

Document: EB 2015/LOT/P.29
Date: 29 October 2015
Distribution: Public
Original: English

E



Investing in rural people

President's memorandum

Proposed additional loan to the Kingdom of Cambodia for the Project for Agricultural Development and Economic Empowerment (PADEE)

Note to Executive Board representatives

Focal points:

Technical questions:

Benoit Thierry
Country Programme Manager
Tel.: +84-914 616 488
e-mail: b.thierry@ifad.org

Dispatch of documentation:

Alessandra Zusi Bergés
Officer-in-Charge,
Governing Bodies Office
Tel.: +39 06 5459 2092
e-mail: gb_office@ifad.org

For: Approval

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed financing to the Kingdom of Cambodia for the Project for Agricultural Development and Economic Empowerment (PADEE), as contained in paragraph 15, and the modifications to the financing agreement, as contained in paragraph 11.

Proposed additional loan to the Kingdom of Cambodia for the Project for Agricultural Development and Economic Empowerment (PADEE)

I. Context and justification

1. The Project for Agricultural Development and Economic Empowerment (PADEE) was approved by the Executive Board in April 2012 (EB/105/R/15/Rev.1) with a loan in the amount of SDR11.3 million and a Debt Sustainability Framework (DSF) grant also in the amount of SDR 11.3 million (each equivalent to approximately US\$15.9 million as at June 2015). The disbursement rates stand at 54 per cent for the loan and 79 per cent for the DSF grant. The project financing agreement was signed and became effective on 8 June 2012. The project completion date is 30 June 2018 and the financing closing date is 31 December 2018. The cofinancing partners are: the Food and Agriculture Organization of the United Nations (FAO), providing US\$313,500; the Netherlands Development Organization (SNV), providing US\$668,500; and iDE, providing US\$378,500.
2. The proposed additional financing will be used to achieve greater project impact and enhance results. The additional financing requested by the Government of Cambodia will be funded under the 2013-2015 cycle of the performance-based allocation system (PBAS) and supplemented by a contribution of approximately US\$0.6 million from the Government of Cambodia. This memorandum seeks the Board's approval of the use of additional financing from the 2013-2015 PBAS cycle in the amount of approximately SDR 2.1 million (equivalent to approximately US\$2.9 million).
3. The request complies with all eligibility criteria for additional financing in accordance with the President's Bulletin PB/2014/01/Rev.1: (i) the project disbursement profile is in line with the projected disbursement plan; (ii) PADEE is considered one of the best-performing operations in the Asia and the Pacific region, with an average project status report rating of 5; (iii) fiduciary aspects are also well rated, at an average of 4.6, and the Government's cumulative contributions to the project are satisfactory; and (iv) PADEE complies with all legal covenants, including the timely submission of audit reports and the unqualified audit opinion for the preceding fiscal year. The original implementation and closing dates remain unchanged.
4. The success of the project and the opportunity to consolidate and scale up its results for target and non-target groups make a compelling case for additional financing. The financing will allow for the continuation of activities and scaling up of successful interventions that have demonstrably improved household incomes and the livelihoods of farmers and livestock keepers. The midterm review mission highlighted the success of the project and the impact achieved in the target rural communities. The midterm review also recognized the project's relevance, efficiency, effectiveness and sustainability as a result of its focus on technology transfer and knowledge dissemination, and recommended that its innovations be scaled up.

II. Status of project implementation

5. The project's performance had improved satisfactorily at midterm review. Physical progress across the project remains strong and it has continued to maintain the pace and overall quality of activities. By midterm review, 772 improved group revolving funds (IGRFs) had been formed, with 39,398 registered members (63 per cent of whom were women) representing 78 per cent of the total project target. A further 212 IGRFs with an expected membership of 10,600 — the remaining balance of the target — are in the process of being formed. The project is well on track and will complete the mobilization of the remaining groups by the end of 2015 as planned.
6. All groups formed to date have met the specified conditions and received their first tranche of grant funds as group conditional capital transfers; 225 groups have also received their second tranche. Similarly, regarding the technology training on land- and non-land-based economic activities, all existing groups have completed their basic package training and progressed to demand-driven training to support their activities. To date, 1,142 common interest groups (CIGs), covering approximately 15,500 members, 55 per cent of them women, have been identified among the 772 IGRFs; 853 of these CIGs have received training on their chosen products. Technology adoption rates reported for these CIGs average approximately 65 per cent based on data compiled by the project during the midterm review but not verified by the mission. Similarly, at least 89 non-land-based groups, predominantly comprising women members, were formed and have received training on 25 different economic activities and products. The project has built a solid foundation on which to expand impacts and economic returns for project-supported households and communities in the coming years.

