension services, including the Commune Extension Workers (CEWs), Village Animal Health Workers (VAHWs) and Village Extension Workers (VEWs) can support technology transfer and information dissemination. In particular, the introduction of CEWs has been seen as a successful innovation, providing accessible technical services and a link between the groups and the district support teams. However, there is need to rethink the role of such staff given their limited technical capacity and prospects for sustainability. In particular, it is found under IFAD projects that CEWs are very good at facilitating linkages and providing general support but in many instances less appropriate for administering technical trainings. This creates the need for more support directly from district and/or provincial level staff and also from service providers with good quality staff on the required technical subjects.

15. The IFAD RPRP PCR mission highlighted some of the issues surrounding the FSI farmer field schools where low attendance was often a problem and that some of the technology packages promoted were not always appropriate. However it was highlighted that a combination of demonstrations, field days and farmer-to-farmer extension had good impacts.

16. The Mid Term review of RULIP project also identified some weaknesses in the training program, particularly that for the Livelihood Improvement Groups (LIG), where the training program of 6 days initial training and two sets of 3 days follow up was "too short and covering too many topics and consequently adoption rates appear to be low. It is, however, acknowledged that in a few communes training has worked well with high adoption rates". The review of the Farming Systems Improvement (FSI) groups was more encouraging with a longer training period the mission reported that it "appears to have resulted in higher adoption rates".

17. There is an inherent weakness in the linkages between research and extension (see WP2), which is well known and numerous projects have tackled this problem with various degrees of success. The core of the problem lies with the lack of an adequate mechanism for the researchers to assess and respond to farmers needs, this is also limited by insufficient research budget, and the premier research institute, CARDI, relies mostly on donor funding. There have been some bright spots however, with a prime example being that of the IPM programs and farmer marketing schools.

#### ANNEX IV: DETAILED PROJECT DESCRIPTION

1. The proposed project is implemented over a six year period and will have the following three components to achieve its objectives: (i) Improved Access to Financial Services, (ii) Improved Access to Technology and Markets and (iii) Project Coordination and Management.

##### **Component 1 – Improved Access to Financial Services**

2. The project intends to retain certain important qualities of GRFs<sup>78</sup> while avoiding some of their perceived weaknesses and take advantage of developments in the rural finance sector. In particular, the project intends to capitalize on the strengths of MFIs in terms of range of services offered (savings, deposits, loans, insurance) and potential to support development of small rural businesses.

3. Under this component the project will set up a Group Conditional Capital Transfer Scheme (GCCTS), which will transfer funds to village based Improved Group Revolving Funds (IGRFs) over a three year period conditional on their performance. In addition, the project will be supporting training to households members of the IGRFs in terms of household finance and budget, support group linkages with MFIs and provide specific support to existing RPRP groups in terms of access to financial services and improving the likelihood of their sustainability.

4. **Sub-component 1.1 - Group Conditional Capital Transfer Scheme (GCCTS).** The project will establish a Group Conditional Capital Transfer Scheme (GCCTS) that will transfer funds to the IGRFs over a three year period. Transfers are conditional on the performance of the group. Financial transfers will be made in equal annual amounts, amounting to USD80 per member per year. An IGRF with 50 members would thus receive a total amount of USD4,000 per annum or USD12,000 over the period of three years. Given the total number of groups and their size it is expected the total project funds allocated to the GCCTS to be around USD 11.8 million.

5. The conditions for progressive transfers of funds to the IGRF are mainly assessment of performance of the group and attendance of key project trainings including gender and nutrition. Some of the key conditions for receiving transfers are presented in the table below and will be detailed further in the Project Implementation Manual. If the group fails an exam then they will be offered a second chance within three months. The conditions will be enforced/implemented by the project field staff under overall coordination of the project M&E unit.

6. *Improved GRFs (IGRF).* IGRFs developed under PADEE will have three important differences to most GRFs in Cambodia. Firstly, an external service provider will be engaged to carry out recordkeeping, accounting and reporting. Secondly, the groups will have 50 members rather than 25. This will allow certain economies of scale to be realized for the external service provider and reduce cost to the groups. And thirdly the IGRF will be encouraged to pay a small compensation to its leader, deputy leader and treasurer who are in charge of following up loan repayments, while the treasurer maintains the petty cash. The training of the IGRF members will emphasize the responsibility that these leaders have towards the membership, especially in view of their remuneration. All together these three improvements will lead to a professionalization of the operations of the funds.

7. The PADEE project will promote the establishment of village-based Improved GRFs, or IGRFs. The IGRFs will retain those functions in the group that the GRFs have been proven to handle well while the functions that they are not good at will be outsourced to a professional external service provider. The IGRFs in PADEE will consist of 50 households that have been selected through the participatory wealth ranking exercise<sup>79</sup>. The table below shows the allocation of responsibilities between IGRF and the external service provider.

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<sup>78</sup> For a more detailed discussion on rationale for the approach used in improving access to finance see Main Report section of the PDR and also Annex 3 on lessons learned in access to finance.

<sup>79</sup> The latest IFAD COSOP Mid-Term Review Report (June 2010) highlighted the strengths of the wealth ranking approach relative to other options for targeting at village level. See more details under Annex II.



Table: Conditions for GCCTS transfer to the IGRF

Year	Amount	Conditions
Year 1	USD80 /member	<ul style="list-style-type: none"> <li>All members must have opened a savings account with an MFI of their choice, facilitated by the project with a contribution of 4,000 Riel</li> <li>All members must have followed classes on financial literacy, covering the topics (i) household finance and budgeting (ii) dealings with MFIs (iii) interpretation of financial reports of the service provider</li> <li>All members must have attended and successfully completed gender and nutrition training</li> <li>All members must have taken the exam on financial literacy and the group average score must be 60% or higher</li> </ul>
Year 2	USD 80/member	<ul style="list-style-type: none"> <li>All members must have followed technical training classes of component 2</li> <li>The groups treasurer must have managed the group's petty cash and passbook properly, with balances matching with the external service provider's reports</li> <li>Group gender assessment indicates that there are no major issues</li> <li>The loans granted in year 1 must be on schedule and/or must have been repaid on time</li> <li>All members must have attended the financial literacy refreshment training</li> <li>All members must have taken the exam on refreshment of financial literacy and the group average score must be 60% or higher</li> </ul>
Year 3	USD80 /member	<ul style="list-style-type: none"> <li>All members must have followed technical training classes of component 2</li> <li>The group's treasurer must have managed the group's petty cash and passbook properly, with balances matching with the external service provider's reports</li> <li>The loans granted in year 1 and 2 must be on schedule and/or must have been repaid on time</li> </ul>

8. Remuneration of the entire loan committee (comprised of leader, deputy, treasurer and four members) will be proposed by the project to be related to loan interest collected from the members. (around 20% of interest revenue). Once the group has fully received the project's conditional capital grants, amounting to USD 12,000 (assuming 50 members), and assuming the prevailing interest rate of 2%/month (24%/year) and furthermore assuming that 80% of the fund will be lent-out on average, the annual interest earning would be USD2,300. The remuneration of the seven loan committee members would be 20% of that, USD 460 per annum, or about USD66 per annum per person.<sup>80</sup>

Table: Allocation of responsibilities between IGRF and the external service provider

	Function	IGRF's task	Service Provider's task
1	Loan approval or rejection	X	
2	Keep petty cash	X	
3	Set interest rates for loans	X	
4	Keep passbook of the group (with ACLEDA or MFI)	X	
5	Write vouchers for cash in and cash out transactions	X	
6	Creation and opening of member records in the computer		X
7	Record cash in and cash out transactions in the computer		X
8	Generate accounting transactions when necessary		X
9	Generate monthly reports for the group (Trial Balance, list of loans)		X
10	Generate monthly report for the project		X

<sup>80</sup> In the former FAO project in Battambang the remuneration of the group leaders is set at 10% of interest collected. But in that GRF the cost of the service provider (as percentage of interest earnings) is much higher than in PADEE because of smaller economies of scale.



9. The above distribution of responsibilities seeks a smooth functioning of the IGRF's operations. Normally the group will meet on the same day every month, once per month, e.g. every 25th of every month. The service provider will normally be attending the meeting and process the transactions real-time. If, for whatever reason, the service provider cannot attend the IGRF meeting then (s)he will visit the IGRF later and process the transactions on the basis of the cash-in and cash-out vouchers prepared by the IGRF treasurer. In either case, the service provider will provide a set of reports to the IGRF leader every month.

10. The establishment of IGRFs will also include compulsory savings for all group members which will be deposited as share capital that cannot be withdrawn. However, members will be able to take a (second) emergency loan against their savings. The details of the savings requirements will be included in the PIM and also reviewed during implementation to minimize exclusion of very poor households (since it provides an extra layer of conditionality). The savings component is in addition to the voluntary savings activities that will be started with the financial literacy training in partnership with an MFI (see sub-component 1.2).

11. Compared to the RPRP and RULIP projects, the role of the CEW in relation to the operation of the IGRF will be very much scaled down because the external service provider will take over the responsibilities of recordkeeping, accounting and reporting. This will however provide new opportunities for the CEW to advise beneficiaries on new agricultural technologies and investment opportunities in these technologies and to participate actively in the exercise to linkage beneficiaries to the market.

12. The project will finance the set up of a central IT system in Phnom Penh that will be operational 24 hours a day and accessible at any time through the internet. This way the project will capitalize on the advanced internet connectivity in Cambodia. Access will be provided to:

- The service provider field agents for the purpose of posting transactions such as loan disbursements, repayments, payment of remuneration to loan committees and other;
- Project staff for the purpose of monitoring & evaluating the IGRF lending activities including loan repayment ratios and portfolio qualities, loan purposes, etc;
- IFAD, and potential others interested in the project progress, also for the purpose of monitoring the progress of lending in the IGRFs, including all of those for the project staff.

13. The central IT system in Phnom Penh will be operated by two senior local IT technical experts would act as system administrator and who would provide support to the service providing individuals in the field, as well as to the project's M&E unit. Initially the experts would also be paid by the project but gradually and eventually their cost, and the cost of operating the IT centre will be transferred to the service providing company.

14. The project will offer a basic infrastructure of hardware, software, communications and training to potential service providers, which will be invited to make proposals as to how to operate the infrastructure, service the IGRFs and also as to their participation as a partner, contributing a certain amount of skills, management and/or finance. The budget assumes that the project will, for each group, finance the cost of the service provider on a declining scale from 100% in the first year to two-thirds in the second year, one-third in the third year and zero thereafter.

15. For budget purpose it has furthermore be assumed that one individual staff of the service provider can service a minimum of 30 IGRFs per month. These staff will be equipped with a computer, which will serve as a terminal, connected to the central IT system in Phnom Penh. Thus, while attending IGRF meetings, the service providing individual will record and process transactions in the central database in Phnom Penh in real time mode.

16. The contractual arrangement between the selected service providing company and the project must be of a long term nature because services will continue to be needed after the project ends. The exact nature of such a contract cannot be specified ex-ante but it could be of a PPP nature whereby the project (and later the government) provides the office facilities and hardware, while the service providing company will operate this at a fee, payable by the IGRFs. IGRFs could opt-out of the scheme during and after the project at the time that they want to dissolve their IGRF and

individualize the balance of their fund.

17. **Sub-component 1.2 - Capacity building for improved access to finance.** Given the progress in rural finance in Cambodia and the economic empowerment dimension of the project, group members will in the first year follow training modules on household budgeting and finance and will be presented with simple cases of income generating small investments. Group members will also be trained to interact and transact with financial institutions such as MFIs in general and with one MFI of their choice in particular.

18. As part of the training the project will open an account at an MFI of their choice and a small amount of 4,000 Riel will be provided by the project to facilitate the opening deposit<sup>81</sup>. The training modules on household budgeting and finance will be developed as part of the FAO Technical Cooperation Programme (TCP) facility. They will be encouraged to save – as part of the household budget and finance training – with the MFI. This will help the IGRF members to build-up a track record with the MFI and this in turn will help them to qualify for loans that selected group members may want to avail of as part of the rural business development sub-component (2.3), or for individual loans for production purpose. Such small rural enterprise groups could consist of members from more than one IGRF and they could, depending on the MFI and their project, qualify for either individual loans or solidarity group loans. For example, after three years a group of 10 members, from one or two IGRFs could thus undertake a joint rural enterprise project by investing (for example) USD 150 each from their own resources, plus USD 2,500 from an MFI group loan (AMK offers such loans up to USD 250 per member). The total investment would thus be USD 4,000.

19. IGRF members and officers will receive training on the procedures and operation of the IGRF. The three officers and four loan committee members will receive additional training on basic loan appraisal. More than in the past (for the GRFs), governance and transparency will be highlighted and members will be trained to understand and interpret the reports provided by the external service provider. The training will place emphasis on the responsibility of the “officers” vis-à-vis the members of the IGRF. The project will encourage the IGRF officers to receive a modest compensation of 20% of interest collected for carrying out their responsibilities such as following-up loan repayments and, in return, the training will emphasize the accountability that members should expect, and demand, from the officers and from the service provider.

20. For implementation, the project will hire an external training provider to develop curricula largely from existing training materials, and conduct training in the following topics:

<b>Topics of Year 1 Training for all members</b>	
1.	Financial literacy training including: <ul style="list-style-type: none"> <li>• Household budget and finance,</li> <li>• Gender topics in access to finance</li> <li>• Simple case studies</li> <li>• Dealing with MFIs</li> <li>• Understanding financial reports from the external service provider</li> <li>• An examination</li> </ul>
2.	Group governance, role of the members and the committee
<b>Topics of Year 1 Training for leaders and loan committee</b>	
1.	Training on loan appraisal including simple cash flow of projects and households.

<sup>81</sup> Most MFIs require a minimum opening deposit. For AMK this is 1,000 Riel, for ACLEDA Bank 10,000 Riel, for HKL and PRASAC 20,000 riel and for Sathapana 40,000 riel. If larger opening deposits are required than 4,000 Riel the IGRF member will need to add the difference him/herself.

### Topics of Year 2 Training for all members

1. Financial literacy training refresher course:
  - Household budgeting and finance
  - More advanced case studies
  - Leadership
  - Training on small business management
  - An examination
2. Group governance, evaluation of 1<sup>st</sup> year and refresher

21. **Sub-component 1.3 - Support to existing GRFs.** The project will target a selection of existing IFAD supported groups in the project provinces. Existing groups include the groups supported under RPRP, CBRDP and also other interest groups in the PADEE selected communes. The project will first finance a mapping exercise on the status of all the RPRP and CBRDP groups and also other potential groups in project targeted communes. The exact number of such groups is not yet known but it has been estimated at about 1,000 including about 740 from previous IFAD supported projects in the provinces of Kampot, Svay Rieng and Prey Veng.

22. Out of the 1,000 groups screened, around 500 will receive more advanced support. Selection criteria for such support includes: (i) the group must be in a commune that is included in the PADEE project, (ii) has at least three years operation at the time of contact and (iii) the group members must be willing to participate actively in project activities. The groups that will be included will receive the same first year training as IGRF members on: (i) household budget and finance, (ii) group governance and (iii) dealing with MFIs, including the opening of a savings account. They will not receive any other training after the first year but, for the purpose of their existing GRFs they will be offered three optional strategies for the future of their GRF.

