



SUMMARY PROCEDURE

FOR OFFICIAL USE ONLY

R115-15
23 October 2015

Proposed Loan
Second Greater Mekong Subregion Corridor Towns
Development Project
(Cambodia)

1. The Report and Recommendation of the President (RRP: CAM 46443-002) on the proposed loan to Cambodia for the Second Greater Mekong Subregion Corridor Towns Development Project is circulated herewith.
2. This Report and Recommendation should be read with *Country Operations Business Plan: Cambodia, 2015–2017*, which was circulated to the Board on 19 December 2014 (DOC.IN.459-14).
3. In the absence of any request for discussion and in the absence of a sufficient number of abstentions or oppositions (which should be communicated to The Secretary by the close of business on 13 November 2015), the recommendation in paragraph 37 of the paper will be deemed to have been approved, to be so recorded in the minutes of a subsequent Board meeting. Any notified abstentions or oppositions will also be recorded in the minutes.

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Report and Recommendation of the President to the Board of Directors

Project Number: 46443-002
October 2015

Proposed Loan Kingdom of Cambodia: Second Greater Mekong Subregion Corridor Towns Development Project

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 6 October 2015)

| | | |
|---------------|---|-------------|
| Currency unit | – | riel/s (KR) |
| KR1.00 | = | \$0.00024 |
| \$1.00 | = | KR4,089.95 |

ABBREVIATIONS

| | | |
|---------|---|---|
| ADB | – | Asian Development Bank |
| EMP | – | environmental management plan |
| EIRR | – | economic internal rate of return |
| GMS | – | Greater Mekong Subregion |
| IEE | – | initial environmental examination |
| IRC | – | Inter-Ministerial Resettlement Committee |
| km | – | kilometer |
| Lao PDR | – | Lao People's Democratic Republic |
| LAR | – | land acquisition and resettlement |
| MPWT | – | Ministry of Public Works and Transport |
| NSDP | – | National Strategic Development Plan |
| O&M | – | operation and maintenance |
| PAM | – | project administration manual |
| PIU | – | project implementation unit |
| PMU | – | project management unit |
| PRC | – | People's Democratic Republic of China |
| SEC | – | Southern Economic Corridor |
| SLEDP | – | strategic local economic development plan |

NOTE

In this report, "\$" refers to US dollars.

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PROJECT AT A GLANCE

| | | | |
|--|--|---|---|
| 1. Basic Data | | Project Number: 46443-002 | |
| Project Name | Second Greater Mekong Subregion Corridor Towns Development Project | Department /Division | SERD/SEUW |
| Country | Cambodia | Executing Agency | Ministry of Public Works and Transport |
| Borrower | Kingdom of Cambodia | | |
| 2. Sector | Subsector(s) | ADB Financing (\$ million) | |
| ✓ Water and other urban infrastructure and services | Urban flood protection | | 15.00 |
| | Urban sewerage | | 10.50 |
| | Urban solid waste management | | 7.50 |
| | Total | | 33.00 |
| 3. Strategic Agenda | Subcomponents | Climate Change Information | |
| Inclusive economic growth (IEG) | Pillar 2: Access to economic opportunities, including jobs, made more inclusive | Adaptation (\$ million) | 1.00 |
| Environmentally sustainable growth (ESG) | Urban environmental improvement | Climate Change impact on the Project | High |
| Regional integration (RCI) | Pillar 4: Other regional public goods | | |
| 4. Drivers of Change | Components | Gender Equity and Mainstreaming | |
| Governance and capacity development (GCD) | Institutional development | Effective gender mainstreaming (EGM) | ✓ |
| Knowledge solutions (KNS) | Knowledge sharing activities | | |
| Private sector development (PSD) | Public sector goods and services essential for private sector development | | |
| 5. Poverty Targeting | | Location Impact | |
| Project directly targets poverty | No | Urban | High |
| 6. Risk Categorization: | Low | | |
| 7. Safeguard Categorization | Environment: B Involuntary Resettlement: B Indigenous Peoples: C | | |
| 8. Financing | | | |
| Modality and Sources | | Amount (\$ million) | |
| ADB | | 33.00 | |
| Sovereign Project loan: Asian Development Fund | | 33.00 | |
| Cofinancing | | 0.00 | |
| None | | 0.00 | |
| Counterpart | | 5.10 | |
| Government | | 5.10 | |
| Total | | 38.10 | |
| 9. Effective Development Cooperation | | | |
| Use of country procurement systems | | No | |
| Use of country public financial management systems | | No | |

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed loan to the Kingdom of Cambodia for the Second Greater Mekong Subregion Corridor Towns Development Project.¹

2. The project will support the Government of Cambodia in enhancing the competitiveness of the two towns of Kampot and Sihanoukville that are located along the Southern Economic Corridor (SEC), one of the three main economic corridors in the Greater Mekong Subregion (GMS).² The project will result in improved urban services in the two towns through wastewater management, solid-waste management, and urban drainage upgrading. The project will enhance climate resilience and will be in line with the “3Es” of economy, environment, and equity as outlined in the Urban Operational Plan of the Asian Development Bank (ADB).³