III. Project costs and financing

7. The additional financing of SDR 2.1 million (equivalent to approximately US\$2.9 million) in the form of a loan on highly concessional terms will be allocated across all project activities and categories. Tables 1 and 2 show the distribution of costs by component and by expenditure category.

Table 1
Project costs by component
 (United States dollars)

<i>Component</i>	<i>IFAD loan</i>	<i>IFAD grant</i>	<i>IFAD loan (additional financing)</i>	<i>iDE top-up</i>	<i>Government top-up</i>	<i>Total</i>	
	<i>Amount</i>	<i>Amount</i>	<i>Amount</i>	<i>Arr</i>	<i>Amount</i>	<i>Amount</i>	<i>%</i>
1. Improved access to financial services	10 767 790	3 023 191	1 250 000			15 040 981	42.0
2. Improved access to technology and markets	4 224 336	10 746 336	1 650 000	541 477	600 000	17 762 149	49.6
3. Project coordination and management	900 082	2 122 679				3 022 761	8.4
Total project costs	15 892 207	15 892 207	2 900 000	541 477	600 000	35 825 891	100

Table 2
Tentative project costs by expenditure category and financier
 (United States dollars)

Expenditure category	IFAD loan		IFAD grant		IFAD loan (additional financing)		iDE top-up		Government top-up		Total		
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	
I. Investment Costs													
A. Equipment	119 543	100	0	-	0	-	0	-	0	-	119 543	0	
B. Technical assistance	0	-	2 433 055	100	0	-	0	-	0	-	2 433 055	7	
C. Consultancy services and training	0	-	9 387 653	79	2 200 000	19	0	0	240 000	2	11 827 653	33	
D. Group conditional capital transfer scheme	11 462 079	100	0	-	0	-	0	-	0	-	11 462 079	32	
E. Rural business stimulus facility	0	-	0	-	700 000	100	0	-	0	-	700 000	2	
F. Activities implemented by project implementation partners	3 501 911	50	2 876 068	41			0	541 477	8	60 000	1	6 979 455	19
Total Investment Costs	15 083 533	45	14 696 776	44	2 900 000	9	541 477	2	300 000	1	33 521 785	94	
II. Recurrent Costs													
A. Operating costs and allowance	808 674	35	1 195 432	52	0	0	0	0	300 000	13	2 304 106	6	
Total project costs	15 892 207	44	15 892 207	44	2 900 000	8	541 477	2	600 000	2	35 825 891	100	

IV. Financial management, procurement and governance

8. Financial management. The project financial management arrangements are solid overall with a good correlation between budgeting, accounting and reporting, flow of funds and audit. The internal control environment is adequate, with well-established segregation of duties applied in conformity with the provisions of the project implementation manual. A few areas are in need of further improvement, such as the recording of beneficiary contributions and the maintenance of the audit log. Expenditures are in line with the annual workplan and budget. Financial transactions are recorded in a timely manner and the established chart of accounts allows adequate detail for correct exposure of information in financial reports. The only shortfall relates to the recording of beneficiary contributions, which Management is working to resolve. The system has been largely customized to support IFAD and PADEE management reporting requirements, with a few remaining customizations required, such as for the generation of statements of expenditure and withdrawal applications, and an enhanced consolidation module to generate consolidated reports automatically.
9. Flow of funds. The flow of funds mechanism is efficient, including for funds made available at provincial level. The procedure of justifying 50 per cent of previous advances to obtain additional ones is now consistently applied for provincial administrations and project implementing partners alike. Bank reconciliations are prepared regularly.
10. Financial reporting and external audit. Financial reports are submitted to IFAD regularly; they are informative but require further improvement, especially in terms of data consolidation. All audits have been submitted on time and have provided unqualified opinions, thereby satisfying the terms of reference. The main internal control issues identified by auditors have been resolved.

V. Proposed amendments to the financing agreement

11. Upon the approval of the Executive Board, the financing agreement will be amended to take into account the additional loan in the existing categories of expenditures. This additional financing will not involve any changes to the project

description, area, target group or components. No new expenditure categories will be created.

VI. Legal instruments and authority

12. An amendment to the current financing agreement between the Kingdom of Cambodia and IFAD will constitute the legal instrument for extending the proposed financing to the borrower.
13. The Kingdom of Cambodia is empowered under its laws to borrow from IFAD.
14. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD Financing.

VII. Recommendation

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

RESOLVED: that the Fund shall provide a loan on highly concessional terms to the Kingdom of Cambodia in an amount equivalent to two million one hundred thousand special drawing rights (SDR 2.1 million) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze
President