23. Option 1 will be to use the services from the external service provider that will service IGRFs. The 1,008 groups of the RPRP project in Prey Veng and Svay Rieng provinces were reported to have a total capital of USD 3,334,960 in their group funds or USD 3,308 per group<sup>82</sup>. Because these groups are smaller, both in membership (25 members per group) and in size of the fund (USD 3,308), the cost of the external service provider would be higher as percentage of the fund. Although the operating cost may be somewhat lower (because most these funds are used to a six month lending cycle), most of the cost will be nearly the same as for the newly to be formed IGRFs. The figures suggest that for GRFs of the just completed RPRP project the annual costs (USD 270 including a margin for profit) per group would come to about 8% of the value of the fund. Although this would still seem to be acceptable for a fund earning between 18-24% per annum, it would be a less attractive option for old GRFs than for the new IGRFs (which would have annual service cost at about 2.3% of fund value). Alternatively, if the groups are content with services at a lesser frequency – because most groups anyway do not have any financial transactions most months – then a lower service fee could be agreed.

24. The second option for the old GRFs would be to continue operating in the same way as they have been doing in the past, but with less, or no support from the CEWs and no specific support from the PADEE project.

25. The third option, although not encouraged, will be to dissolve the GRF by individualizing the balance of the group fund and depositing these balances in individual accounts to be opened at an MFI (the opening and operating of these accounts is part of the first year training package). As the main purpose of these funds has been the social mobilization of groups and as an extension methodology<sup>83</sup>, this could be an acceptable exit strategy and possibly an attractive option for GRF members. The dissolution of the funds would take place after training of GRF members in household and budget finance and after training on dealings with MFIs. The PADEE project would ensure that the dissolution of the fund is conducted in a transparent and equitable manner. The individual GRF member would become a client of the MFI and this linkage would enable him/her to make use of the products and services of the MFI, including products such as (i) savings account for the management

<sup>82</sup> Project Completion Report RPRP, July 2011, annex V-iv.

<sup>83</sup> Report on Assessment of Revolving Funds Programmes in Cambodia Country Programme, IFAD, January, 2010

of cash flow, (ii) time deposit accounts with attractive interest rates and option to withdraw anytime in case of emergency (iii) emergency loans, (iv) production loans, (v) line of credit and (vi) loans with a life insurance. Linkages with MFIs will also be part of the FAO technical assistance package to PADEE and this includes consolidation of lessons learned by project mid-term review including a concrete operational strategy to promote such linkages.

## **Component 2 – Improved Access to Technology and Markets**

26. The component will contribute directly to the Project Development Objective of “improved agricultural productivity and diversification of income sources for rural households living in poverty in Kampot, Kandal, Prey Veng, Svay Rieng and Takeo Provinces”. As per the rationale for PADEE, this component will link closely with Component 1 to enhance farmer capacity in appropriate agronomic, marketing and post harvest management techniques, as well as off farm activities to ensure that they are capable of effectively utilizing the funds made available through the Group Conditional Capital Transfer Scheme to IGRFs. Overall, the component aims at creating a dynamic and safe learning environment for innovation adoption by the farmers as well as to enhance the range of choices they have access to in terms of training packages and group formation.

27. **Sub-component 2.1 - Support to innovation in capacity building.** The sub-component will contribute to: (i) improving the quality of MAFFs extension methodologies and materials (mainly for the support of the targeted project beneficiaries), (ii) support adaptive research and demonstrations, (iii) development of approaches to off farm capacity building and empowerment of land poor households and (iv) funding for experimenting with innovative approaches to capacity building. This will be accomplished by assessing the existing situation, improving it as necessary and providing a mechanism for regular knowledge sharing and dissemination regarding capacity building, extension and empowerment of poor rural households (including vulnerable populations and women in particular).

28. *Development of on-farm capacity building packages.* The project will primarily provide relevant extension materials and methodologies to the targeted project beneficiaries. At present much of the available materials are orientated towards outstanding farmers or “early adopters” who will not make up the bulk of project beneficiaries. The intent of this activity is to leverage and optimise existing knowledge and help MAFF improve coordination of its production and delivery. There is a significant number of very good technical extension materials available in Cambodia, but these have some recognized weaknesses: (i) they are often dispersed among different agencies and do not have a common approach as a ‘Package’ (for example what equipment or goods farmers are supposed to receive as part of training), (ii) they lack recent updates (based on research and change in farmers situations), (iii) do not include more practical and advanced modules, (iv) lack a more business orientated approach including greater focus on marketing, post harvest management, etc.

29. The project will continue to use the concepts of Farmer Field Schools (learning by doing, experimental education and group learning) as a vehicle to disseminate adoption of new technologies but will shift the focus from simple delivery to involving farmers in adoption and dissemination outside the school. In essence the FFS will form the core of the “Package” approach to training, the concept of the package is to allow the process to become more demand driven, with farmers being able to select relevant ‘modules’ within a package. Under this project the FFS curricula will be assessed and (as necessary) re-engineered into a modular approach, breaking up lengthy training programs into smaller modules that can be more readily and hence frequently updated and that allow greater flexibility in catering to the farmers training needs, i.e. to give groups of farmers the ability to select only the most relevant training modules. The project will also take on board the lessons learned from RPRP in terms of focusing on more practical trainings and providing greater support for adoption by the training group, as well as provide incentives to outstanding farmers to disseminate their knowledge outside the group.

30. The project will support relevant national level MAFF technical departments (such as the Directorate of Agriculture Extension, CARDI, Agriculture Marketing Office, General Directorate of Agriculture, Department of Animal Health and Production, Fisheries Administration, National IPM Programme) under overall coordination by the National Project Coordination at MAFF in establishing the curricula for such trainings including re-engineering the existing materials into said modular

approaches, and institutionalizing the mechanisms for determining when and how to refresh, test and update the trainings. The key principle is the development of a mechanism for the continuous assessment and updating of training and extension resource materials that will be fully integrated with MAFFs central services. Some of the proposed thematic areas for the restructuring of training approaches include:

- Modular approach;
- Innovative educational training techniques;
- Higher ratio of hands on practical training to theoretical training;
- Development of contents and approaches specific to the needs of poorer farmers;
- 3 small demonstrations per group
- Demonstration farmers have some responsibility for adoption by other FFS members;
- Training on budgeting including assessment of current situation, budget on proposed activities, and analysis of activities performance at season end;
- Development of a tool for assessing improved knowledge of the participants;

31. The component will result from cooperation between MAFF central technical departments and SNV, which will act as facilitator and provide technical assistance with the development of extension and training methodologies, as well as consultancy services to support MAFF in the development of a modular approach for a range of packages that include production and marketing and cover at least the following topics: rice, rice seed, small holder pigs, small holder poultry, small holder aquaculture, small holder vegetables and crop diversification. The consultancy will cover meeting costs for participatory development and testing of methodologies and conduct trainings as appropriate to ensure sufficient capacity in the project to deliver upon any new approaches. SNV's work will be split in two parts with an initial system development at project start and follow ups to assess the implementation and provide support for revisions. Given that there are several units from MAFF involved, the activities will be implemented under the leadership of the PADEE National Project Director (at MAFF PSU). In particular, the project will finance: (i) identification of main extension/training needs, (ii) review of materials, (iii) establishment of partnership with international reference institution, (iv) development of training packages, (v) validation by key stakeholders and dissemination.

32. Review of existing extension materials includes all relevant extension documentation and conducting interviews with relevant stakeholders on extension methods to identify best practices. The main materials of relevance will include<sup>84</sup>:

- Farmer Field Schools on ICPM by DRC
- Vegetable Farmer Marketing Schools by AMO
- Other cropping activities under GDA (maize, mungbean, vegetable, etc)
- Family fish culture and family fish seed production (Department of Aquaculture Development)
- Livestock production trainings (Department of Animal Health and Production)
- Rice FMS materials developed by GTZ
- FFS and FMS materials developed and used by other organisations and projects, including SNV, IDE, CAVAC, CEDAC among other
- Farmer rice seed production training materials of CARDI
- VVOB training materials including rice and poultry
- Post-harvest technology training materials developed and used by the IRRI post harvest technology project
- Improved technology packages emerging from the TPIRP coordinated by CARDI and ACIAR with funding from CAVAC.
- Technology implementation procedures developed by the Cambodia-Australia Agricultural Extension Project
- Others

33. Identification of the main extension/training needs of farmers will take into account targeting of poor household. This should consist of assessing farmer needs for different training modules through reviewing documents such as the PADEE Social Assessment and other relevant studies that will be

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<sup>84</sup> For some of these trainings there will be complimentary TOT, these should also be reviewed and reported upon.

provided by the PADEE-PSU team, as well as conducting a training needs assessment on a sample of project communes. The identification of needs should also consider the PADEE approach in Component 1, which includes support to farmer groups with revolving funds. Moreover, it will also include review of the current training programs for CEWs and other project staff.

34. Identification and facilitation of a partnership with an international institution that can assist in the long term development of the Extension services within MAFF. Initially this will be conducted by SNV as implementation partner and may include other institutions as found relevant (such as the Royal University of Agriculture).

35. Development of training materials. First, this will include determination of the approach to training and the required packages (which modifications need to be introduced, what are the key training concepts). In turn, this will consist of defining the coordination/implementation mechanisms to ensure a consistent approach between training activities under Components 1 and 2. This will include detailed steps and responsibilities on (i) how demand for different packages is generated from the farmer groups, (ii) what Packages will be implemented by whom in what time period for one location (in particular how do the Packages respond to farmer needs).

36. Second the packages will be prepared by the technical departments in MAFF in collaboration with DAE and an external agency/consultant, (where gaps are identified in terms of training needs or in the event of inadequate capacity or lack of knowledge in a specific topic, national consultants/agencies to prepare the materials). For each Package, production of the training modules/guidelines and implementation protocol drafts in Khmer and English. This includes procuring required services to translate all documents in order to have both copies in Khmer and English.

37. Finally, packages will be validated through workshops that include all major stakeholders in MAFF, donor community, NGOs and other relevant stakeholders. The project will also finance publications and dissemination of information about the training materials.

38. *Support to on-farm adaptive research and demonstrations.* The project will support CARDI to implement approximately 60 multi location variety trials, mostly concentrating on the core issues for farmers in the project districts, i.e. varieties, water management and fertility. It is expected that a number of these will focus on fertilizer response experiments. Information obtained will feed into recommendations and training materials. The project will support the GDA to conduct approximately 400 diversification demonstrations that go beyond just traditional crops cultivated in project provinces with the intention of providing farmers with alternative crops that not only increase food security, but improve soil fertility through rotations and improve the economic viability of the farming enterprise. Lastly the project will fund 400 seed variety demonstrations (mainly paddy) to improve farmers awareness of the potential of the newly released varieties (included in the Rice Export Policy).

39. The project will supply inputs for these trials, as well as support for a field day and the management costs of CARDI/GDA staff. These will be closely linked to the trainings given under Component 2.2, and wherever possible will be conducted on a farmer's field, who is a direct beneficiary. The project will also support a number of variety trials to promote the new varieties released by CARDI and in response to the Rice export policy.

40. *Support to innovation in non-land based capacity building.* The experience from RPRP and RULIP indicate that while off farm activities have the potential to provide good complementary income to families and, in particular, women, the potential for large scale interventions with significant number of businesses established seems limited. This has also been the experience of MoWA with their vocational and other training activities. In an effort to find alternatives besides improving on the current portfolio of traditional trainings (weaving, food manufacturing, etc), the project will provide funding to develop approaches and options for 'off farm' productive activities which will be coordinated by MoWA with SNV technical assistance and implemented by specialist service providers. SNV will support the development of new ideas and opportunities for training of poor rural households in non-land based income generating activities with particular focus on women's needs. A study on such opportunities and potential linkages with industries and vocational training will be conducted in the first project year, as well as training materials on traditional off farm activities capacity building packages will be updated for project use.

41. *Other support to capacity building innovations.* This will include support for an internship program for students from the Royal University of Agriculture and grants for innovation in capacity building. Proposals will be screened by SNV and funds attribution decided by a committee including MAFF-PSU, DEA, RCD and a representative from CARDI. The latter will provide grants based on research demands by MAFF and/or the PDA or suggested by SNV, requests for proposals will be made annually and assessed by the committee. Proposals will be expected to be relevant to project beneficiaries. The RUA internship program will be managed by SNV and support 20 students in their final year to conduct a research for their undergraduate/master thesis on relevant topics under the project.

42. **Sub-component 2.2 – Applied training and capacity building.** Under the sub-component, farmers will receive applied training based on their choices and around a business-like approach which links training to the use of funding made available under component 1. In addition, the project will include trainings of a wide range of support staff such as CEWs, PDA and DOA staff. The component will include both training on farming and non-land based income generating activities.

43. *Capacity building of local service providers and implementation support.* The project will follow approximately past IFAD projects (such as RPRP) with the decentralized and multi-disciplinary approach to extension at the provincial and district levels. This component will identify and train Commune Extension Workers, strengthen multidisciplinary support teams at the district and provincial level, with extra training where necessary. The project support through the CEWs and decentralized structures will involve the Commune Councils and help identify the project beneficiaries, facilitate the organization of initial training sessions for IGRF members and outstanding farmers from the community. Following the initial organization meetings and trainings, the CEWs and Mobile Support Teams will facilitate the formation of interest groups for the purposes of more advanced training.

44. Capacity of Provincial and District agriculture staff will be supported by a cascade of Training of Trainers (ToT) training from National down to commune level on the packages developed under the project ('support to innovation in training'). The activities to be financed under this sub-component include training of CEWs, TOT (including business development, and marketing), costs associated with beneficiary identification (including wealth ranking and Rapid Rural Appraisal of the commune), formation of groups, etc. It will also include costs of supporting formation of interest groups for the purposes of off farm income generating activities. The latter will be coordinated by MoWA-ISU and outsourced to specialist service providers.

45. During the first year of the project two CEW, one male one female will be recruited in each participating Commune. The CEW would then be trained in participatory techniques, social mobilization, wealth ranking and in how to provide groups with technical training. In addition, during project year one CEWs will also be trained in financial literacy and linkages with MFIs (financed and implemented under component 1). In communes selected under the project where CEWs already exist (from RPRP) PADEE will engage their services through the Extension Associations (if present) on a performance based contract. The project will have to ensure that these CEWs were brought up to date on the Packages promoted under the project, as well as the functioning of the IGRFs. Training of district and provincial level staff as TOTs will be conducted in project year one and the project will support the establishment of a mobile team of trainers at the district level to provide additional support to the DST to deliver the planned trainings and to provide technical support to the project beneficiaries.

46. *Group formation and applied training.* The CEW will act as a facilitator and a mentor and follow-up on the IGRF activities, as well as the technical aspects promoted through the training. All training curricula and schedules will be decided upon by the group. Initial sessions will include orientation and specific training to enable full use to be made of the inputs. The CEW will facilitate the selection of Leaders, Deputies and Bookkeepers (at least one of whom should be a woman) will be selected by the training classes and special interest classes and will receive a seven-day training course.