II. THE PROJECT

A. Rationale

3. The six countries of the GMS form a geographically contiguous region and an important cluster of economic activity.⁴ Despite wide divergence in their current level of economic development, the GMS countries are following increasingly similar urban development trajectories. Key drivers of urban development and regional integration include the anticipation of the Association of Southeast Asian Nations (ASEAN) Economic Community in 2015, increased domestic and international migration within the region, the continued economic rise of the People’s Republic of China (PRC), significant improvements in road networks and connectivity, increasingly ubiquitous and improving cellphone and internet coverage, and great potential and growing demand for tourism and related activities. The three economic corridors defined under the GMS framework form a network of important routes that connect some of the largest cities in the GMS, including Bangkok, Ha Noi, Ho Chi Minh City, Kunming, Nanning, and Phnom Penh.⁵

4. The project, covering Cambodia, the Lao People’s Democratic Republic (Lao PDR), and Viet Nam, represents the second phase of the ongoing GMS Corridor Towns Development Project in these countries, which supports urban development along the East–West Economic Corridor and the SEC.⁶ The focus on developing towns along economic corridors aims to maximize the benefits of increased trade and traffic flows so as to strengthen their

¹ The design and monitoring framework is in Appendix 1.

² ADB provided project preparatory technical assistance for the Second Greater Mekong Subregion Corridor Towns Development Project (TA 8425-REG).

³ ADB. 2013. *Urban Operational Plan, 2012–2020*. Manila.

⁴ The GMS countries are Cambodia, the People’s Republic of China (specifically Yunnan province and Guangxi Zhuang Autonomous Region), the Lao PDR, Myanmar, Thailand, and Viet Nam.

⁵ The three economic corridors are the North–South Economic Corridor, the East–West Economic Corridor, and the Southern Economic Corridor. ADB. 2011. *GMS Economic Cooperation Program Strategic Framework, 2012–2022*. Manila.

⁶ ADB. 2012. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Administration of Loan and Grants to the Kingdom of Cambodia for the Greater Mekong Subregion Southern Economic Corridor Towns Development Project*. Manila (Loan 2983-CAM); ADB. 2012. *Report and Recommendation of the President to the Board of Directors: Proposed Loan, Grant, and Administration of Grant to the Lao People’s Democratic Republic for the Greater Mekong Subregion East–West Economic Corridor Towns Development Project*. Manila (Loan 2931-LAO); and ADB. 2012. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Administration of Grant to the Socialist Republic of Viet Nam for the Greater Mekong Subregion Corridor Towns Development Project*. Manila (Loan 2969-VIE).

competitiveness and catalyze wider economic growth in the region. The development of environmental infrastructure will promote green growth and improve the climate resilience of these towns in the future. The project supports the first four strategic thrusts of the GMS strategic framework, 2012–2022: (i) strengthening infrastructure linkages; (ii) facilitating cross-border trade, investment, and tourism; (iii) enhancing private sector participation and competitiveness; and (iv) developing human resources.⁷

5. Towns along the SEC, which links Thailand with southern Viet Nam through Cambodia, and the North–South Economic Corridor, with one branch that links the Lao PDR with the PRC, Thailand, and Myanmar and another which links Ha Noi to the cities of Kunming and Nanning in the PRC, are well-positioned to serve as dynamic centers of investment and economic growth.⁸ The strategic location of the corridor towns provides the stimulus for increased trade and investment. Access to markets will provide incentives for local economies in the hinterlands of the corridor towns. Given these development opportunities, and with the rapid growth of the urban population and expansion of these areas, several corridor towns, including Kampot and Sihanoukville in Cambodia along the SEC, are facing demands for urban infrastructure and essential support services.

6. Kampot is a provincial capital and an agricultural, commercial, service, and regional tourism center, with a population of about 35,000 in 2013 and an average population growth rate of about 0.5% (compared with the national average of just under 2.0%). Its strategic location provides excellent road-based connections in the SEC area and to the capital city Phnom Penh. The town has significant opportunities for increased economic activities and investments. While tourism development is at an early stage, visitor numbers are rising significantly, with tourism potential linked to Kampot’s heritage architecture, proximity to the Bokor National Park, and a new river port that will offer seaborne access to the outlying holiday islands. Currently, there is no reticulated wastewater collection and treatment in Kampot, and urban flooding during the wet season is not uncommon as most drainage infrastructure was built during the French colonial times. Solid-waste collection is contracted out to the private sector, with collected waste being disposed of in a poorly managed dump site.

