

CONFORMED COPY

CREDIT NUMBER 4638-KH

Financing Agreement

(Smallholder Agriculture and Social Protection Support Operation)

between

KINGDOM OF CAMBODIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated August 4, 2009

FINANCING AGREEMENT

AGREEMENT dated August 4, 2009, entered into between KINGDOM OF CAMBODIA (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Association has decided to provide this financing on the basis, inter alia, of: (a) the actions which the Recipient has already taken under the Program and which are described in Section I(A) of Schedule 1 to this Agreement; and (b) the Recipient’s maintenance of an appropriate macro-economic policy framework. The Recipient and the Association therefore hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — FINANCING

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to three million three hundred thousand Special Drawing Rights (SDR 3,300,000) (variously, “Credit” and “Financing”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in support of the Program in accordance with Section II of Schedule 1 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.
- 2.05. The Payment Dates are May 15 and November 15 in each year.
- 2.06. The principal amount of the Credit shall be repaid in accordance with repayment schedule set forth in Schedule 2 to this Agreement.

2.07. The Payment Currency is Dollars.

ARTICLE III — PROGRAM

3.01. The Recipient declares its commitment to the Program and its implementation. To this end:

- (a) the Recipient and the Association shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program;
- (b) prior to each such exchange of views, the Recipient shall furnish to the Association for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request; and
- (c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Recipient shall promptly inform the Association of any situation that would have the effect of materially reversing the objectives of the Program or any action taken under the Program including any action specified in Section I of Schedule 1 to this Agreement.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

4.01. The Additional Event of Suspension consist of the following: a situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.

4.02. The Additional Events of Acceleration consists of the following: the event specified in Section 4.01 of this Agreement occurs and is continuing for a period of thirty (30) days after notice of the event has been given by the Association to the Recipient.

ARTICLE V — EFFECTIVENESS; TERMINATION

5.01. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. The Recipient's Representative is the Minister of Economy and Finance.

6.02. The Recipient's Address is:

Ministry of Economy and Finance
Street 92, Sang Kat Wat Phnom
Phnom Penh
Kingdom of Cambodia

Facsimile:

855-23-427798
855-23-430241

6.03. The Association's Address is:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

Telex:

Facsimile:

INDEVAS
Washington, D.C.

248423(MCI)

1-202-477-6391

AGREED at Phnom, Penh, Kingdom of Cambodia, as of the day and year first above written.

KINGDOM OF CAMBODIA

By: /s/ Keat Chhon

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By: /s/ Annette Dixon

Authorized Representative

SCHEDULE 1

Program Actions; Availability of Financing Proceeds

Section I. Actions under the Program

The actions taken by the Recipient under the Program include the following:

Acceleration of Smallholder Rice Supply Response

1. (a) Pursuant to Circular No. 02 SR, dated May 27, 2009, the Recipient has established a price oversight mechanism for monitoring fertilizer prices that includes random sampling of price throughout the supply chain, as well as improved farmer information; and
 - (b) Pursuant to Directive No. 2462, dated May 19, 2009, the Recipient has expanded the monitoring of fertilizer quality, including random sampling for quality tests throughout the supply chain, as well as improved farmer information and labeling in Khmer.
2. Pursuant to Directive No. 2462, dated May 19, 2009, the Recipient is accelerating the registration of farmer organizations based on an additional budget allocated for this purpose.
3. The Recipient, on April 9, 2008, lifted its ban on rice exports through Inter-Ministerial Prakas No. 105. MOC/SM2008 on Authorization of Exports of all Kinds of Dry Season Rice Grown and Harvested in Geographical Areas of Prey Veng, Kandal and Takeo Provinces.

Expansion of Safety Net Support and Improvement of Governance with Better Targeting

4. The Recipient signed on April 24, 2008 a Memorandum of Understanding with the World Food Programme for the provision during three (3) years of two thousand (2000) metric tons per year of rice for, *inter alia*, school feeding and food for work programs.
5. The Recipient executed on October 9, 2008, a financing agreement with the Asian Development Bank and initiated the implementation of emergency safety net assistance in two hundred (200) communes through a onetime rice distribution (from October 29 to November 5, 2008) and a two (2) year food and cash for work program for 2009 and 2010.
6. Pursuant to Prakas No. 474 MEF/PRK of May 21, 2009, the Recipient expanded the roles and responsibilities of the National Food Security Task Force to ensure

and monitor the application of the Identification of Poor Households Targeting System in the distribution of food and agriculture materials to poor households and of cash and food for work program under the purview of said Task Force.