47. After members have registered with the group, the CEW will facilitate a dialogue during which members will discuss their farming problems and identify what kind of new technologies they want to

learn and which kinds of demonstrations/trials they want to carry out from a predefined list of available modules within the various training Packages. Three suitable farmers will be selected by the group to act as the demonstration/experimenting farmers and will be given the incremental inputs. In the case of using FFS the demonstrations/trials will be used as field classrooms. Training will be carried out by the Mobile Support Team and DST, facilitated by the CEW and supported as necessary by the PDA staff. These trainings will be closely synchronized with Component 1 to ensure that funds are available for the implementation of demonstrated technologies by the farmers who wish to do so.

48. The project will support the training of IGRF group members and interest groups including outstanding farmers from the community in a range of relevant topics as developed under the 'support to innovation in capacity building' activities (see above). These include training in gender, technical production, marketing, post harvest management, business development, etc. The project will have a phased approach to training over a 3-year cycle.

49. In the first year the households that are part of the IGRF at the village level will be split into training classes for the purpose of the basic training package (including modular rice training and one subject of the initial training class's choice). The CEWs will play an important role in facilitating the organization of the basic training class including the selection of outstanding farmers (proposed by the class members) and later on interest group formation for the purposes of the additional more advanced training. Simultaneously in the first year, CEWs will support the development of off farm enterprises especially for women through facilitation of the groups and in close collaboration with DoWA and PDoWA. Following expressions of interest, household members will be contacted by the service provider responsible for capacity building in income generating activities.

50. The MST and DST will provide the technical on farm training to the class on the particular subjects with backstopping from the PST. The project will also leverage the considerable investments in training into the wider community by allocating time to the CEW to provide services to other farmers, by assisting the CC to develop the agricultural components of the Commune Plans (annual plans, development plans and five year rolling plans) and by supporting the CC for field days and exposure within the commune and through the piloted Commune Advisory and Information Centre.

51. The second year of training will be more focused on special interests of the groups. These groups can undergo up to two specialized trainings of their choice in the second year, strongly performing groups will be eligible for the Small Rural Business Development Component. These groups may find benefits in formalizing their status as cooperatives or associations at some time during the project implementation or later.

52. The project will provide funding for training costs including facilitation and supervision and backstopping by the decentralized MAFF and MoWA structures (provincial and district level). In addition, financing will be allocated to exchange visits, commune level awards for best farmer initiatives and general dissemination of best practices. Regarding off farm income generating activities, the project will also support hiring of specialized service providers in training to be selected under MoWA supervision for implementing selected training packages.

53. As part of component activities the project will support the expansion of the successful FBA network to project areas in a partnership between MAFF and iDE. Presently the FBA network is present in Svay Rieng, Prey Veng, Siem Reap and Banteay Meanchey. The partnership provides the benefits to iDE of expansion of their network to reach economies of scale (particularly for the input supply system), and some degree of risk management (through distribution in different geographical areas). PADEE will benefit from the partnership through PADEE farmers accessing quality inputs and advice in their communes for the period of the project and beyond.

54. The FBA is essentially a small business entrepreneur and is not selected or trained to be a formal trainer. They impart their knowledge one-on-one to their farmer clients. The most effective method of maintaining regular connection between the FBAs and PADEE farmers is via the PADEE field crop and horticultural demonstrations. The FBA will attend the trainings at the demonstration sites conducted by the MST (and facilitated by the CEW). In between the trainings, the FBAs will be responsible for the supervision of the demonstrations, carrying out the instructions of the training specialists, ensuring profitable success is achieved through timely attention to weed/pest control, soil



management, fertilizer application and other. The FBA will also be responsible for keeping the demonstration records throughout (improved compared with farmers practice) including economic analysis and productivity increases. The FBA will also organize field days in partnership with the CEW and the Commune Council, for each demonstration.

55. The demonstrations and the CEW/FBA connection will be a key innovation for the project. Sustainability is enhanced because the FBA has a vested interest in ensuring demonstration success, as they are also an advertisement of the FBA's service quality for potential farmer-clients. A further connection will involve the iDE Commercial Agronomist (CA). The CA is responsible for the sales/agronomy activities of 10-12 FBAs. They visit with each FBA twice a month, advising on any issues that arise. The project will benefit (from a continuous learning perspective) as the CEW is also present during these visits. At other times the CEW/FBA have phone access to the CA for further backstopping.

56. Experience has shown that one commune is too large for one FBA to adequately service. This presents a real opportunity for the FBA and CEW to form a business partnership with the goal of offering the whole commune access to their combined services. Such relationships should be encouraged, as they can form the main transition from 'project' to post-project sustainability.

57. **Sub-component 2.3 – Small rural business development.** This sub-component is an attempt to provide market-linkage opportunities to the potentially most promising of the target beneficiaries. Such business and market facilitation will be a good complement to the other project activities focused on access to finance and capacity building on production and marketing technologies. There is also scope to leverage the large number of farmers and groups that have received support from IFAD in recent years under such type of activities (RPRP and RULIP projects).

58. The activities consist of the following four main interventions: (i) a stimulus facility for rural business development, (ii) preliminary studies and knowledge management, (iii) technical assistance, capacity building and networking and (iv) development of pro-poor bio-digesters. The three first activities combine in a set of 'demand-driven rural business development' interventions. They are quite closely inter-related and contribute to create a window of opportunity for farmers to improve market linkages and support financing of young farmer associations and market ventures. The last activity has been identified ex-ante and will run as a complementary program targeting the PADEE beneficiaries.

59. *Rural business development services.* The project will finance initial studies on market potential, supply chains and linkages that are of relevance to the target group and the project areas. It will also finance the services of an international integrated value chain specialist and two national specialists, which will provide technical guidance to project activities in terms of contacting buyers and financial institutions, creating awareness for project activities and establishing linkages (including contractual arrangements and business plan preparation and evaluation). In addition, the project will provide training for provincial, district and commune staff on the concept of integrated supply chains, linkages, business plan development and financing of ventures. Finally, the sub-component includes costs of monitoring linkages and reporting to MAFF PSU on financials and key performance indicators. The technical assistance, capacity building and overheads will be the responsibility of SNV in close collaboration with MAFF PSU and other project staff.

60. *Stimulus facility for rural business development.* The project will set up a stimulus facility to support linkages. The facility's operating rules including eligibility and selection criteria will be detailed in the Project Implementation Manual. Funds will be awarded on a competitive basis and it will follow a flexible mechanism and can be either used for continued investment in 'software' (business or technical skills of the groups, associations or cooperatives) or 'hardware' (tools and equipment needed to facilitate the linkages). In particular it can be used for:

- Skills and organizational upgrading. Further trainings will be developed and provided (tailor made) to strengthen the special interest groups preparedness to engage in the business linkages. This includes support to registration, organization and management of the targeted associations or groups.
- Tools and equipment. Investment support can be provided for the purchase of required tools or equipment needed to build the linkages. This can, for example be small storage facilities,

- boxes to sort and grade produce etc;
- Working capital. Where needed the groups can receive additional funds in their revolving fund to increase their working capital needed to produce enough output or to overcome payment delays.

61. The stimulus facility can benefit a number of supply chain actors as long as there is a demonstrated rationale for the use of public funds (for example innovation, demonstration effects or other externalities) and that these ultimately benefit the PADEE target beneficiaries. Potential beneficiaries thus include: (i) PADEE common interest groups, (ii) PADEE individual group members, (iii) other existing cooperatives or associations that include PADEE beneficiaries as their members, (iv) private supply chain actors as long as they are partnering with PADEE beneficiaries. Through organization in common purpose groups and cooperatives farmers can benefit from larger amounts of funding through bundling of their stimulus facility applications.

62. *Pro-poor bio-digester programme.* Since 2006 farmers in Cambodia have been adopting household bio-digester technology under the National Bio-digester Programme of MAFF supported by SNV. Up to 2011 over 15,000 units have been constructed in 14 provinces. These bio-digesters are investments made by the farmers themselves costing around USD 500 with a programme subsidy of USD 150, which is also a carbon offset compensation. The benefits of the technology are many-fold in economic, environmental and social areas. Households save expenses on fuels (wood and kerosene) as well as on (chemical) fertilizers. Farm hygiene and health for people and animals will improve as manure is collected and not left everywhere on the farm. Cooking avoids smoke from wood-fires. Households, especially women, save substantial time from wood-collection, the cooking process and cleaning of kitchen utensils. The financial payback time for the farmers is between 2 – 3 years based on the value of replaced energy only. These bio-digesters have an expected lifespan of over 20 years.

63. The basic condition for the current bio-digester technology is that households need to feed a minimum of 20 kg of manure per day into the digesters for continuous gas production to make the investment economically viable. This means that a household needs to have about 2 cows or 5 adult pigs. Among the target PADEE beneficiaries many households do not yet have this minimum number of animals while at the same time they have the same energy needs as other (better off) households. The technology and programme structure introduced by SNV has shown good results and delivery. The main dilemma of the technology offered in its current status is that it is not directly in reach of the poorest households, both financially and for required daily feeding material.

64. The project will fund the adaptation of the technology for poorer households and make it accessible to PADEE beneficiaries as an alternative investment possibility (including for funds received under component 1). It is expected that 4,000 bio-digesters will be constructed in project areas.

### **Component 3: Project Coordination and Management**

65. Under this component the project will finance three main sub-components: (i) MAFF PSU, (ii) MoWA ISU and (iii) provincial level project management units.

66. **Sub-component 3.1 – MAFF Project Support Unit.** The project will finance the costs of MAFF PSU to support project coordination and management which includes a dedicated M&E team. The project will finance equipment, costs of staff for the team at the MAFF-PSU and office operations and maintenance costs. In addition, the project will finance an international procurement and fiduciary specialist for total 24 months a national financial management consultant for a total of 12 months. The project will finance annual audits of the accounts by an independent firm and funding for training and workshops (in particular technical coordination meetings with provincial staff which have been successful under previous IFAD projects).

67. The total staff supported by the project in MAFF-PSU are 12 including three full time staff in the M&E section. Regarding M&E, the project will finance a number of studies, workshops, publications and dissemination initiatives. It will also fund dedicated international technical assistance to support initial development of the project's management information system (details are provided under sections III B and C of this report). Finally, the project will finance support for a project focal

point with the Ministry of Economy and Finance and a focal point within NCDDs (starting from the close of RULIP).

68. **Sub-component 3.2 – MoWA Implementation Support Unit.** The project will finance the costs of setting up and maintaining an Implementation Support Unit (ISU) at MoWA. The ISU will be led by a senior official and will include an ISU Manager and Finance Officer supported by PADEE as well as two Gender Officers and two Economic Empowerment Officers working full-time on PADEE. Additionally, the ISU will consolidate MoWA support to the RULIP project. The MoWA-ISU will support coordination and implementation of gender mainstreaming activities under the project, as well as the hiring of service providers for development of training materials and for applied trainings to interest groups (component 2). In addition, the project will finance studies including a stocktaking of gender mainstreaming in agriculture and an assessment of drudgery patterns of women in target areas. Finally the project will finance refresher training of MoWA staff in gender analysis, mainstreaming and other topics and training of provincial district and commune staff. More details are provided under sections III B and C of this report.

69. **Sub-component 3.3 – Provincial management.** Coordination and management of the project in each province will be led by the Provincial Administration with a senior official acting as Provincial Project Director. The project will support one Planning and Investment Officer and one Finance Officer within the functional units of each Provincial Administration. The project will support equipment and operating costs for these staff and for District Project Directors within each District Administration. Coordination and management tasks will be supported by PDA and by two consultants (on M&E and agriculture) who are assigned to PDA but support all aspects of project implementation in the province. The Provincial and District Administrations will lead annual planning of project activities and coordination of different stakeholders and timely and, together with PDA and PDoWA will ensure effective implementation of project activities.

## **ANNEX V: INSTITUTIONAL ASPECTS AND IMPLEMENTATION ARRANGEMENTS**

### **General description and rationale**

1. PADEE will be implemented through national and sub-national government agencies holding the appropriate mandate for the respective activities, supported by specialist agencies from the private sector (potentially including non-profit). Project implementation will be led by the Ministry of Agriculture, Forestry and Fisheries (MAFF) with the Ministry of Women's Affairs taking responsibility for gender mainstreaming and for non land-based livelihood support activities. The National Committee for Sub-National Democratic Development Secretariat (NCDDs) will not have direct role in project implementation but will provide important support to liaison and facilitation between the project and the sub-national administrations.

2. The Royal Government of Cambodia (RGC) is in the early phases of a 10 year National Program for Sub-National Democratic Development (NP-SNDD) which will decentralise many aspects of development planning and public expenditure management to Provincial, District and Commune Councils. This program has far-reaching implications for parts of the administrative system. It is envisaged that technical agencies at Provincial and District level will report directly to a unified administration at each level, while maintaining vertical sectoral linkages. The "voice" of local communities in their development and the accountability of the administration to local communities will be strengthened. IFAD has engaged with and supported the pilot phases of decentralisation in Cambodia since 1998 and remains committed to working with the emerging decentralised structures. In PADEE, it is expected that implementation through the decentralised structures will ensure a high quality of coordination between agencies at local level and enhance a demand-driven approach to service delivery. PADEE will cooperate with the initial implementation phase of NP-SNDD, (known as IP3), implemented by NCDDs, to the mutual benefit of both programs.

3. PADEE introduces innovations in sustainable access to finance, technology and markets for poor smallholder farmers by building upon the experience of previous IFAD-supported projects in Cambodia. Therefore, the implementation arrangements for PADEE will reflect those of the previous projects and make maximum use of the institutional capacity and experience developed. However, as PADEE introduces significant changes to strategy and balance of activities compared to the earlier projects, the implementation arrangements are adjusted to reflect this as well as lessons learned in the area of project administration.

4. The increased use of private sector service providers is a particularly important feature of the PADEE implementation strategy. A number of key service providers will be engaged by the project at national level to perform tasks requiring specialist technical expertise. The involvement of these service providers will ensure a high quality of implementation while also broadening the experience and strengthening the capacity of the government staff who work alongside them. At local level, the possibility exists to engage service providers to enhance the range of options for training support, available to the project beneficiaries.

### **MAFF-PSU - Overall project management, coordination and M&E**

5. MAFF will assign project implementation and coordination responsibilities to its Project Support Unit (MAFF-PSU). The MAFF-PSU will be led by a Project Director and a Project Manager, to be appointed by the Minister of MAFF, and will include specialist staff for procurement, financial management, planning and M&E, among others. The MAFF-PSU will be responsible for cooperation and liaison between all Implementing Agencies (IAs), namely the MAFF agencies, MoWA, the provincial, district and commune administrations, PDAs and PDoWA and their respective District Offices and implementing partners including FAO, SNV and iDE. MAFF-PSU will assist, advise and coordinate the implementing agencies at the national and sub-national levels in the implementing Project activities following the agreed project procedures and in line with government policies through D&D reform framework.