7. Sihanoukville is a regional center and provincial capital with an expanding economy and significant levels of urbanization, with an average population growth rate of about 2.5%. With a population of just over 77,500 in 2013, the city’s recent investment in strategic infrastructure, including an international port (Cambodia’s only deep-sea port), an airport, and a special economic zone, coupled with a beach environment that has given the town an international resort status, has led to an expansion of its services, transport logistics, tourism, and industry sectors. More than 85% of the working population is engaged in the services sector, and gross domestic product per capita (\$1,345 in 2013) is about 25% higher than the national average. However, the pace of economic growth has not been matched by investment in essential supporting environmental infrastructure. In particular, environmental degradation means that the visual environment is poor in most places (affecting both the resident environment and water quality at the tourist beaches), and poor urban planning and governance has led to urban sprawl, scattered developments, and unsustainable land use. Most roadside drains are either missing or in need of repair and most of the town is affected by periodic flooding during the rainy season. Solid-waste collection is contracted out to the private sector, with collected waste being disposed of in a makeshift dump site.

⁷ ADB. 2011. *The Greater Mekong Subregion Economic Cooperation Program Strategic Framework: 2012–2022*. Manila.

⁸ The East-West Economic Corridor links Lao PDR, Myanmar, Thailand and Viet Nam.

8. **Lessons learned.** Key lessons learned from completed or ongoing ADB-financed projects in urban development, including the first phase of the GMS Corridor Towns Development Project in Cambodia, are that (i) civic participation and demand-driven development activities enhance local ownership; (ii) capacity building requires proper planning, adequate targeting, and up-front implementation as it is a long-term effort; (iii) institutional and policy reform should be based on realistic assessments of timing, resource requirements, and political will; (iv) financial cost recovery is critical to project sustainability; (v) streamlined approaches to procurement and contract packaging secures effective project implementation; and (vi) strong executing agency leadership and adequate selection of project staff with clearly defined roles and responsibilities are crucial for effective implementation. These lessons are closely aligned to the project, which has a strong capacity development component, optimizes the value of community involvement, and adopts a business plan approach to revenue collection and operation and maintenance (O&M). Executing agencies will also receive start-up support on ADB procedures upon project commencement.

9. **Related policies and strategies.** The project is in conformity with government policies and strategies, including the National Strategic Development Plan (NSDP) and other national policies and strategies, including the National Policy on Water Supply and Sanitation.⁹ The project is consistent with the NSDP's policy to promote balanced regional distribution of strategically located small and medium-sized towns and the context provided by the Law on Administrative Management of the Capital, Provinces, Municipalities, Districts and Khans.¹⁰

10. The project is in line with ADB's country partnership strategy for Cambodia, ADB's Urban Operational Plan, the GrEEEn Cities approach, ADB's Water Operational Plan, the GMS Economic Cooperation Program Strategic Framework, the GMS Urban Development Strategic Framework 2015–2022, and the GMS Regional Investment Framework Implementation Plan (2014–2018).¹¹ The towns under this project were prioritized under the GMS Regional Investment Framework as key towns located along the GMS economic corridors. In addition, as part of project preparation, strategic local economic development plans (SLEDPs), which present the medium-term strategy, planning, and investment plan for each town, have been prepared. The SLEDPs are based on technical assessments of potential investments in four dimensions (economic development, environment, equity, and good governance), as well as extensive stakeholder consultations and discussions. The SLEDPs, which enhance existing provincial master plans and anchor these to the larger regional context of the GMS economic corridors, will be refined and endorsed during project implementation.

⁹ Government of Cambodia, Ministry of Planning. 2014. *National Strategic Development Plan, 2014–2018*. Phnom Penh; Coordinating Committee for Development of Water Supply and Sanitation Sector, Government of Cambodia. 2003. *National Policy on Water Supply and Sanitation*. Phnom Penh.

¹⁰ Government of Cambodia. 2008. Law on Administrative Management of the Capital, Provinces, Municipalities, Districts and Khans, Royal Kram No. NS/RKM/0508/017, 2008. Phnom Penh.

¹¹ ADB. 2014. *Country Partnership Strategy: Cambodia, 2014–2018*. Manila; ADB. 2013. *Urban Operational Plan, 2012–2020*. Manila; S. Sandhu and R. Singru. 2014. *Enabling GrEEEn Cities: An Operational Framework for Integrated Urban Development in Southeast Asia*. ADB Southeast Asia Working Paper Series. No. 9. Manila. Asian Development Bank; ADB. 2012. *Water Operational Plan, 2011–2020*. Manila; ADB. 2011. *The Greater Mekong Subregion Economic Cooperation Program Strategic Framework: 2012–2022*. Manila; ADB. 2015. *Greater Mekong Subregion Urban Development Strategic Framework 2015–2022*. Manila; and ADB. 2015. *Greater Mekong Subregion Regional Investment Framework Implementation Plan (2014–2018)*. Manila.

B. Impacts and Outcome

11. The impacts will be aligned with the government's NSDP, 2014–2018 of promoting growth that is sustainable, inclusive, equitable, and resilient; creating employment, including through improving competitiveness; promoting equity through reducing poverty; improving environmental sustainability; and promoting efficiency through further strengthening institutional capacity and governance. The outcome will be improved urban services in the two participating towns.