Strengthening the Oversight of and Learning from Crisis Response Actions

7. Pursuant to Prakas No. 474 MEF/PRK of May 21, 2009, the Recipient established a monitoring and public reporting mechanism on the implementation of activities under the overview of the National Food Security Task Force: (a) said monitoring mechanism and the resulting quarterly reports to cover, inter alia, distribution of fertilizer and seed to smallholders, registration of farmer organizations, measures to improve rice exports, safety nets for food vulnerable households, and application of the Identification of Poor Households Targeting System; and (b) said quarterly reports to be publically disseminated, including through the Ministry of Economy and Finance website and through technical working groups for agriculture, water, food security and nutrition.

Section II. Availability of Financing Proceeds

- A. General.** The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of this Section and such additional instructions as the Association may specify by notice to the Recipient.
- B. Allocation of Financing Amounts.** The Financing shall be withdrawn in a single tranche. The allocation of the amounts of the Financing to this end is set out in the table below:

Allocations	Amount of the Financing Allocated (expressed in SDR)
Single Tranche	3,300,000
TOTAL AMOUNT	3,300,000

- C. Deposits of Financing Amounts.**
1. Except as the Association may otherwise agree:
- (a) all withdrawals from the Financing Account shall be deposited by the Association into an account designated by the Recipient and acceptable to the Association; and
- (b) the Recipient shall ensure that upon each deposit of an amount of the Financing into this account, an equivalent amount is accounted for in the Recipient's National Treasury, in a manner acceptable to the Association.

2. For purposes of paragraph 1(a) of this Section C, prior to furnishing to the Association the first request for withdrawal from the Financing Account, the Recipient shall open and, thereafter maintain, a deposit account in United States Dollars at the National Bank of Cambodia, on terms and conditions satisfactory and acceptable to the Association.
 3. The Recipient shall confirm to the Association:
 - (a) the name and number of the designated deposit account mentioned in paragraphs 1(a) and 2 above;
 - (b) the foreign currency amount received in the designated deposit account referred to above;
 - (c) the foreign currency amounts withdrawn from the said designated deposit account at the National Bank of Cambodia, and the equivalent amounts credited to the National Treasury Single Account to finance budgeted expenditures; and
 - (d) the date and name, and/or number of the National Treasury account to finance budgeted expenditures to which the amounts equivalent to the amounts withdrawn from the Financing Account have been credited.
- D. Excluded Expenditures.** The Recipient undertakes that the proceeds of the Financing shall not be used to finance Excluded Expenditures. If the Association determines at any time that an amount of the Financing was used to make a payment for an Excluded Expenditure, the Recipient shall, promptly upon notice from the Association, refund an amount equal to the amount of such payment to the Association. Amounts refunded to the Association upon such request shall be cancelled.
- E. Audit.**
1. Upon the Association's request, the Recipient shall:
 - (a) have the Deposit Account audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association;
 - (b) furnish to the Association as soon as available, but in any case not later than six (6) months after the date of the Association's request for such audit, a certified copy of the report of such audit, of such scope and in such detail as the Association shall reasonably request; and

- (c) furnish to the Association such other information concerning the Deposit Account and their audit as the Association shall reasonably request.

F. Closing Date. The Closing Date is May 31, 2010.

SCHEDULE 2**Repayment Schedule**

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each May 15 and November 15:	
commencing November 15, 2019 to and including May 15, 2029	1%
commencing November 15, 2029 to and including May 15, 2049	2%

*The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03(b) of the General Conditions.

APPENDIX

Section I. Definitions

1. “ADB” means the Asian Development Bank established in 1966 with its headquarters in Manila and any successor thereto.
2. “Excluded Expenditure” means any expenditure:
 - (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Association or the Bank has financed or agreed to finance, or which the Association or the Bank has financed or agreed to finance under another credit, grant or loan;
 - (b) for goods included in the following groups or sub-groups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Association by notice to the Recipient:

Group	Sub-group	Description of Item
112		Alcoholic beverages
121		Tobacco, un-manufactured, tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitutes)
525		Radioactive and associated materials
667		Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch

		cases) and goldsmiths' or silversmiths' wares (including set gems)
971		Gold, non-monetary (excluding gold ores and concentrates)