6. MAFF-PSU has supported implementation of IFAD-financed projects since 1998 and is thus well equipped to play this role in PADEE. With the RPRP project due to close at the end of 2011 MAFF-PSU will have capacity available to take on this new responsibility. For the administrative responsibilities of MAFF-PSU it is envisaged that capacity building requirements will be limited to specialist technical assistance in developing and operationalising specific systems for the new project, particularly in the areas of financial management and procurement.

7. MAFF-PSU will also be responsible for monitoring and evaluation (M&E) through a Project M&E Unit. The M&E Unit will consist of three officers who may be MAFF officials or contracted staff with appropriate skills. The officers will comprise a M&E Lead Officer, and M&E/Planning Officer and a Database/Webpage Manager. MAFF-PSU will engage an MIS Specialist to assist in setting up the project MIS and will also contract expert individuals or firms to conduct studies as necessary in accordance with the Project M&E plan.

#### **Other National Government Agencies**

8. Specialist agencies of MAFF, including but not necessarily limited to the Department of Agriculture Extension, CARDI, Agricultural Marketing Office, General Directorate of Agriculture, Department of Animal Health and Production, Fisheries Administration and National IPM Program) will implement technical aspects of the project in line with their mandates and in particular will develop extension “packages” under Component 2.1. Development of these packages will be supported by technical consultants as necessary, while the agencies will also receive assistance to develop their capacity to train trainers and extend support to implementation at the sub-national level.

9. The Ministry of Women’s Affairs (MoWA) will establish an Implementation Support Unit which will coordinate MoWA responsibilities for PADEE and also for the RULIP project. MoWA will be responsible for implementing the gender mainstreaming strategy of PADEE. MoWA will also develop and deliver capacity building for non land-based activities through out-sourcing to a specialist service provider. MoWA has considerable experience in vocational training type activities including under previous IFAD projects and is especially appropriate to this role as the priority target beneficiaries of the training will be young rural women. MoWA will assign a senior official to act as ISU Director as well as an ISU Manager and a Finance Officer who will be supported by PADEE. MoWA will assign two Gender Officers and two Economic Empowerment Officers to work full-time on PADEE implementation and will be responsible to: (i) provide policy guidance in respect of women’s empowerment and gender mainstreaming in agriculture; (ii) undertake a stocktaking exercise for gender mainstreaming in agriculture; (iii) conduct a study of drudgery patterns in women’s work in the target areas; (iv) build the capacity of MoWA and PDoWA staff (including analytical capacity, computer skills, English language, gender analysis in agriculture, contract management etc.); (v) provide adequate backstopping to the PDoWAs; (iv) provide advice on impact monitoring in respect of indicators relevant to gender mainstreaming of impact and M&E support for economic empowerment of women; and (vi) prepare AWPBs, six-monthly and annual progress and financial reports for submission to MAFF-PSU.

10. NCDDs will facilitate the integration of PADEE into the emerging sub-national administrative structures. In particular, NCDD will ensure effective communications between MAFF-PSU and the Provincial Administrations and that the Provincial and District Administrations are capable to carry out their roles in project implementation. NCDDs will support implementation of PADEE through its network of advisers at Provincial and District level. NCDDs will assign one officer to work full-time on PADEE and other issues related to decentralisation in the agriculture sector. This officer will report to the Director of the Program Support Team of NCDDs. She or he will (i) work in close cooperation with the MAFF-PSU including participation in relevant field visits and workshops; and (ii) receive copies of work-plans reports and other correspondence of the Provincial Administrations related to PADEE and will review, take action or bring issues to the attention of the Director of NCDDs-PST as necessary.

11. Ministry of Economy and Finance (MEF) is the official Representative of the Borrower/Recipient, i.e. Kingdom of Cambodia, and responsible for: (i) Providing inter-agency coordination when required; (ii) Fulfilling the government fiduciary oversight and management responsibilities; (iii) Providing sufficient counterpart contribution in a timely manner to finance the Project activities, including payment of government staff salaries; (iv) Timely processing WAs, approval of procurement actions and other necessary documents according to the SOP. MEF will assign one officer of its Department of Investment and Cooperation to work full-time on PADEE for the duration of the project.

#### **Sub-National Government Agencies**

12. In the five provinces, 246 selected commune councils and 36 district administrations will participate in project implementation. Project implementation at sub-national level, including at commune level, will follow NP-SNDD systems and operating procedures for sub-national planning, contracting, procurement and financial management, including the provisions of the NCDDs D&D Finance and Administration Manual issued by NCDD, dated 22nd December 2008 or amended from

time to time in the future. The project's implementation arrangements will require adjustment from time to time to ensure harmonisation with the Government's evolving regulatory framework for D&D, following the full functioning of the provincial and district councils.

13. The Provincial Administration will manage and coordinate the Project in each Province. In accordance with NP-SNDD systems the Provincial Administration will contract project implementation activities to the Provincial Department of Agriculture and the Provincial Department of Women's Affairs. Project implementation will be supported by a District Support Team in each District, who in turn will support the Commune Councils and Commune Extension Workers in undertaking their responsibilities.

14. The Provincial Administration is a new entity reporting to the Provincial Council through the Provincial Governor. At the time of PADEE design the new structures and operating procedures of the Provincial Administration are not yet fully clear. However it is expected that the Provincial Administration will initially adopt the long-established development planning and implementation procedures of the PRDC-ExComs<sup>85</sup> as well as co-opting key staff. Capacity building of the Provincial Administration is the responsibility of the NP-SNDD, including the advisers assigned by NCDDs who will ensure that the Provincial Administration has sufficient capacity to undertake PADEE responsibilities.

15. The Provincial Administration will assign a senior official to act as Provincial Project Director (PPD). This official (probably a Deputy Director of Administration) will be the official responsible to oversee implementation of the INP-SNDD programme in the province. The PPC will be assisted by one full-time Planning and Investment Officer and one full-time Finance Officer who will work within their functional units in the Provincial Administration. The PPC will report through the Director of Administration to the Provincial Governor.

16. The Provincial Support Team within the Provincial Department of Agriculture will include a full-time Provincial Project Manager, a deputy Provincial Project Manager (in Prey Veng and Takeo only), a Planning and M&E Officer and technical staff. These staff and the Provincial Project Manager in particular will coordinate closely with the Provincial Project Director.

17. In accordance with its mandate, the Provincial Department of Agriculture (PDA) will be responsible for supporting planning of agriculture activities and for delivery of capacity building for on-farm activities (Component 2.2). The PDA will also assign, manage and support the Mobile Support Teams, agriculture staff of the District Support Teams (DST) and the Commune Extension Workers (CEW). PDA will provide training and support to the CEW and Village Animal Health Workers.

18. The PDA role is similar to that in RPRP and CBRD and there is a good level of existing capacity. The PDA will receive technical assistance from one agriculture specialist. PDA trainers will receive training (ToT) in the on-farm capacity building packages from MAFF and its advisers.

19. PDA will assign two staff per province to work full-time on PADEE, supporting the DST and CEW particularly on ICPM and seed programs.

20. The Provincial Department of Women's Affairs (PDoWA) will, in accordance with its mandate, be responsible for implementing the gender mainstreaming action plan of PADEE at provincial level, including training of project beneficiaries in gender issues. PDoWA undertakes gender mainstreaming activities within RPRP and CBRD as well as within the NP-SNDD and has considerable experience in this area.

21. Capacity building for off-farm activities will be delivered by specialist service providers contracted by MoWA and / or PDoWA. PDoWA staff will facilitate and closely monitor these trainings.

22. PDoWA staff will be supported and trained by MoWA who will be assisted by external experts as necessary. PDoWA will assign two staff in each Province to work full-time on PADEE as well as assigning one District-level staff member to each District Support Team.

23. The District Administration is a newly created entity under the decentralisation reforms. It reports to the District Council through the District Governor. It is envisaged that in time, local services will be delivered from the District level, while the Province plays a more strategic role. However, the existing capacity of the District Administration is limited. Capacity building of the District Administration is the responsibility of NP-SNDD. In PADEE, a senior official of the District Administration will be

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<sup>85</sup> Executive Committee of the Provincial Rural Development Committee

named as District Project Director with responsibility to lead AWPB preparation and coordination between implementing agencies at District level. The District Project Director will be assisted in these tasks by the project focal point in the District Agriculture Office which is a full-time position.

24. The District Support Teams (DST) will consist of the District Project Director, the full-time Project Focal Points in the District Agriculture Office and District Office of Women' Affairs, and additional technical staff assigned to PADEE implementation tasks as needed. The DST will report to the District Governor and will work closely with the local administration support staff in the District. The DST roles will comprise (i) participation in formation of IGRF groups together with PDoWA and the Commune Councils; (ii) support to the planning activities of the IGRF groups (selection of training topics); (iii) support to the Commune Extension Workers and Village Animal Health Workers; (iv) participation in capacity building for on-farm activities (v) follow-up to on-farm capacity building activities and (vi) follow-up and support to demonstrations and other agriculture activities implemented under the project. The DST will be supported by the PDA and will participate in Training of Trainers at provincial level.

25. The Commune Councils are the lowest tier of local government in Cambodia, consisting of between five and 11 elected Councillors (depending on population numbers) led by a Commune Chief and assisted by a Commune Clerk who is an employee of the Ministry of the Interior. The Commune Councils are responsible for local development planning (the five-year Commune Development Plan and the annual Commune Investment Program) and for monitoring and coordinating development activities in the Communes. Commune councils have played a key role in implementation of RPRP and CBRD as well as other IFAD-funded projects since 1998, and implement or facilitate development investments through the NP-SNDD.

26. In PADEE, the Commune Councils will cooperate with the Provincial agencies and the District Support Teams to implement activities at local level. In particular, Commune Councils will (i) assist in participatory wealth rankings and identification of the IGRF groups; (ii) monitor and support the IGRF groups and report to the DST if any issues arise and (iii) participate with PDA and DOA in recruitment and coordination of the Commune Extension Workers. The Commune Councils receive capacity building and administrative support through the NP-SNDD.

27. Each Commune will be assigned two Commune Extension Workers (CEW). This follows from the model employed under RPRP. However, under PADEE the role of the CEW will evolve significantly, with the responsibility to train and support the IGRF groups in financial management and reporting being assigned instead to a specialist service provider. This will free the CEW to facilitate and support capacity building of the groups and their members. CEW will be involved in all group formation and capacity building activities and in particular will (i) participate in the process of forming IGRF groups and selection of Leaders, Deputies and Book-keepers together with the Commune Council and the District Support Team; (ii) liaise with the groups and their members to organise trainings and to encourage group members' attendance; (iii) facilitate dialogue amongst the group members to discuss farming problems, identify what kind of new technologies they want to learn, select from the menu of on-farm and off-farm training packages on offer and choose farmer-demonstrators for each package, and (iv) assist the groups to monitor trainings including reporting on the presence of trainers and the quality of training received. Beyond these project implementation functions, it is envisaged that the CEWs will evolve a broader role in identifying opportunities open to local farmers and in helping them to link with other market actors including buyers and traders as well as with the District extension staff. The CEW will be farmers themselves and it is expected that they will lead the adoption of the new and improved technologies promoted by the project and innovate themselves.

28. One male and one female CEW will be selected in each Commune (where there are already CEW working under RPRP the extension of the contract of these CEW will be reviewed). Because of the change in the role of the CEW from that in RPRP, all CEW will undergo training provided by the PDA. Women CEW will receive additional training from the PDWA. The CEW's contract will be reviewed annually by the PDA, the Commune Council and community representatives.

29. Village Animal Health Workers have been trained and established by various projects but have not always received a consistent level of support. The project will reinforce the role of the VAHW by entering into a contract with them to provide veterinary cover for livestock procured under the project. The VAHW will receive support from the Animal Health specialist in the District Support Team.

## Service Providers

30. Two service provider agencies will be engaged by for implementation of Component 1. One of these agencies will be contracted by FAO to provide services for record keeping, accounting and financial reporting, directly to the IGRF groups. The service provider will fulfill this obligation by employing field agents (approximately one per 30 groups) who will visit each group at least one time per month. The field agents will upload data from 3G-Internet equipped laptops directly to a national database which will be supported by specialist IT staff. It is intended that the costs of supporting the service provider will gradually transfer to the IGRF groups themselves over the lifetime of the project.

31. The second service provider agency under Component 1 will be contracted directly by MAFF-PSU to design, develop and deliver trainings on financial management topics to the IGRF group members and group leaders.

32. The project will engage specialist technical assistance as needed to develop the training packages under Component 2.1. It is envisaged that the on-farm activity trainings will be delivered by Mobile Support Teams managed by PDA and supported by officials of the specialist agencies of MAFF. Mobile Support Teams are likely to comprise a mixture of PDA officials and staff contracted from outside government. Scope also exists to engage private sector (or non-profit) service providers for specialist training topics where necessary. The training in off-farm activities will be contracted out to a service provider that will work under the supervision of MoWA / PDoWA.

33. The Small Business Development (Sub-component 2.3) activities the SNV organisation in close cooperation with MAFF-PSU. SNV will take on the role of implementation partner and service provider for the Rural Business Services and Rural Business Stimulus Facility (RBSF). Grant awards from the RBSF will be approved by a Grants Awards Committee with representation from MAFF, MEF and MoWA. Financial management of the RBSF will be by MAFF-PSU. The pro-poor bio-digester activities will be implemented through the National Bio-Digester Programme in MAFF with technical assistance from SNV.

## Summary of Implementation Arrangements by Component

34. The activities under **Component 1 - Improved Access to Financial Services** will comprise:

- Overall management of the component, and management of the Group Conditional Cash Transfer Scheme (GCCT) will be by MAFF-PSU;
- Formation, facilitation and support of the IGRF groups will be by the CEWs together with the Commune Councils and supported by the District Support Teams;
- Capacity building of the IGRF groups in “financial literacy” and related matters will be contracted to a specialist service provider by MAFF-PSU;
- Record keeping, accounting and financial reporting of the IGRF groups will be contracted to a specialist service provider that will upload records directly into a national database;
- Capital transfers under the GCCT Scheme will be conditional upon the IGRF groups meeting various criteria including group members achieving training milestones

35. FAO will provide technical assistance for Component 1 and will be directly responsible to select and contract the service provider (Accounts).

36. **Component 2 - Improved Access to Technology and Markets** has three sub-components, each of which includes activities implemented at national and sub-national levels. Broadly, Sub-component 2.1 (Support to Innovation in Capacity Building) consists of activities implemented by MAFF and by MoWA with limited down-stream demonstration activities. Sub-component 2.2 (Applied Training and Capacity Building) consists of local level activities implemented by sub-national agencies and by contracted service providers. Sub-Component 2.3 (Small Business Development) will be implemented by SNV in close cooperation with MAFF-PSU. The pro-poor biodigester activities will be implemented through the National Bio-Digester Programme of MAFF.

37. Under Sub-Component 2.1, in respect of training for on-farm activities, specialist agencies of MAFF will develop extension packages under the coordination of MAFF-PSU. Sub-Component 2.1



also includes adaptive on-farm research and demonstrations which will be facilitated by PDA and the District Support Teams as necessary.