C. Outputs

12. The outputs of the project are (i) the SLEDPs developed, (ii) priority urban infrastructure investments implemented, (iii) institutional capacities for managing public investments strengthened, and (iv) community awareness on project activities and environmental sustainability improved. The infrastructure investments in each town are based on local demand and match the priorities of the government.

13. In Kampot, the project will finance wastewater collection and treatment, solid-waste management, and urban drainage. This will include (i) construction of a wastewater treatment plant (design capacity 4,500 cubic meters/day) and sewer system (15.6 kilometers [km] of trunk mains and 11.4 km of collector mains), including about 2,700 free house connections that will serve about 11,000 people (about one third of the town's population); (ii) construction of 7.9 km of separated primary storm water drains in priority urban areas, including the main market and surrounding area; and (iii) closure of the current dump site and construction of a new managed landfill that will service about 3,330 households comprising about 16,000 people (about half of the town's population).

14. In Sihanoukville, the project will finance urban drainage and solid-waste management. This will include (i) construction of 64.1 km of separated primary storm water drains in priority urban areas, including the town center and surrounding areas; and (ii) rehabilitation of the existing dump site to a managed landfill that will service about 4,770 households comprising around 21,950 people (about one quarter of the town's population).

15. In addition, the project will finance consultancy services that include implementation support, detailed design, construction supervision, and project implementation support relating to these investments. The consultancy services also include capacity building for refinement of the SLEDPs, strengthening institutional capacities for managing public investments, and improving community awareness on project activities and environmental sustainability. Incremental project administration costs, including annual audits, will also be financed.

D. Investment and Financing Plans

16. The project is estimated to cost \$38.1 million (Table 1).

Table 1: Project Investment Plan
(\$ million)

| Item | Amount |
|---|--------------|
| A. Base Cost^a | |
| 1. Kampot wastewater collection and treatment | 9.74 |
| 2. Kampot solid-waste management | 3.01 |
| 3. Kampot roads and drainage | 1.80 |
| 4. Sihanoukville solid-waste management | 2.90 |
| 5. Sihanoukville roads and drainage | 9.68 |
| 6. Project implementation and capacity building | 3.58 |
| 7. Incremental administration cost ^b | 0.93 |
| Subtotal (A)^c | 31.64 |
| B. Contingencies^d | 5.61 |
| C. Financing Charges During Implementation^e | 0.85 |
| Total (A+B+C) | 38.10 |

^a Includes taxes and duties of \$2.63 million, and land acquisition and resettlement costs of \$2.13 million. Taxes and duties are to be financed by the government through exemptions.

^b Incremental administration cost includes \$0.37 million for salary supplements and project audits (financed by the government) and \$0.56 million for other incremental administration costs, e.g., salaries of contract staff (if any), travel expenses, transport, office running costs, equipment (computer, copier, fax machine, air conditioner, camera, telephone, GPS, voice recorder), and insurance and translation costs financed under the ADB loan. ADB will finance taxes and duties for this other incremental administration cost, provided that (i) the amount will be within the reasonable threshold identified during the country partnership strategy preparation process, (ii) the amount will not represent an excessive share of the project investment plan, (iii) the taxes and duties apply only to ADB-financed expenditures, and (iv) the financing of the taxes and duties is material and relevant to the success of the project.

^c Base cost in April 2015 prices.

^d Physical contingency is 11.1%. Price contingency is based on foreign inflation rates of 0.3% in 2015, 1.5% in 2016, 1.4% in 2017, and 1.5% from 2018 and onwards; and local inflation rates of 3.0% in 2015, 2.7% in 2016, and 3.5% from 2017 and onwards.

^e Interest during implementation has been computed at 1% per year and will be capitalized under the ADB loan. Source: Asian Development Bank estimates.

17. The government has requested a loan in various currencies equivalent to SDR23,380,000 from ADB's Special Funds resources (Asian Development Fund) to help finance the project. The loan will have a 32-year term, including a grace period of 8 years, an interest rate of 1.0% per annum during the grace period and 1.5% per annum thereafter, and such other terms and conditions set forth in the draft loan agreement.

18. The financing plan is presented in Table 2.

Table 2: Financing Plan
(\$ million)

| Source | Amount | Share of Total (%) |
|---|--------------|--------------------|
| Asian Development Bank (Special Funds resources loan) | 33.00 | 86.6 |
| Government of Cambodia | 5.10 | 13.4 |
| Total | 38.10 | 100.0 |

Source: Asian Development Bank estimates.