- (c) for goods intended for a military or paramilitary purpose or for luxury consumption;
 - (d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Recipient or international agreements to which the Recipient is a party;
 - (e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and
 - (f) with respect to which the Association determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Recipient or other recipient of the Financing proceeds, without the Recipient (or other such recipient) having taken timely and appropriate action satisfactory to the Association to address such practices when they occur.
3. "General Conditions" means the "International Development Association General Conditions for Credits and Grants", dated July 1, 2005 (as amended through October 15, 2006) with the modifications set forth in Section II of this Appendix.
 4. "Identification of Poor Households Targeting System" means the Government targeting program, implemented by the Ministry of Planning, which uses a set of standardized national procedures to identify poor households throughout Cambodia.
 5. "Khmer" means the official language of the Kingdom of Cambodia.
 6. "Minister of Economy and Finance" means the Recipient's Minister of Economy and Finance and any successor thereto.
 7. "National Task Force" means the task force established pursuant to Prakas No. 617 SHV.PRK on Establishment of National Food Security Task Force for Implementation of an Emergency Food Assistance Project on August 18, 2008, whose responsibilities include, inter alia, the provision of: (a) guidelines and data

to development partners; (b) advice on policy during project implementation; and (c) monitoring of the project implementation.

8. “Program” means the program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty and set forth or referred to in the letter dated May 22, 2009 from the Recipient to the Association declaring the Recipient’s commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during its execution.
9. “Single Tranche” means the amount of the Financing allocated to the category entitled “Single Tranche” in the table set forth in Part B of Section II of Schedule 1 to this Agreement.
10. “WFP” means the World Food Program.

Section II. Modifications to the General Conditions

The modifications to the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006) are as follows:

1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.
2. Sections 2.04 (*Designated Accounts*) and 2.05 (*Eligible Expenditures*) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.
3. Section 2.05 (renumbered as such pursuant to paragraph 2 above) is modified to read as follows:

“Section 2.05. Refinancing Preparation Advance

If the Financing Agreement provides for the repayment out of the proceeds of the Financing of an advance made by the Association or the Bank (“Preparation Advance”), the Association shall, on behalf of the Recipient, withdraw from the Financing Account on or after the Effective Date the amount required to repay the withdrawn and outstanding balance of the advance as at the date of such withdrawal from the Financing Account and to pay all accrued and unpaid charges, if any, on the advance as at such date. The Association shall pay the amount so withdrawn to itself or the Bank, as the case may be, and shall cancel the remaining unwithdrawn amount of the advance.”

4. Sections 4.01 (*Project Execution Generally*), and 4.09 (*Financial Management; Financial Statements; Audits*) are deleted in their entirety, and the remaining Sections in Article IV are renumbered accordingly.
5. Paragraph (a) of Section 4.05 (renumbered as such pursuant to paragraph 3 above and relating to *Use of Goods, Works and Services*) is deleted in its entirety.
6. Paragraph (c) of Section 4.06 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 4.06. *Plans; Documents; Records*

... (c) The Recipient shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Financing until two years after the Closing Date. The Recipient shall enable the Association’s representatives to examine such records.”

7. Section 4.07 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 4.07. *Program Monitoring and Evaluation*

... (c) The Recipient shall prepare, or cause to be prepared, and furnish to the Association not later than six months after the Closing Date, a report of such scope and in such detail as the Association shall reasonably request, on the execution of the Program, the performance by the Recipient and the Association of their respective obligations under the Legal Agreements and the accomplishment of the purposes of the Financing.”

8. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

- (a) The definition of the term “Eligible Expenditure” is modified to read as follows:

“‘Eligible Expenditure’ means any use to which the Financing is put in support of the Program, other than to finance expenditures excluded pursuant to the Financing Agreement.”

- (b) The term “Financial Statements” and its definition as set forth in the Appendix are deleted in their entirety.

- (c) The term “Project” is modified to read “Program” and its definition is modified to read as follows:

“‘Program’ means the program referred to in the Financing Agreement in support of which the Financing is made.” All references to “Project” throughout these General Conditions are deemed to be references to “Program”.

- (d) The term “Program Preparation Advance” (renamed as such pursuant to subparagraph 8 (c) above) is modified to read “Preparation Advance” and its definition is modified to read as follows:

“‘Preparation Advance’ means the advance referred to in the Financing Agreement and repayable in accordance with Section 2.05.”