38. Sub-component 2.1 activities related to off-farm activities will be contracted to a specialist serviced provider under the supervision of MoWA.

39. Under Sub-Component 2.2, in respect of training for on-farm activities, national agencies of MAFF will train trainers (ToT) and provide backstopping support for the PDAs. Training to project beneficiaries will be delivered by appropriately qualified members of the PDA and DoA staff with facilitation and participation by the DST and the CEWs.

40. Training in off-farm activities under Sub-Component 2.2 will be delivered directly by the service provider under the supervision of PDoWA.

41. **Component 3 - Project Coordination and Management** responsibilities will be divided as follows:

- MAFF-PSU will be responsible for overall management and coordination of the project and for monitoring and evaluation. MAFF-PSU will be responsible for national level financial management and for all procurement except for minor items procured at Provincial level.
- MoWA will be responsible for gender mainstreaming activities at national level.
- NCDDDS will facilitate implementation of PADEE activities through the decentralised administrative structures and ensure mutual cooperation and support between PADEE and NP-SNDD.
- The Provincial Administration will be responsible for project co-ordination, financial management and, minor procurement at the Provincial level. The Provincial Administration will contract gender mainstreaming activities to PDoWA and M&E activities to PDA.

## **ANNEX VI: PLANNING, MONITORING AND EVALUATION AND LEARNING AND KNOWLEDGE MANAGEMENT**

1. The M&E activities of PADEE are based on the nature of the project's investments and planned activities and implementation arrangements. It follows a review of M&E experiences of recent IFAD projects in Cambodia, as well as a review of the capacity for M&E at MAFF.

2. PADEE has as its main objective to improve the productivity and diversification of income sources in the project area. It aims to achieve this by improving access to credit, promoting savings, and providing applied training for on and off farm income generating activities. The M&E system will need to address the effectiveness and impact of these sets of activities. Several interventions contain innovative features and will require close monitoring for adjustment by project management. Others involve newly developed material that will need to be revised throughout project implementation. The main objective of the PADEE M&E system is thus to provide guidance to project management during implementation, as well as to inform future policy in Cambodia.

3. The MAFF PSU will have the operational responsibility for planning and coordinating M&E activities for the whole project. The MAFF PSU will help identify the most efficient flow of information from implementing agencies, and should seek to avoid any duplication of reporting efforts at various level of project administration. MAFF PSU will take the leading role in ensuring that appropriate focal points are provided by the implementing agencies and that data is provided on time. Moreover, the MAFF PSU staff will produce progress reports, conduct spot checks on outputs and financials, maintain an MIS database and the project website. In order to develop the Management Information System (MIS) and ensure efficient coordination with all the involved agencies. The MAFF PSU will include two M&E officers and one database and webpage manager, and will receive the support of an international MIS specialist at the beginning of the project. In addition, the project will contract consultancy services for technical reviews and thematic studies and survey work, coordinated by the MAFF PSU.

### **M&E as part of project activities**

4. In addition to the MIS and outsourced reviews and studies, the PADEE M&E system will benefit extensively from several project activities that collect information on beneficiaries during implementation. Under component 1 activities, the special service provider for record-keeping, accounting and reporting will carry out on-site recordkeeping by transmitting reports online to a central server in Phnom Penh. This will allow for real-time tracking of IGRFs' disbursements and repayments. The service provider will report monthly on the details of all IGRF beneficiaries and their loans, and can also produce reports on demand as needed.

5. The database will be accessible not only to the service provider, but also to the project management team, IFAD and other with an interest in IGRF lending and performance. This will be particularly useful for evaluating the performance of the IGRFs and for processing the conditional capital transfers.

6. Following training on financial literacy, IGRF members are required to pass an exam in order to qualify for the conditional cash transfer. These results can be used in assessing the effectiveness of the training. Activity budgets prepared by the IGRF members and appraised by CEWs can also be used for this purpose.

7. IGRF members will also be subject to end-of-course assessments in the applied trainings. This will be particularly useful for the special studies on applied training described below. Furthermore, prior to embarking on a business plan as outlined in the activity budget, the farmers will have to conduct a self-assessment on current farming techniques and productivity that will be compared to the outcome of the activity chosen.

### **Management Information System**

8. The project Management Information System will allow efficient monitoring of outputs and financials, support the annual planning and budgeting process and produce half- and end of year reports on progress during implementation. The MIS should reflect and go beyond the indicators of the LogFrame, and where possible document the most disaggregated data.

9. The MIS will include a main project database operated by the MAFF PSU, which will include data on financials, output and outcome indicators including gender disaggregated data. The system

will receive inputs from different agencies involved in implementation. The project will seek to have the IGRF database feed into the MIS.

10. The proposed monitoring system for PADEE is founded on each household receiving a unique beneficiary identification number. This will be given to them when the groups are formed in the form of a project beneficiary ID card (which is linked also to the group IDs in which the household participates).

11. Each IGRF and each training group will also be given a unique number (the database will relate groups to beneficiaries). When the training groups are established, the ID of each household attending this group will be registered, so that project staff can always know which trainings (both under component 1 and component 2) the household has been participating in.

12. CEWs in collaboration with group leaders report on a few key indicators following each training session. As trainers are assigned a fixed number of groups, the evaluation will link directly to each trainer so that his performance can be monitored. The indicators will be the same each time, and will include what type of training was attended, whether the trainer showed up, if he/she showed up on time, and on the perceived usefulness and quality of the training based on a number scale. The CEW and group leader would discuss and agree on the answer, which would be recorded on a paper form. The CEW would then send the answers directly to the MIS database using a simple java-enabled mobile phone. He/she will log in with the ID number of the training group, and answer the set of predefined questions with quantitative responses. The information can be sent either over the internet or the SMS network.

13. Overall, it is proposed that the MIS will have three sections tailored to the main project activities and implementing agencies, and collect the following information:

- Component 1. Data on the Improved Group Revolving Funds, provided directly by the specialist service provider for record-keeping, accounting and reporting through its specialized software, and data on household budgeting and finance training for both IGRF and existing farmers' groups, which will be reported by the specialist service provider for financial literacy training and the CEWs via the provinces;
- Component 2. Data on provision of applied training, which will be tracked by MAFF and MoWA central and decentralized services. Data on on-farm training will be collected directly by project staff in the provinces with use of mobile phones and on off-farm training it will be gathered by the service providers and provided to MAFF PSU (this will be part of their contract);
- Component 3. Data on project management and coordination activities, to be tracked by MAFF and MoWA central and decentralized services.

### **Main impact study**

14. The main impact study will seek to measure the key project development indicators and some selected intermediate indicators, as well as additional household information in order to quantify project impacts on beneficiaries versus comparable households that did not participate in the project.

15. The study will consist of 3 household level surveys with treatment and control groups. The survey instruments and sampling strategy will be developed at the project start (including the RIMS indicators adaptation which will be based on previous IFAD experiences in the country). The impact study will focus on both types of farmer groups support activities, i.e. activities for improved access to finance and for improved farming technology, as a basis for its scope and coverage.

16. The impact study's sampling strategy will use stratified random sampling (provincial, commune and household level) and use a pipeline approach, exploiting the fact that not all communes are targeted in the first project year. This would allow for communes covered in second and third year to be used as controls for communes in the first year and reduce selection bias. The sample size will satisfy IFAD RIMS minimum sample requirement of 900 households but is expected to be much larger given the size of the project and number of communes involved.

17. MAFF PSU will be responsible for outsourcing the survey design to impact evaluation specialists in project year 1, and outsource the actual study to a consultancy firm through a performance based contract. Total funds included for the study are of around USD 524,000. Analysis of results will be provided in time for mid-term review and final completion report missions. The analysis at mid-term will provide insights as to the project's ability to increase productivity of the target

group, namely poor and very poor households. This will be key to make adjustments to project interventions and any other necessary corrective measures.

### **Special Studies**

18. *Review of the use of revolving funds in Cambodia:* The importance of support to farmer organizations for MAFF/RGC policies, as well as IFIs such as IFAD, justifies more research into the different experiences in support of farmer organizations in Cambodia, namely those focusing on revolving funds. Besides Government and IFAD methodologies for support of such organizations, there are a number of NGOs (local and international) providing support to farmer organizations through revolving funds in Cambodia. The 'models' vary considerably by (i) type of training provided, (ii) conditions for management of revolving fund, (iii) targeting of beneficiaries (including gender considerations), etc.

19. A review of revolving funds in Cambodia was conducted in 2010, but unfortunately had a very small sample size and was found lacking in detail. The review proposed under PADEE aims to cover a great deal of detail as it seeks to document the main models in use in Cambodia for support to farmer organizations with revolving funds. It will insofar as possible seek to compare and analyse the different methodologies being used in Cambodia at present (including recent IFAD project RPRP and RULIP, Oxfam Savings for Finance groups, CEDAC savings groups among others) and summarize key strengths and weaknesses of these approaches. Further, the study will explore future opportunities for investment in rural finance in Cambodia. The initial study will take place in PY1, in time to inform PADEE at MTR if changes to the proposed PADEE modality are deemed necessary. A smaller follow up study will be carried out in PY5 to assess the performance of the PADEE IGRFs as compared to previous group revolving fund practices explored in the year 1 study. A total of around USD 105,500 has been budgeted for this study.

20. *Study on interactions between savings led finance groups and IGRFs.* At present Oxfam and other donors have been expanding the concept of savings led finance groups (SLGs). As a result of discussions held it has been established that both types of approaches (SLGs and IGRFs) can in principle co-exist in the same geographical areas (communes and villages). This is mainly because of the different household targeting and also because of the different objectives, which mean that such approaches may actually be an interesting complement as it is the case in other settings and countries. As Oxfam plans to expand its operations to the whole of Cambodia and as it has operations in other provinces outside of Kampot where PADEE is not present, PADEE provides a good opportunity to see the impact of IGRFs in combination with the savings led groups (in Kampot) and compare that with places where only SLG or GRF are operating. The process will be led by FAO and MAFF PSU. FAO will support technically MAFF PSU to hire the appropriate quality consultants for the studies including providing guidance on methodology. The study will be coordinated with other donors funding SLGs and has total funding of USD 113,000. Tentatively, the study will stretch over the three initial project years in time of providing conclusions for PADEE's mid-term review.

21. *Qualitative review of applied training activities:* PADEE's approach to improving farmers' productivity includes a substantial amount of applied training to enhance farmers' agronomic, marketing and post harvest techniques. PADEE will continue to use many of the available Farmer Field Schools and trainings, but will re-engineer existing training materials into a modular approach that can easily be updated and adapted to farmers' specific needs. This will also allow farmers to attend the sessions they find most relevant. A further goal is to increasingly involve farmers in adoption and dissemination of new techniques outside of the schools by providing sufficient incentives for this.

22. Taking stock of these innovations to assess efficiency and identify problems and opportunities for improvement is essential for making changes during project implementation and also learn lessons for future policies and programs. The review will provide an evaluation of the technical quality of the on and off farm applied trainings (targeting, pedagogical approach, materials, relevance of topics covered, likely impact on adoption, etc) and suggest areas for improvement. The review will consist of interviews and/or focus group discussions with trainers in the project, as well as at national and sub-national level, MAFF staff and individual beneficiaries, as well as observation of a random number (small) of actual trainings delivered during project implementation with interviews of participants.

23. The study results will be available in time for mid-term review and project completion missions in project years 3 and 5. Approximately USD 30,000 has been budgeted for the review, exclusive of

methodology design. The design of this study methodology as well as that of the survey of beneficiaries described below is budgeted at around USD 11,000 including contingencies.

24. *Case Studies of Farmer Organizations:* The main impact study of the project will focus on the key performance indicators of the project and some associated intermediate outcome and output indicators. However, given the quantitative nature of the study it will not be able to provide insights on a number of social and institutional issues that are key to the success of farmer organizations as supported under the project. Moreover, the fact that support to farmer organizations is the main activity of the project in terms of funds committed and that farmer cooperatives are central to MAFF/RGC policies, makes it all the more important to gain further insights into the functioning of such groups in Cambodia.

25. The case studies will provide a complementary analysis of the degree of success of different farmer organizations in the project area (as per solidity of institution, commitment by members, sustainability, value added of the organization for its members), adequacy of support received (training, funds, equipment, duration of support, etc), targeting of project interventions and identify possible areas for improvement in the future.

26. Total funds allocated are of around USD 90,600. The case studies will be conducted from project year 2 to 6 and at least a third of the studies should be initiated before mid-term review of the project. All the case studies and final executive summary of findings need to be completed by end of project to feed into lessons learned and support the end of project evaluation process. Preliminary results should be presented at the annual extension workshops.

### **Learning and Knowledge Management**

27. PADEE's M&E system includes several studies that go beyond assessing the impact of project activities and which will give valuable insights for policy making and future interventions in rural development, particularly the review of the revolving funds, the qualitative review of applied trainings and the case studies of farmer organizations. Considering the importance of farmer organizations to the RGC agricultural policy, this study is likely to be of great interest to both the government and donors. Revolving funds, too, have featured prominently in many IFAD projects in Cambodia, and a thorough review of the practice has been overdue for some time. Lessons learned from IFAD projects RPRP and RULIP will be central to this study.

28. A number of activities will be funded to support knowledge dissemination from these studies to stakeholders in rural development and a broader audience in Cambodia, including support to publication and dissemination costs of studies implemented, workshops at national and provincial level to disseminate project lessons with key stakeholders and project staff, technical meetings as the ones used under current IFAD projects to solve technical problems and implementation issues, as well as a project website for disseminating studies and output and selected outcome data to a wider audience.

## **ANNEX VII: FINANCIAL MANAGEMENT AND DISBURSEMENT ARRANGEMENTS**

1. The project will be operating in a high risk environment due to weak public sector financial management systems as well as a weak financial control environment within which it will be implemented. The proposed financial management arrangements for the project incorporate a number of mitigation measures based on experience in the sector and other World Bank and IFAD supported projects in order to reduce risk to an acceptable levels. These arrangements are designed to reduce the residual risks from “high” to “substantial”.

2. The following implementing agencies (IAs) for the Project were initially assessed in August 2010 and during the appraisal to determine whether the respective IAs have adequate FM systems and related FM capacity that would satisfy the requirements of IFAD:

- Ministry of Agriculture, Forestry and Fisheries (MAFF)
- Provincial Departments of Agriculture (PDAs) at the target provincial project
- Ministry of Women’s Affairs (MoWA)
- Provincial Administration

3. The PADEE supported activities under MAFF and MoWA will follow the Standard Operating Procedures (SOP) for externally financed projects/programs in Cambodia, issued by MEF, dated 26 February 2007 and its subsequent amendments, while the PADEE supported activities at the sub-national level will follow the administrative structures, systems and procedures of the National Programmed for Sub-National Democratic Development (NP-SNDD), including the Administration and Financial Management Manual, issued by NCDD, dated 22nd December 2008 and subsequent amendments.

4. The arrangements for the project implementation and flow of funds reflect the following major considerations. The institutional and implementation arrangements for PADEE should be fully in line with the Organic Law, which provides that the Provincial, District and Commune Councils and Administrations will be the primary means for programme/project implementation at the sub-national level.