E. Implementation Arrangements

19. The Ministry of Public Works and Transport (MPWT) will be the executing agency for the project through its General Department of Public Works. It will provide for overall policy

guidance and oversee implementation in accordance with the objectives of the project. The executing agency will establish a centralized project management unit (PMU) within the General Department of Public Works, which will execute and provide overall supervision of the subprojects, including selection of consultants and procurement of civil works and goods. The provincial departments of public works and transport in both provinces will be the implementing agencies, which will coordinate and monitor project activities of the corridor towns. The implementing agencies will each establish a project implementation unit (PIU), which will manage the day-to-day project activities including supervision of civil works contractors.

20. A project steering committee will be established and chaired by the secretary of state of the MPWT, and will include representation from other key ministries and provincial governments. The PIUs will serve as the Secretariat for a provincial project coordinating council in each project province, which will be chaired by the respective vice-governor and include representation from other key provincial and district office authorities.

21. Resettlement and land acquisition will be approved and implemented by and under the management of the Inter-Ministerial Resettlement Committee (IRC) chaired by the Ministry of Economy and Finance with membership from relevant line ministries in close cooperation with the Kampot and Sihanoukville provincial resettlement subcommittees. The IRC is assisted by the Resettlement Department of the Ministry of Economy and Finance, acting as secretariat of the IRC, and by the PMU. The IRC will recruit an external monitoring organization to monitor the implementation of the resettlement plan. The implementation arrangements are in Table 3.

Table 3: Implementation Arrangements

| Aspects | Arrangements | | |
|--|---|-------------|-----------------|
| Implementation period | January 2016–December 2020 | | |
| Estimated completion date | 31 December 20 | | |
| Estimated loan closing date | 30 June 2021 | | |
| Management | | | |
| Project steering committee | Secretary of state of MPWT (chair) with representatives from MEF, MLMUPC, the Ministry of Environment, the Ministry of Tourism, the Ministry of Women's Affairs, and Kampot and Sihanoukville provincial governments. The PMU will be the secretariat of project steering committee meetings. | | |
| IRC | Chaired by the representative of the MEF with representation from the MPWT and MLMUPC. The Resettlement Department of the MEF is the secretariat of the IRC. | | |
| Executing agency | MPWT through its General Department of Public Works | | |
| PMU | Project director, procurement officer, finance officer, technical officer, social and environmental affairs officer, municipal development planning officer, impact assessment officer, general administrator. | | |
| Implementing agencies | Departments of public works and transport – Kampot and Sihanoukville | | |
| Provincial project coordinating council | Vice-governor (chair) with representatives from Department of Economy and Finance, Department of Land Management and Urban Planning, Department of Environment, Department of Tourism, Department of Women's Affairs, and district office and town authorities. The PIUs will be the secretariat of provincial project coordinating council meetings. | | |
| Provincial resettlement subcommittee | Chaired by the governor or vice-governor with representatives from relevant provincial departments | | |
| External monitoring organization | Independent agency recruited by the IRC | | |
| PIUs | Chief of PIU, deputy chief of PIU, administrative and finance officer, technical officer, urban development planner, social and environmental officer, impact assessment officer, and coordinator. | | |
| Procurement | International competitive bidding | 2 contracts | \$19.33 million |
| | National competitive bidding | 3 contracts | \$5.68 million |
| All procurement under the ADB loan will be in accordance with ADB's Procurement Guidelines (2015, as amended from time to time). | | | |

| Aspects | Arrangements | | |
|----------------------------------|---|-------------------|----------------|
| Consulting services ^a | Project implementation support and capacity building consultants (quality- and cost-based selection, 80:20, full technical proposal). The assignment may also include hiring of individual consultants. | 328 person-months | \$3.58 million |
| Advance contracting | MPWT will ask for advance contracting of project implementation support and capacity building consultants. Advance action does not commit ADB to subsequent project approval. | | |
| Disbursement | The loan proceeds will be disbursed in accordance with ADB's <i>Loan Disbursement Handbook</i> (2015, as amended from time to time) and detailed arrangements agreed between the government and ADB. | | |

ADB = Asian Development Bank; IRC = Inter-Ministerial Resettlement Committee; MEF = Ministry of Economy and Finance; MLMUPC = Ministry of Land Management, Urban Planning and Construction; MPWT = Ministry of Public Works and Transport; PIU = project implementation unit; PMU = project management unit.

^a ADB-funded consultants will be recruited in accordance with its Guidelines on the Use of Consultants (2013, as amended from time to time).

Source: Asian Development Bank.

III. DUE DILIGENCE

A. Technical

22. The subprojects were selected for the provision of basic environmental services. This will be achieved through improved wastewater management in Kampot and improved solid-waste management and urban drainage upgrading in both towns. The selected projects match the priorities accorded by the government. These investments are technically feasible and use optimum design solutions and standards and where the technology for undertaking the civil works and O&M can be managed by the provincial and municipal authorities. Climate resilient design has been ensured including, for example, through constructing a retaining wall around the wastewater treatment plant in Kampot to provide additional flood protection, and by sizing road drainage in both Kampot and Sihanoukville to allow for future rainfall increases. Appropriate levels of capacity building and training are assured in the project loan.

23. The project recognizes the weak institutional capacity of the provincial and municipal authorities to plan and manage urban sector development, implement and operate urban infrastructure, and deliver essential urban services. This will be addressed through targeted training and institutional capacity building.

B. Economic and Financial

24. An economic analysis was undertaken for all of the subproject components to determine their viability, using the computation of economic internal rate of return (EIRR) as the indicator. The base-case results indicate all components are economically viable with an estimated EIRR exceeding the assumed economic opportunity cost of capital of 12%. The EIRR results range from 14.5% to 18.1% for Kampot and 13.9% to 14.3% for Sihanoukville. All subprojects were generally also viable under adverse scenarios in which costs were higher or benefits lower by 10% than the base case.¹² This included a 10% increase in capital cost, 10% increase in O&M, 10% reduction in benefits, and a 1-year delay in realization of benefits.

¹² Economic Analysis (accessible from the list of linked documents in Appendix 2).

25. A financial analysis was conducted for both the revenue- and the nonrevenue-generating subprojects of each town to confirm the sustainability of the investment. The analysis established that, for all towns, sufficient counterpart funds for their investment components will be available. None of the public entities involved in the operation of the respective project components such as, for example, sanitation or solid-waste management, is corporatized. They are all general government sector units without separate accounts. Therefore, a financial internal rate of return has not been calculated. The tariffs collected for the revenue-generating components (e.g., sanitation and solid-waste management) currently do not fully cover cost for O&M, but will be adjusted over time to meet these requirements. Any funding gap for meeting full O&M cost will be covered by the provincial governments, a commitment that has been covenanted in the loan agreement

C. Governance

26. Assessment shows that the executing agency in Cambodia has experience with the financial management and fund disbursement systems applicable to ADB projects. It has developed institutional capacity to undertake international and national competitive bidding for civil works and goods. The project financial management risk is considered high primarily at provincial and city levels. This refers particularly to tariff setting and the allocation of sufficient funding for O&M of urban infrastructure. Capacity development and training assistance will be provided to the PMU and PIUs on financial and procurement management and fund disbursement. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the Government of Cambodia and the MPWT. The specific policy requirements and supplementary measures are described in the project administration manual (PAM).¹³

D. Poverty and Social

27. From the poverty and social analysis conducted, the project is classified as general intervention.¹⁴ The overall project social impacts are expected to be positive, with improvements to the quality of life for people in both towns. The project will result in improved climate-resilient infrastructure for the participating towns benefitting the full range of social strata, including the urban poor and other vulnerable groups in each town. The proposed tariffs for both wastewater and solid-waste management have been assessed as affordable for low-income groups. The subproject for improving urban drainage in Kampot and Sihanoukville towns will improve flood protection for the project-affected people, their homes, and their property at a local level. Poor and vulnerable households located in low-lying flood-prone areas and who experience insufficient and/or lack basic environmental sanitation services stand to benefit the most.

28. The subprojects will create employment opportunities during construction and skills capacity development for local people, especially the poor and vulnerable groups such as female heads of households or ethnic minorities groups. The summary poverty reduction and social strategy includes measures to address social impacts and enhance distribution of benefits resulting from the project.

29. The project is categorized as effective gender mainstreaming. The gender analysis concluded that women in the subproject areas are at potential risk of not realizing the full potential of project benefits and opportunities if gender issues concerning women's employment

¹³ Project Administration Manual (accessible from the list of linked documents in Appendix 2).

¹⁴ Summary Poverty Reduction and Social Strategy, and Gender Action Plan (accessible from the list of linked documents in Appendix 2).

opportunities and sector representation in decision making are not mainstreamed in project activities. Accordingly, a gender action plan has been prepared aiming at (i) ensuring gender issues are mainstreamed in project planning and implementation; (ii) addressing specific impacts and risks, which may affect women differently or disproportionately compared to men; and (iii) enhancing participation of women in project benefits.

E. Safeguards

30. **Social safeguards.** The safeguard category for involuntary resettlement is B in accordance with ADB's Safeguard Policy Statement (2009). One resettlement plan has been prepared for Kampot where land acquisition and resettlement (LAR) impacts are triggered. A total of 6.1 hectares of land will be acquired affecting 13 households (65 affected people) with a total of 6 households (30 affected people) severely affected. A total of 19 households (95 affected people) will be affected with loss of trees in the solid-waste management site owned by the government. The total LAR cost is estimated to be \$1.52 million.¹⁵ All affected households are entitled to compensation and rehabilitation assistance. Severely affected and vulnerable households will be provided income restoration through cash assistance and skills training, and receive priority for employment in project-related construction works.

31. **Indigenous peoples.** Indigenous peoples safeguards are not triggered by any project component in Kampot or Sihanoukville, and the safeguard category for indigenous peoples is C in accordance with the requirements of ADB's Safeguard Policy Statement.