### **Financial Management Arrangements**

5. Although significant improvements have been made in the overall public financial management environment in Cambodia, these have yet to make a substantial impact at the Ministry level. The project will be operating in a high risk environment and financial management arrangements incorporate a number of mitigation measures based on experience in the sector and other World Bank and IFAD projects in order to reduce risk to manageable levels.

6. At the national level PADEE would apply the Standard Operating Procedures (SOP) for externally financed projects/programs in Cambodia, issued by MEF, as outlined under sub Decree No. 14 ANK.BK dated 26 February 2007 and its subsequent amendments. PADEE supported activities at the Provincial and District level will follow the administrative structures, systems and procedures of the Provincial Administration Office, in accordance with the Administration and Financial Management Manual, issued by NCDD, dated 22 December 2008.

7. The implementing agencies (IAs) and partners shall implement activities on the basis of the Project Design Document, Project Implementation Manual and the approved AWPB and Amendments which are consolidated by the MAFF PSU based on the AWPB submitted by MoWA ISU, the 5 Provincial Administration Offices. The consolidated AWPB's of MAFF PSU shall include the budgets and work plans as submitted by the implementing partners as contracted.

8. MEF and the MAFF PSU shall open and maintain in the National Bank of Cambodia the following USD Bank Accounts: (i) a Designated Account in USD to receive the Loan and Grant proceeds from the Loan and Grant Accounts maintain by IFAD; (ii) a Designated Account in USD to receive the Government Counterpart Funds for the Project.

9. IFAD will advance funds from the Loan and Grant Account to the Designated Loan and Grant Account based on an approved AWPB and cash flow projection, which will be on the basis of the quarterly projected project activities. The justification of advances would be based on expenditures statements (withdrawal applications) to be submitted every penultimate quarter, which would be the

basis for the release of subsequent advances to the Designated Account. MEF shall transfer funds from its resources to the separate Government Counterpart Funds Designated Account based on the approved AWPB.

10. MEF will authorize the opening of the following USD Project Account and USD Sub-National Project Account for the IFAD Loan and Grant (and equally for the Government Counterpart Funds):

- Two Project Accounts in at the National Level, which would be maintained and operated by MAFF PSU and MoWA ISU respectively
- Sub-National Project Account for each of the 5 Provincial Administrations
- Sub-National Project Account for each of the 5 Provincial Department of Agriculture

11. The following illustrates the flow of funds arrangement for PADEE.

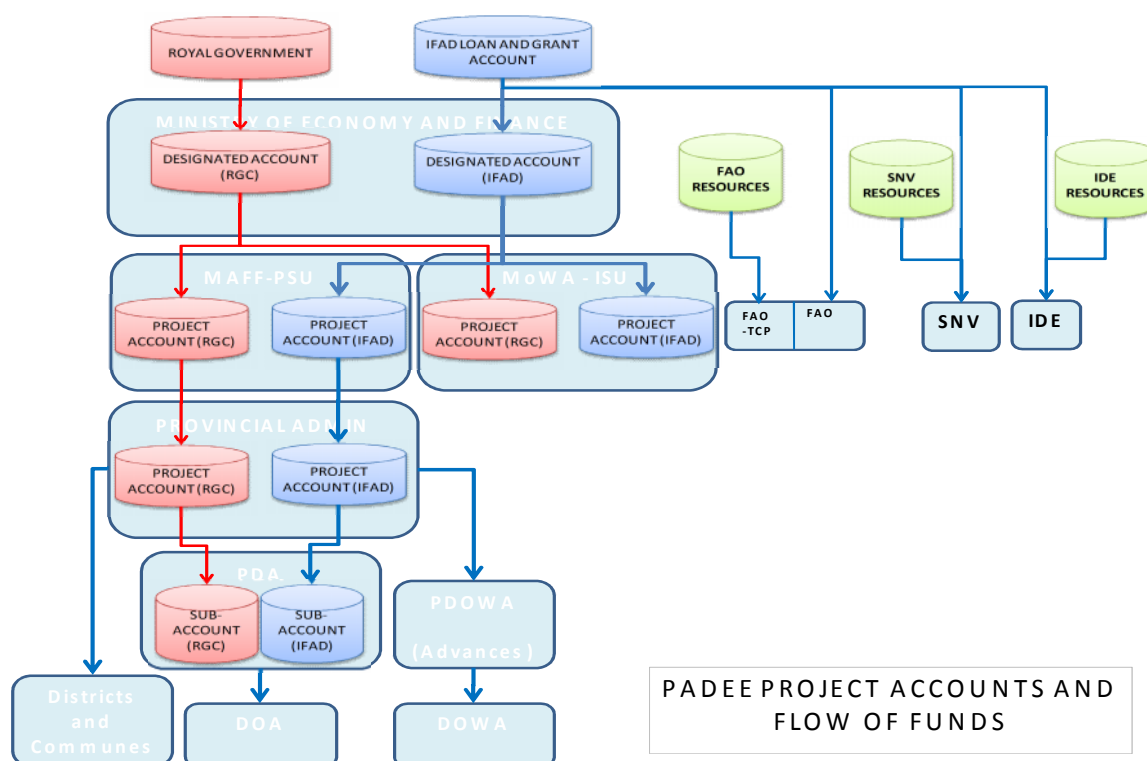


Table 1 - PADEE flow of funds

12. The Provincial Department of Women's Affairs would receive advances from the Provincial Administration on a quarterly basis for its activities requiring the PDoWA to report its expenditures on a monthly basis. At the district level, due to the limited accounting and administration functions of the District Administration, the funds to support the project implementation at the district and commune level would flow through an advance facility from PDA, PDoWA also Provincial Administration.

13. MAFF PSU, would also recruit a Financial Management Specialist (consultant) during the preparation stage with the following tasks: (i) undertake a training needs assessment for all finance staff and develop a five year financial management training plan to strengthen the finance staff in view of the PFM reform agenda; (ii) develop the internal control framework for the PADEE supplementing the generic framework set out under sub Decree No. 14 ANK.BK dated 26 February 2007 and the Administration and Financial Management Manual, issued by NCDD, dated 22nd December 2008 and amendments as such; (iii) the development of the Chart of Accounts (COA); and (iv) to oversee and assist the PSU in the upgrade and adoption of an updated version of the Peachtree accounting software as being used by the Provincial Administration.

14. A Financial Management Specialist (consultant) will be recruited by MAFF PSU to support the Finance Officers in the development of a training programme and to provide periodic training to the project finance staff, which will help mitigate against the constant staff movement.

15. An internal control framework will be developed to supplement the generic framework. The framework will provide details of how controls relating to fuel, training, per diems etc. should operate. The purpose is to ensure that all such expenses are properly authorized and that appropriate documentary evidence is available to support the expenditure. The controls related to soft expenditures shall include but not be limited to:

- Procedures and controls for Budgeting and Acquitting of Expenditures for Workshops. This will include, for example, selection criteria for participants, controls on attendance, controls against budgeted expenditures, and the Finance Section undertaking verification (including where applicable spot checks).
- Procedures for controls of fuel and vehicle log books.
- Maintenance and monitoring of Advance records.
- Maintenance and monitoring of petty cash
- Asset and Inventory (stock) controls.
- Contract monitoring and management

16. The MAFF PSU would procure a Peachtree accounting software, to ensure that it maintains consistency with the Provincial Administration which is currently using the Peachtree software. The software which is available over the shelf should be adapted and customized to the requirements of the project. The creation of a chart of accounts (COA) based on the as detailed in the SOP and FMM of MEF with a clear linkage to the AWPB incorporating additional sub-classification to capture different sources of funds, locations and disbursement categories for the Project. The COA will be prepared with assistance from the Financial Management Specialist and annexed to the Project Implementation Manual.

17. MAFF PSU and the MEF have requested a retroactive financing of approximately USD 135,000.00 to undertake project preparatory work prior to the entry to force of the Financing Agreement. The retroactive financing period shall commence from 01 January 2012 to the entry into force will cover area of staff recruitment, baseline surveys, training needs assessments, mapping existing groups, consultation meeting for the finalization of PIM, preparation meetings of the AWPB and procurement plans, project start up activities, establishment of the accounting systems, opening of accounts and project operating cost.

18. The MAFF PSU shall submit withdrawal applications on a quarterly basis justifying the advances received based on expenditures reports submitted by the implementing agencies. The withdrawal application will be prepared on a timely basis and submitted IFAD by MAFF PSU within 15 days after the end of each quarter starting from the first quarter after the first disbursement is made.

19. Statement of expenditures for eligible expenditures shall be submitted for expenditures below USD 50,000.00 whereas eligible expenditures above USD 50,000.00 would require to be substantiated by adequate supporting documentation.

20. In order to ensure greater liquidity for the project and to facilitate foreign currency payments, the Implementing Partner disbursement would be made through direct payment request to be made by the MAFF PSU through MEF to IFAD. This would also ensure that large payments to the Implementing Partners are adequately managed.

21. Semi-annual and annual financial statements will be prepared individually by each Implementing Agency and consolidated by MAFF. The annual financial statements for the Project are subject to annual audit by an external auditor to be appointed under audit bundling exercise (see the below section on auditing). The audit will be carried out with greater emphasis on internal controls, according to the TOR acceptable to IFAD. The audit reports are required to be submitted to IFAD within six months after the end of each fiscal year.



### **Audit Arrangements**

22. **External Financial Audit.** The Project's consolidated annual financial statements will be audited by an audit firm acceptable to IFAD. The audit will be performed in accordance with International Standards on Auditing complemented by terms of reference (TOR) acceptable to IFAD. The financial statements will be prepared in accordance with the cash basis of accounting in accordance with International Public Sector Accounting Standards (IPSAS) published by the International Public Sector Accounting Board (IPSASB) that reflect receipts, payments (by disbursement category) and fund balance for the current reporting period and the cumulative period from the commencement of the Project.

23. The auditor will be selected by MEF under the bundled audit arrangement with other IFAD financed projects in the Cambodia portfolio. The cost of the audit will be financed from Project proceeds.

24. The auditors will issue separate opinions covering the financial statements, statements of expenditures and the management of designated accounts. The audited financial statements and audit report will be submitted to IFAD within six months after the end of each fiscal year and after the Project closing date. In addition, a management letter outlining any internal control weaknesses will also be issued by the auditor. The implementation status of the audit recommendations will be provided by each Implementing Agency in the separate section of quarterly IFRs to be submitted to MEF and IDA and IFAD.

## **ANNEX VIII: PROCUREMENT**

1. An assessment of the procurement capacity of the main Implementing Agencies (IAs), including the Ministry of Agriculture, Forestry and Fisheries (MAFF), and the Ministry of Women's Affairs, to carry out procurement under the Project was conducted by the IDA in July 2010. The assessment aimed to review the organizational structure and staffing of the IAs for carrying out procurement under the Project.
2. The procurement assessment revealed that the MAFF has one of procurement staff qualified to carry out simple procurement packages expected to be procured by the MAFF itself under this proposed Project. The staff has been working in the past for projects financed by the IFAD and has some knowledge of IFAD procurement guidelines and procedures, and of the procurement procedures of the Government of Cambodia for the externally financed projects. MoWA does not have staff qualified to handle procurement and procurement function were normally carried out through the support of Technical Assistance available under donor funded Projects.
3. Procurement under the project will be carried out in accordance with IFAD's Procurement Guidelines and Procurement Handbook of September 2010. For each contract to be financed by IFAD proceeds, the types of procurement methods, the need for pre or post-qualification, estimated cost, prior review requirements and time-frame are to be agreed between the MAFF PSU and IFAD respectively in the Procurement Plan to be submitted by the Implementing Agencies.
4. Procurement under the Project, which will be carried out by the Implementing Partners under this Project would be undertaken in accordance with the procurement rules, regulation and guidelines of the respective Implementing Partners consistent to IFAD Procurement Guidelines and Procurement Handbook of September 2010.
5. The project includes a number of actions to strengthen procurement capacity of IAs and mitigate procurement risks. In terms of capacity, the project would include an International Procurement Adviser who will be responsible for providing procurement and fiduciary services for PADEE in addition to the MAFF PSU Procurement Officer, while all major procurement of MoWA will be undertaken by the MAFF PSU limiting MoWA's procurement to mainly local shopping and some direct procurement linked to local training at the district and commune levels.,
6. PADEE design envisages the contracting of 3 Implementing Partners, SNV, FAO and iDE, which will provide technical advisory support to PADEE. The Implementation Partners will advise and support the MAFF PSU on procurement of the services providers and major procurement of goods. These technical advisory support includes support in the preparation of major bid documents, review of the technical specification and also term of references and the review on contract performance. This will enable and enhance MAFF PSU capacities through on the job training ensuring the quality of the identification, selection and management of various service providers and goods.
7. PADEE would also ensure that its internal control framework, which will be linked to the PIM addresses some of the control gaps existing within the current procurement process. The International Procurement Advisor would support the MAFF PSU and the implementing agencies in establishing these controls. The Accounting system would incorporate a vendor and contract management system, which will track contract performance and disbursement to vendor.
8. IFAD prior review threshold will be established at USD 100,000.00 for goods and works and USD 50,000.00 for consultancy services and services.
9. Other risk mitigation measures include: (i) IFAD led training workshop for the IAs' staff within one month of the project effectiveness and during project implementation (this also includes support from APMAS Grant); and (ii) higher level and expanded scope of ex-post reviews by IFAD to include checks for indicators of collusion, end-use deliveries, and procedural compliance, among other measures.

## ANNEX IX: PROJECT COST AND FINANCING

1. The following table presents a breakdown of **project costs by expenditure accounts and financiers** :

	SNV		FAO		IDE		IFAD GRANT		IFAD LOAN		Beneficiaries		The Government		Total		For. Exch.	(Excl. Taxes)	Duties & Taxes
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%			
<b>I. Investment Costs</b>																			
B. Rural business stimulus facility subprojects	-	-	-	-	-	-	-	-	225.0	25.0	675.0	75.0	-	-	900.0	2.1	-	900.0	-
<b>C. Vehicles, machinery &amp; equipment</b>																			
1. Cars	-	-	-	-	-	-	-	-	-	-	-	-	304.7	100.0	304.7	0.7	179.5	64.2	60.9
2. Motorcycles	-	-	-	-	-	-	-	-	-	-	-	-	721.8	100.0	721.8	1.7	456.6	156.9	108.3
4. Computers & office electronics	-	-	-	-	-	-	-	-	144.6	28.0	-	-	371.3	72.0	516.0	1.2	352.4	112.0	51.6
5. Other equipment & materials	-	-	100.0	5.7	-	-	-	-	647.6	36.6	600.0	33.9	420.0	23.8	1 767.6	4.1	-	1 590.8	176.8
<b>Subtotal</b>	-	-	100.0	3.0	-	-	-	-	792.2	23.9	600.0	18.1	1 817.9	54.9	3 310.1	7.7	988.5	1 924.0	397.6
<b>D. Technical assistance</b>																			
1. International technical assistance	485.9	20.6	53.0	2.2	-	-	1 732.7	73.3	92.2	3.9	-	-	-	-	2 363.8	5.5	2 363.8	-	-
2. National technical assistance	153.5	4.2	61.4	1.7	-	-	2 779.6	76.1	313.2	8.6	-	-	343.6	9.4	3 651.4	8.4	-	3 286.3	365.1
<b>Subtotal</b>	639.4	10.6	114.4	1.9	-	-	4 512.3	75.0	405.5	6.7	-	-	343.6	5.7	6 015.2	13.9	2 363.8	3 286.3	365.1
<b>E. Training</b>																			
1. Domestic training	23.7	0.3	-	-	-	-	6 594.3	88.7	72.9	1.0	-	-	740.8	10.0	7 431.6	17.2	-	6 688.4	743.2
F. Consulting services & studies	5.4	0.1	98.9	1.3	378.5	4.9	4 247.7	54.5	1 537.4	19.7	918.8	11.8	613.9	7.9	7 800.7	18.0	-	7 028.3	772.4
G. Group Conditional Capital Transfer Scheme	-	-	-	-	-	-	-	-	11 857.2	100.0	-	-	-	-	11 857.2	27.4	-	11 857.2	-
<b>Total Investment Costs</b>	668.5	1.8	313.3	0.8	378.5	1.0	15 354.2	41.1	14 800.2	39.9	2 193.8	5.9	3 516.2	9.4	37 314.8	86.3	3 352.3	31 684.2	2 278.3
<b>II. Recurrent Costs</b>																			
A. Vehicles & machinery O&M	-	-	-	-	-	-	446.4	70.5	-	-	-	-	186.3	29.5	632.7	1.5	398.8	107.4	126.5
B. Priority Operating Costs	-	-	-	-	-	-	-	-	960.5	100.0	-	-	-	-	960.5	2.2	-	960.5	-
C. Salaries	-	-	-	-	-	-	1 699.4	67.9	-	-	-	-	804.5	32.1	2 503.9	5.8	-	2 503.9	-
D. Other O&M	-	-	-	-	-	-	-	-	197.2	90.0	-	-	21.9	10.0	219.1	0.5	28.9	168.3	21.9
E. Office O&M	-	-	-	-	-	-	-	-	1 452.1	90.0	-	-	161.3	10.0	1 613.5	3.7	285.8	1 166.3	161.3
<b>Subtotal</b>	-	-	-	-	-	-	2 145.7	36.2	2 609.9	44.0	-	-	1 174.1	19.8	5 929.7	13.7	713.5	4 906.4	308.8
<b>Total Recurrent Costs</b>	-	-	-	-	-	-	2 145.7	36.2	2 609.9	44.0	-	-	1 174.1	19.8	5 929.7	13.7	713.5	4 906.4	308.8
<b>Total PROJECT COSTS</b>	668.5	1.5	313.3	0.7	378.5	0.9	17 500.0	40.5	17 500.1	40.5	2 193.8	5.1	4 690.3	10.8	43 244.5	100.0	4 065.8	36 590.6	2 587.1

2. The following table presents a breakdown of **project costs by expenditure accounts and components**:

	Improved Access to Financial Services				Improved Access to Technology and Markets				Project Co-ordination and Management				Total
	Group Conditional Capital Transfer Scheme	Financial Literacy and Linkages with MFI	FAO TCP	Support to Innovation in Capacity Building	Applied Training and Capacity Building	Small Rural Business Development	MAFF Project Support Unit	MoWA Implementation Support Unit	NCDSS	Provincial Management			
<b>I. Investment Costs</b>													
B. Rural business stimulus facility subprojects	-	-	-	-	-	900.0	-	-	-	-	-	-	900.0
<b>C. Vehicles, machinery &amp; equipment</b>													
1. Cars	-	-	-	-	137.4	-	137.4	27.5	-	-	-	-	302.2
2. Motorcycles	-	-	-	-	691.4	-	-	-	-	13.7	-	-	705.1
4. Computers & office electronics	149.4	-	-	-	228.4	-	66.9	8.1	-	52.3	-	-	505.2
5. Other equipment & materials	-	100.0	-	296.5	216.5	1 000.0	86.4	2.1	-	18.5	-	-	1 720.0
<b>Subtotal</b>	149.4	100.0	-	296.5	1 273.7	1 000.0	290.7	37.7	-	84.5	-	-	3 232.5
<b>D. Technical assistance</b>													
1. International technical assistance	371.9	53.0	-	619.1	-	571.8	723.6	-	-	-	-	-	2 339.4
2. National technical assistance	53.2	61.4	-	419.5	2 227.3	460.0	39.6	-	-	-	-	-	3 260.9
<b>Subtotal</b>	425.0	114.4	-	1 038.5	2 227.3	1 031.8	763.2	-	-	-	-	-	5 600.3
<b>E. Training</b>													
1. Domestic training	10.0	-	-	648.3	5 507.3	153.0	47.5	79.1	-	183.3	-	-	6 628.5
F. Consulting services & studies	1 635.5	2 053.3	-	302.8	1 845.3	715.7	512.7	142.4	-	-	-	-	7 207.8
G. Group Conditional Capital Transfer Scheme	11 808.0	49.2	-	-	-	-	-	-	-	-	-	-	11 857.2
<b>Total Investment Costs</b>	14 027.9	2 316.9	-	2 286.1	10 853.6	3 800.5	1 614.0	259.3	-	267.8	-	-	35 426.2
<b>II. Recurrent Costs</b>													
A. Vehicles & machinery O&M	-	-	-	-	402.6	-	146.3	30.4	-	30.4	-	-	609.8
B. Priority Operating Costs	-	-	-	-	442.7	-	250.3	82.0	-	76.0	-	-	851.0
C. Salaries	-	-	-	-	2 055.5	-	157.7	-	-	-	-	-	2 213.2
D. Other O&M	-	-	-	-	-	-	197.8	-	-	-	-	-	197.8
E. Office O&M	-	-	-	-	741.4	-	260.3	75.4	-	385.2	-	-	1 462.2
<b>Subtotal</b>	-	-	-	-	3 642.1	-	1 012.4	187.9	-	491.6	-	-	5 334.0
<b>Total Recurrent Costs</b>	-	-	-	-	3 642.1	-	1 012.4	187.9	-	491.6	-	-	5 334.0
<b>Total BASELINE COSTS</b>	14 027.9	2 316.9	-	2 286.1	14 495.7	3 800.5	2 626.5	447.1	-	759.4	-	-	40 760.3
Physical Contingencies	109.1	-	-	-	-	-	-	-	-	-	-	-	109.1
Price Contingencies	14.3	207.5	-	177.3	1 551.3	123.2	186.6	37.4	-	77.5	-	-	2 375.1
<b>Total PROJECT COSTS</b>	14 151.3	2 524.5	-	2 463.4	16 047.1	3 923.7	2 813.1	484.6	-	836.9	-	-	43 244.5
Taxes	-	189.2	242.2	-	183.4	1 413.2	244.6	191.3	45.2	-	79.0	-	2 588.1
Foreign Exchange	-	478.6	53.0	-	629.1	1 097.1	578.1	1 032.6	56.6	-	140.6	-	4 065.8

3. **Project costs including contingencies by components by year and component:**

(in USD '000)	Totals Including Contingencies						Total
	2012	2013	2014	2015	2016	2017	
<b>A. Improved Access to Financial Services</b>							
1. Group Conditional Capital Transfer Scheme	457.4	1,267.6	2,919.8	4,372.7	3,354.7	1,779.2	14,151.3
2. Financial Literacy and Linkages with MFI	542.9	515.4	647.1	574.7	244.3	-	2,524.5
<b>Subtotal</b>	<b>1,000.3</b>	<b>1,783.0</b>	<b>3,566.9</b>	<b>4,947.4</b>	<b>3,599.0</b>	<b>1,779.2</b>	<b>16,675.8</b>
<b>B. Improved Access to Technology and Markets</b>							
1. Support to Innovation in Capacity Building	464.5	525.0	512.7	379.9	375.9	205.3	2,463.4
2. Applied Training and Capacity Building	1,668.9	3,120.7	4,536.3	4,134.6	2,019.8	566.7	16,047.1
3. Small Rural Business Development	524.5	966.4	1,316.8	503.5	506.7	105.9	3,923.7
<b>Subtotal</b>	<b>2,657.9</b>	<b>4,612.1</b>	<b>6,365.8</b>	<b>5,018.1</b>	<b>2,902.4</b>	<b>877.9</b>	<b>22,434.2</b>
<b>C. Project Co-ordination and Management</b>							
1. MAFF Project Support Unit	1,007.2	316.1	500.1	325.4	274.5	389.7	2,813.1
2. MoWA Implementation Support Unit	175.2	62.5	64.7	70.8	68.4	43.0	484.6
4. Provincial Management	142.1	109.3	141.5	196.9	149.6	97.5	836.9
<b>Subtotal</b>	<b>1,324.5</b>	<b>487.9</b>	<b>706.2</b>	<b>593.2</b>	<b>492.5</b>	<b>530.2</b>	<b>4,134.5</b>
<b>Total PROJECT COSTS</b>	<b>4,982.8</b>	<b>6,883.0</b>	<b>10,638.9</b>	<b>10,558.7</b>	<b>6,993.9</b>	<b>3,187.2</b>	<b>43,244.5</b>

4. The table below presents a breakdown of **project costs including contingencies by year and expenditure accounts:**

(in USD '000)	Totals Including Contingencies						Total
	2012	2013	2014	2015	2016	2017	
<b>I. Investment Costs</b>							
B. Rural business stimulus facility subprojects	-	-	200.0	350.0	350.0	-	900.0
<b>C. Vehicles, machinery &amp; equipment</b>							
1. Cars	304.7	-	-	-	-	-	304.7
2. Motorcycles	210.1	254.1	240.3	17.3	-	-	721.8
4. Computers & office electronics	251.4	88.3	89.4	86.9	-	-	516.0
5. Other equipment & materials	305.9	575.0	814.5	62.4	9.9	-	1,767.6
<b>Subtotal</b>	<b>1,072.1</b>	<b>917.3</b>	<b>1,144.2</b>	<b>166.5</b>	<b>9.9</b>	<b>-</b>	<b>3,310.1</b>
<b>D. Technical assistance</b>							
1. International technical assistance	960.8	372.6	327.7	253.6	254.9	194.2	2,363.8
2. National technical assistance	365.2	652.7	922.5	815.0	630.0	266.0	3,651.4
<b>Subtotal</b>	<b>1,325.9</b>	<b>1,025.3</b>	<b>1,250.2</b>	<b>1,068.6</b>	<b>884.9</b>	<b>460.2</b>	<b>6,015.2</b>
<b>E. Training</b>							
1. Domestic training	242.6	1,350.9	2,401.6	2,471.7	878.4	86.3	7,431.6
F. Consulting services & studies	1,823.8	1,716.5	1,779.9	1,087.7	788.8	604.0	7,800.7
G. Group Conditional Capital Transfer Scheme	-	1,004.4	2,563.4	3,953.4	2,944.0	1,392.0	11,857.2
<b>Total Investment Costs</b>	<b>4,464.5</b>	<b>6,014.4</b>	<b>9,339.3</b>	<b>9,097.9</b>	<b>5,856.0</b>	<b>2,542.6</b>	<b>37,314.8</b>
<b>II. Recurrent Costs</b>							
A. Vehicles & machinery O&M	78.1	96.1	117.2	133.8	122.4	85.1	632.7
B. Priority Operating Costs	118.3	142.8	169.6	193.6	185.0	151.1	960.5
C. Salaries	110.9	353.0	655.2	720.7	480.7	183.3	2,503.9
D. Other O&M	33.7	35.0	36.1	37.1	38.1	39.1	219.1
E. Office O&M	177.2	241.7	321.5	375.5	311.6	186.0	1,613.5
<b>Total Recurrent Costs</b>	<b>518.3</b>	<b>868.6</b>	<b>1,299.6</b>	<b>1,460.7</b>	<b>1,137.9</b>	<b>644.6</b>	<b>5,929.7</b>
<b>Total PROJECT COSTS</b>	<b>4,982.8</b>	<b>6,883.0</b>	<b>10,638.9</b>	<b>10,558.7</b>	<b>6,993.9</b>	<b>3,187.2</b>	<b>43,244.5</b>

## **ANNEX X: ECONOMIC AND FINANCIAL ANALYSIS**

### **Assumptions and Methodology**

1. The financial and economic analysis are based on crop and farm models representative of the five project provinces, following field work in the areas. Models for off-farm income generating activities have also been developed based on the experiences of RPRP and RULIP projects. The main features of these models are outlined below. Three main benefits have been identified and quantified for the economic analysis including benefits from on and off farm income generating activities developed under the project as well as small rural business development ventures. Details on types of beneficiaries and beneficiary numbers are included in section IV of the main report.

### **Crop Models**

2. Crop budgets have been prepared for the main annual crops indicative of those commonly used in the project area. The crop budgets have been prepared for “with project” scenarios that reflect the benefits of training and improved access to finance, namely improvements in productivity for each crop due to improved use of inputs and technical assistance received from the project. This normally translates into higher expenditure on inputs, more labour utilization and higher yields for most crops. Certain technologies may also increase efficiency of input usage such as adoption of improved seeds or ICPM techniques (improved farmer agronomic practices and, especially better top dressing and overall efficiency of fertilizer use and pest control (pesticide expenditure for the same level of yield decreases)).

3. For paddy production, in particular, four crop budgets have been developed to account for two main dimensions: (i) wet season versus dry season (irrigated) paddy and (ii) higher input models for farmers with more resources (essentially land size) versus lower input models for very poor farmers. In the table below, the different crop budgets are summarized. The “with project” situation refers to the impact on beneficiaries of improved group revolving funds as these account for the larger share of total project beneficiaries. All farm models can be found in Working Paper 5 in the Project Life File.

### **Off-farm activity models**

4. Two small livestock models have been developed: (i) improved small chicken production and (ii) improved small pig production. The poultry model is based on a flock of five chicken for egg and chicken sales being better maintained through investments in a small shelter, improved feeding and vaccination (Newcastle & Gumboro). For the pig model, the “with project” situation includes fattening using improved feed and it also includes an initial investment in a pen and recurrent costs of vaccination and veterinary services.

5. Alternative non-farm income earning opportunities in rural areas include simple food processing activities, weaving activities and other handicraft production. Models for traditional food processing (noodles, traditional fried cake etc.) and for weaving have also been developed.

### **Farm models**

6. Farm models have been prepared for two types of households: one with few resources (very poor/poor households – described with letter ‘A’) and one with greater resources (poor/medium poor households – described with letter ‘B’). For each type of household three farm models are produced to account for the diversity of cropping systems found in the project’s five provinces. A summary is provided in the table below indicating what share of beneficiaries in each province are assumed to be characterized by which model. Besides farming, all the farm household models incorporate the small livestock activities described above and consisting of one pig and a small number of chicken. The table below, summarizes the main farm models estimated.