32. **Environmental safeguards.** The project is classified category B for environment in accordance with ADB's Safeguard Policy Statement. One initial environmental examination (IEE) report and two environmental management plans (EMPs) (one per town) have been prepared. The proposed subprojects are not expected to have irreversible adverse environmental impacts. Mitigation measures for identified impacts related to siting, design, construction, and operation have been incorporated in the EMPs. In addition, potential impacts of climate change and natural hazards (e.g., flooding and earthquake) on the project are recommended for integration into the design and engineering stage as part of the IEE assessment whenever feasible and appropriate.¹⁶

33. Climate change projections and climate change impacts on the project are discussed in the climate vulnerability and risk assessment section of the IEE. Costs that may be attributed to climate change adaptation have been estimated at \$1 million for Cambodia, representing about 2%–3% of the ADB loan.

F. Risks and Mitigating Measures

34. The integrated benefits and impacts from the project are expected to outweigh the costs. The overall risk is assessed as medium. Major risks and mitigating measures are summarized in Table 4 and described in detail in the risk assessment and risk management plan.¹⁷

¹⁵ Resettlement Plan: Kampot (accessible from the list of linked documents in Appendix 2).

¹⁶ Initial Environmental Examination and Environmental Management Plans (accessible from the list of linked documents in Appendix 2).

¹⁷ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

Table 4: Summary of Risks and Mitigating Measures

| Risk | Mitigating Measures |
|---|--|
| Lack of capacity for project implementation and management | Support and training provided by project implementation and capacity development consultants |
| Irregularities in procurement and financial management | Provisions included in loan agreement and bidding documents. The executing agency will disclose contract awards and use of loan proceeds. |
| Lack of financial sustainability due to noncost-recovery tariffs | Capacity building provided for sustainable operation and maintenance of the new facilities as well as on tariff setting and financial management. Provincial governments will cover funding gap if revenues from tariffs are insufficient. |
| Delay in project start-up and implementation | Support for project start-up activities provided under the project preparatory technical assistance, including for advance action on recruitment of project implementation support consultants |
| Potential presence of unexploded ordnance to cause safety issues and delays | Surveys to identify potential unexploded ordnance contamination will be undertaken. |
| Potential archeological finds could cause delays | Measures and recommendations identified in initial environmental examinations |

Source: Asian Development Bank.

IV. ASSURANCES AND CONDITIONS

35. The Government of Cambodia and the MPWT have assured ADB that implementation of the project shall conform to all applicable ADB policies including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in detail in the PAM and loan documents. The Government of Cambodia and the MPWT have agreed with ADB on certain covenants and disbursement conditions for the project, which are set forth in the loan agreement.

36. The following condition of disbursement is set forth in the loan agreement. Prior to disbursement of the loan, the borrower shall cause, directly or indirectly through the project executing agency or the relevant project implementation agency, the PMU to employ the necessary qualified financial management and accounting staff to administer, implement, coordinate, and undertake all financial management and accounting activities required under the PAM or as otherwise required by or agreed to with ADB.

V. RECOMMENDATION

37. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the loan in various currencies equivalent to SDR23,380,000 to the Kingdom of Cambodia for the Second Greater Mekong Subregion Corridor Towns Development Project, from ADB's Special Funds resources, with an interest charge at the rate of 1.0% per annum during the grace period and 1.5% per annum thereafter; for a term of 32 years, including a grace period of 8 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement presented to the Board.

Takehiko Nakao
President

23 October 2015

DESIGN AND MONITORING FRAMEWORK

| Impacts the Project is Aligned with: Promoting growth that is sustainable, inclusive, equitable, and resilient; creating employment, including through improving competitiveness; promoting equity through reducing poverty; improving environmental sustainability; and promoting efficiency through further strengthening institutional capacity and governance in the two towns of Kampot and Sihanoukville (National Strategic Development Plan, 2014–2018) ^a | | | |
|--|--|---|---|
| Results Chain | Performance Indicators with Targets and Baselines | Data Sources and Reporting Mechanisms | Risks |
| Outcome Improved urban services in the two participating towns | By 2021: a. 2,700 households and businesses serviced by new and improved wastewater collection and treatment facilities in Kampot b. 8,100 households serviced by improved solid-waste collection in the two towns c. 3,765 households with reduced flood risks in both towns (2015 baselines a–c: 0) | a–c. Reports of provincial department of public works and transportation, project progress reports, end of project survey | Lack of capacity for project implementation and management. Lack of financial sustainability due to non-cost recovery tariffs. |
| Outputs 1. The SLEDPs developed | By 2016: 1a. SLEDPs endorsed by the participating provinces and towns (2015 baseline: final draft SLEDPs completed) | 1a. Letter of endorsement from the executing agency | Delay in project start-up and implementation. Irregularities in procurement and financial management. |
| 2. Priority urban infrastructure investments implemented | By 2020: 2a. At least 30% of unskilled laborers employed in subproject construction are women. At least 30% of staff employed in operation and maintenance are women. At least 75% of all unskilled laborers or staff are of local origin (2015 baseline: N/A) 2b. Wastewater treatment capacity of 4,500 cubic meters/day added in Kampot through construction of one new wastewater treatment plant (2015 baseline: 0) 2c. 15.6 km of drainage trunk mains and 11.4 km of drainage collection mains constructed in Kampot (2015 baseline: 0) 2d. 2,700 new connections in Kampot for wastewater provided with free connection costs (2015 baseline: 0) | 2a. Contractor's records and progress monitoring reports 2b.–i. Construction records, subproject completion reports, end of project survey | Potential presence of unexploded ordnance. Potential archeological finds could cause delays. |