Table – Summary description of main farm models

Farm household model	Brief description	Provinces to which it applies	Estimated share of total project beneficiaries (%)
FM1a	Dry season farming only. Very poor/poor households with little land (average 0.4 ha). Few resources implying little use of inputs.	Represents around 50% of beneficiaries from Kandal.	8%
FM1b	Dry season farming only. Poor/medium poor households with average 1.2 ha of land. Somewhat higher use of agricultural inputs.	Represents around 40% of beneficiaries from Kandal.	5%
FM2a	Predominant model in project area with wet season rice farming only. Very poor/poor households with little land (weighted average 0.7 ha). Few resources implying little use of inputs.	Represents 5% of beneficiaries from Kandal, 50% from Kampot and around 45% from the other provinces.	44%
FM2b	Predominant model in project area with wet season rice farming only. Poor/medium poor households with weighted average 1.7 ha of land. Somewhat higher use of agricultural inputs.	Represents around 5% of beneficiaries from Kandal, 40% from Kampot and 35% from the other provinces.	27%
FM3a	Model with wet season rice followed by irrigated dry season rice. Very poor/poor households with little land (weighted average 0.7 ha). Few resources implying little use of inputs.	Represents 5% of beneficiaries from Kampot and less than 10% from Prey Veng, Svay Rieng and Takeo.	10%
FM3b	Model with wet season rice followed by irrigated dry season rice. Poor/medium poor households with weighted average 1.7 ha of land. Somewhat higher use of agricultural inputs.	Represents around 5% of beneficiaries from Kampot, 10% from Prey Veng, Svay Rieng and Takeo.	6%

Notes:

The estimation of weighted average hectares for size of small and large farms is based on number of beneficiaries estimated per province as per table 1, the most common types of farms in each province and the average landholding size in each province for project target beneficiaries:

- Kandal: 0.4ha small farm, 1.2ha large farm;
- Kampot and Takeo: 0.6ha small farm and 1.6ha large farm;
- Prey Veng and Svay Rieng: 0.8ha small farm and 1.8ha large farm.

## Results of financial analysis

7. For the IGRF farmers which will benefit from on-farm training, the financial analysis for the different farm models indicates significant improvements in gross margins and returns to labour. Gross margins including hired labour increase between USD 96 (for FM1a) and USD 249 (for FM3b) as a result of the project and returns to labour (hired plus family) stand between USD 4.3 and 5.7 which is well above the financial cost of labour (around USD 2.9 for men and slightly less for women). Returns to family labour range from USD 5.3 to USD 9.1.

8. The results are driven by the increased ability to finance inputs and also other investments (such as those for improved poultry and pig production). For the six main farm models developed, the increase in working capital requirements per season (including hired labour) as a result of improved practices and higher inputs ranges between USD 78 and USD 151 or between 98% and 189% of the initial grant per member of IGRF (USD 80).

9. All farm models with the exception of FM1a will require a contribution by the farmer from his own resources, but this is a small share of it “without project” seasonal working capital requirement. The shares to be paid by the beneficiaries decrease significantly as second and third year capital transfers to the funds add up to USD 180 and 210 per member, which then will provide a greater margin for other investments and for increasing the size of the IGRF fund even after costs of the service provider are taken into consideration.

10. In the case of the IGRF beneficiaries who attend off-farm training, the model developed which includes introduction of improved poultry production and silk weaving produces an annual additional income for the beneficiary households of around USD 858 for a total number of days worked of 200 person-days. This model will be improved at appraisal following further discussions of RPRP and RULIP off-farm models.

## Economic analysis

### *Assumptions*

11. A fifteen year period of analysis has been assumed for the economic analysis, which includes the six year project implementation period. Benefits for each of the considered project activities have been assumed for five years for a given household which is a conservative assumption.
12. Due to free trade, absence of taxes or duties on agricultural inputs or outputs (with some exceptions such as fuel) and competitive markets in trade of agricultural commodities and inputs within the project provinces (in particular those closest to the Vietnam border) it is estimated that overall economic prices of the main traded commodities and inputs closely mirror financial prices. Export parity prices for rice and maize have however been calculated, as have import parity prices for DAP and urea. A standard conversion factor of 0.9 (equal to the one derived for DAP import parity price) has been used for other traded inputs (herbicides, etc).
13. Economic costs are net of duties, taxes and price contingencies, but inclusive of physical contingencies. All costs directly associated with the incremental production are included in full (such as all farm inputs including labour costs). Finally, economic costs also include all the implementation support costs of PADEE. The shadow wage rate is assumed to be 90% of the financial labour wage rate used, i.e. around KHR 9,000 for women and KHR 10,800 for men. This is quite conservative given the high underemployment in many of the project areas and among the project target group.
14. Finally, an opportunity cost of capital of 12% is used.

### *Methodology*

15. The economic analysis considers three main types of benefits:
16. **Benefits of on-farm and off-farm training activities combined with GCCTS transfers to IGRF members.** For on-farm activities a weighted average economic benefit per beneficiary has been calculated based on the farm models described above and their estimated occurrence in the project areas. It is assumed that 70% of the estimated average economic benefits will be realized (can also be seen as only 70% of beneficiaries reaching such benefits and the others generating zero benefits). For off farm activities, an average annual economic benefit per beneficiary has been calculated based on a household model including improved poultry production and silk weaving. 70% of the benefits are expected to be realized in this case.
17. **On and off-farm training benefits accruing to outstanding farmers and others in the community.** The same farm models are used as for the IGRF beneficiaries, but it is assumed that the average economic benefit per beneficiary will be half that of the IGRF members since the outstanding farmers do not receive additional access to credit. It is assumed that 70% of the full benefits will be released. Similar off farm models have been used to those for IGRF beneficiaries.
18. **Benefits of small rural business development.** It is assumed that 75 grants with an average grant size of USD 3,000 are distributed. The average total value of the business plan is estimated at USD 12,000. A return of 20% per investment is assumed and economic benefits derived from this. However, given the innovative features of such ventures, not all are expected to succeed and thus it is estimated that 50% will fail. In economic terms, failure has been assumed as taking into consideration the investment costs and having zero economic benefits.

### *Results*

19. The economic analysis shows a very satisfactory internal rate of return for the project of 19% along with a net present value of USD 7.6 million. The main driver is the benefit of on-farm training for IGRF members (around 49,000 households), which represents 73% of net present value of benefits. The small rural business development sub-component has conservatively been assumed to yield a negative economic return. This is because it serves as demonstration effect for farmer – market linkages, and such effects have not been included in economic benefits. Overall the economic analysis thus suggests that project activities are able to generate sufficient benefits to cover implementation costs.

## Sensitivity analysis

Table - Sensitivity analysis calculations

Scenario	EIRR	NPV (USD '000)
<b>Base case</b>	<b>19.2%</b>	<b>7,581</b>
<b>Costs</b>		
Costs increased by 10%	16.8%	5,454
Costs increased by 20%	14.8%	3,326
<b>Benefits</b>		
Benefits decreased by 10%	16.6%	4,696
Benefits decreased by 20%	13.8%	1,810
Net benefits lagged by one year	15.2%	3,777
Net benefits lagged by two years	12.2%	250
<b>Paddy yield increase (base case 15%)</b>		
10%	13.5%	1,474
7.5%	10.4%	-1,580
<b>Paddy prices</b>		
10% lower	16.3%	4,418
20% lower	13.6%	1,551
<b>Higher than estimated Fertilizer prices</b>		
10%	18.1%	6,365
20%	17.0%	5,148

20. The results of the economic analysis were tested for sensitivity. This analysis indicates that the results obtained from the cost benefit analysis are robust to changes in benefits and costs or lagged benefits, paddy yield increases and prices and fertilizer prices.



## **ANNEX XI: DRAFT PROJECT IMPLEMENTATION MANUAL**

The Project Implementation Manual (PIM) is available in the Project Life File. The contents are the following:

- 1 Introduction
  - 1.1 Project Partners and Target Area
  - 1.2 Project Implementation Manual
  - 1.3 Users of the PIM
- 2 Project Description
  - 2.1 Project Goal and Development Objective
  - 2.2 Key Results Indicators
  - 2.3 Project Components
  - 2.4 Project Area
  - 2.5 Target Groups
  - 2.6 Implementation Strategy
  - 2.7 Gender Mainstreaming
- 3 Component 1: Improved Access to Financial Services
  - 3.1 Component Objectives and Indicators
  - 3.2 Component Activities and Outputs
  - 3.3 Component Expenditures
  - 3.4 Component Institutional Responsibilities and Staffing
  - 3.5 Process
- 4 Component 2: Improved Access to Technology and Markets
  - 4.1 Component Objectives and Indicators
  - 4.2 Component Activities and Outputs
  - 4.3 Component Expenditures
  - 4.4 Component Institutional Responsibilities and Staffing
  - 4.5 Process
- 5 Component 3: Project Coordination and Management
  - 5.1 Component Objectives and Indicators
  - 5.2 Component Activities and Outputs
  - 5.3 Component Expenditures
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ANNEX II: PROJECT TARGET AREA

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## **ANNEX XII: COMPLIANCE WITH IFAD POLICIES**

### **Targeting policy**

1. The project's main target group corresponds to IFAD's "Targeting Policy". In addition, the project identifies target sub-groups with due attention to gender differences.
2. The project relies on previous IFAD experiences in Cambodia (namely RULIP and RPRP projects) to ensure that there will be interest by the target group in the proposed activities and active participation. For example, training on financial literacy proposed by the project also reflects findings by supervision missions witnessing high demand by group revolving fund beneficiaries for such type of capacity building. While uptake of certain advanced farming practices has not always been extremely successful in the past, the project has sought to improve on past approaches namely through more practical and intensive approaches to training and, most importantly, through a demand-driven approach to capacity building.
3. The project has a detailed targeting strategy that is based on past experiences in Cambodia and consists of a mix of different methods, namely:
  - i. Geographic targeting. PADEE communes and districts within the agreed project provinces have been selected based on poverty incidence and agricultural potential through objective criteria. The process is detailed in Annex II and the main report section of the PDR. The result is a selection of communes (246 out of total 535 in the five selected provinces) which have higher poverty incidence;
  - ii. Participatory wealth ranking for direct targeting at commune level. The project leverages IFAD's successful experience in Cambodia using this tool as recognized by successive supervision missions (see Annex II for details);
  - iii. Enabling measures mainly for sensitization in gender issues through trainings to project staff, provincial and district staff of the decentralized administrations and community leaders;
  - iv. Empowerment measures through quotas for women in group leadership, joint bank savings account and trainings.
4. The project M&E includes several procedures for monitoring targeting performance. This includes a link with a database fed by a service provider which will produce data on IGRF membership.

### **Policy on mainstreaming gender**

5. The project also complies with IFAD's policy on "Mainstreaming Gender":
  - i. Project design is based on detailed poverty analysis which includes gender dimensions, accounting for differences in the roles of women and men in rural areas and how they can benefit from project activities;
  - ii. The project will directly benefit women through economic empowerment and asset ownership. This will be achieved through several interventions including: (i) training on financial literacy and ownership of a savings account, (ii) development of off-farm activities specifically targeting women;
  - iii. The project directly involves MoWA in implementation, includes adequate resources to implement a gender mainstreaming action plan and has specific technical assistance dedicated to gender;
  - iv. The project includes gender quotas for decision-making positions such as IGRF leadership and also CEWs (50% are women);
  - v. The logical framework includes gender sensitive indicators.

### **Rural finance policy**

6. The project complies with IFAD's "Rural Finance Policy". It supports access to two types of RFIs, i.e. MFIs and community managed funds. It supports innovative approaches in particular the introduction of a service provider for record-keeping, accounting and reporting services to the groups. It thus strongly emphasizes the long term sustainability of IGRFs and has a realistic exit strategy in

the form of an evolution towards a credit union model for those groups that are successful and have potential to grow.

### **Environmental screening**

7. The information for this section is based on an Environmental Screening and Scoping Note (ESSN) that has been prepared in accordance with IFAD's Administrative Procedures for Environmental Assessment in the Project Cycle (President's Bulletin 94/03). The environmental classification for the project is "B". No further information is necessary to complete the ESSN and no formal Environmental Assessment is considered necessary.

8. The combined effect of the project's components should mitigate the effects of pressure on land, poor agricultural practises, and degradation of land, and fisheries. These impacts can be summarised as follows:

- Improving the delivery of extension services and the introduction of improved and environmentally friendly practises;
- Composting will be introduced to all trainings as found suitable and appropriate fertilizer usage will be a key part of all crop production trainings;
- Trainings on integrated pest management will be part of basic farmer training and thus is expected to have a positive impact on more responsible use of pesticides and insecticides;
- Livestock in all project districts are raised on an extensive, scavenging system. The project will promote housing of all livestock at night as part of the livestock improvement trainings. Manure collected from bovine and pig housing will be composted with crop residues and other vegetative material to form compost, which will be placed on the agricultural land.

9. The anticipated increase in the use of certified or quality seed will have a positive effect on the environment as it should lead to a reduction, albeit modest, in the amount of weed seed sown by farmers. It is also anticipated that the adoption of IPM technology to control insect pests in rice will lead to a reduction in the use of potentially harmful pesticides.

10. The intensification of agriculture, especially the increased use of mineral fertilizer and agro-chemicals that is expected under the project, could have modest environmental implications. As far as the increased use of fertilizer is concerned the environmental implications are not expected to be significant as very few farmers will be able to afford to apply large quantities of fertilizer. The risks of eutrophication arising from leaching of fertilizer into the ground water and river systems is considered to be very low partly because of the limited amount of fertilizer to be applied, but also because of the tremendous dilution of any leachate by the heavy rainfall and flooding during the rainy season. Furthermore maintenance of on-farm soil fertility will be addressed by incorporating training about soil fertility and the importance of adding organic matter to the soil into all cropping programmes, and wherever possible by introducing legumes into the cropping pattern.

11. The increased use of agro-chemicals, mainly pesticides and some herbicides could have harmful effects. Most agricultural sprays sold in Cambodia are manufactured in either Thailand or Vietnam, and few have Khmer labels. A study undertaken in 2000 found that only eight out of 77 input suppliers could read the foreign labels. A CEDAC study in 2001 found that the majority of farmers mixed two or more pesticides together. Since many of these are highly toxic, it is very important that input suppliers have the correct product knowledge and can advise farmer clients accordingly. It is envisaged that farmer training will include safe use of agro-chemicals and that during the project the circular on an inspection system for fertilizer and pesticides approved by the council of Ministers (July 2007) will become law. This should provide a legal framework to the supply and sale of fertilizers and pesticides requiring amongst other things product labelling in Khmer and dealer training.

**ANNEX XIII: CONTENTS OF THE PROJECT LIFE FILE**

1. Working Paper 1 – Targeting and Gender
2. Working Paper 2 – Agricultural Sector Analysis
3. Working Paper 3 – Access to Financial Services
4. Working Paper 4 – Monitoring and Evaluation
5. Working Paper 5 – Financial and Economic Analysis
6. Working Paper 6 – Project Costs
7. Working Paper 7 – Project Target Districts and Communes
8. Working Paper 8 – Options for Capacity Development
9. Working Paper 9 – Small Rural Business Development
10. Working Paper 10 – Financial Management and Procurement
11. Detailed Project Implementation Manual