| Results Chain | Performance Indicators with Targets and Baselines | Data Sources and Reporting Mechanisms | Risks |
|--|--|---|-------|
| | <p>2e. 7.9 km of separated primary storm water drains are constructed or upgraded in Kampot and 64.1 km in Sihanoukville. (2015 baseline: 0)</p> <p>2f. In Kampot, a new managed landfill is made operational (2015 baseline: N/A).</p> <p>2g. In Sihanoukville, the existing dump site is upgraded with improved operations (2015 baseline: N/A).</p> <p>2h. 8,100 households provided with new or improved solid-waste management collection in Kampot (3,330 households) and Sihanoukville (4,770 households) (2015 baseline: N/A)</p> <p>2i. 100% of informal waste pickers near existing dump sites (2015 baseline: 160 persons) ensured continued access to the landfill and alternative livelihood skills training (2015 baseline: N/A)</p> | | |
| 3. Institutional capacities for managing public investments strengthened | <p>By 2020:</p> <p>3a. At least 20 persons (30% female) trained in project management (2015 baseline: N/A)</p> <p>3b. At least 100 persons (50% female) trained on gender sensitization training for community leaders, government officers, and consultants involved in project implementation and delivery (2015 baseline: N/A)</p> <p>3c. Project implementation units shall target recruitment of 30% female staff, including 20% in decision-making positions (2015 baselines: N/A).</p> | <p>3a–b. Project progress and completion reports, attendance lists, training reports</p> <p>3c. Project management unit and government employment records</p> | |
| 4. Community awareness on project activities and environmental | <p>By 2020:</p> <p>4a. At least 10 community awareness and dissemination</p> | 4a. Project progress and completion reports, | |

| Results Chain | Performance Indicators with Targets and Baselines | Data Sources and Reporting Mechanisms | Risks |
|--|--|---------------------------------------|-------|
| sustainability improved | campaigns covering environmental sustainability and conservation themes conducted with equal participation by men and women (2015 baseline: N/A) | attendance lists, training reports | |
| <p>Key Activities with Milestones</p> <p>1. The SLEDPs developed</p> <p>1.1 Participating provinces and towns endorse SLEDPs (Q2 2016)</p> <p>2. Priority urban infrastructure investments implemented</p> <p>2.1 Complete detailed engineering designs (Q4 2016)</p> <p>2.2 Complete land acquisition and resettlement (Q4 2016)</p> <p>2.3 Bid civil works contracts (Q4 2017)</p> <p>2.4 Sign civil works contracts (Q4 2017)</p> <p>2.5 Complete civil works (Q4 2020)</p> <p>2.6 Conduct environmental safeguards monitoring and reporting (Q1 2016–Q4 2020)</p> <p>2.7 Conduct social safeguards monitoring and reporting (Q1 2016–Q4 2017)</p> <p>3. Institutional capacities for managing public investments strengthened</p> <p>3.1 Formulate capacity building program (Q4 2016)</p> <p>3.2 Complete key trainings and capacity building activities (Q4 2018)</p> <p>4. Community awareness on project activities and environmental sustainability improved</p> <p>4.1 Conclude community awareness and dissemination campaigns (Q4 2020)</p> | | | |
| <p>Inputs</p> <p>Asian Development Bank: \$33,000,000 (loan)</p> <p>Government of Cambodia: \$5,100,000</p> | | | |
| <p>Assumptions for Partner Financing</p> <p>Not applicable.</p> | | | |

km = kilometer, N/A = not applicable, Q = quarter, SLEDP = strategic local economic development plan.

^a Government of Cambodia, Ministry of Planning. 2014. *National Strategic Development Plan, 2014–2018*. Phnom Penh.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=46443-002-3>

1. Loan Agreement
2. Sector Assessment (Summary): Water and Other Urban Infrastructure and Services
3. Project Administration Manual
4. Contribution to the ADB Results Framework
5. Development Coordination
6. Financial Analysis
7. Economic Analysis
8. Country Economic Indicators
9. Summary Poverty Reduction and Social Strategy
10. Gender Action Plan
11. Initial Environmental Examination
12. Resettlement Plan: Kampot
13. Risk Assessment and Risk Management Plan

Supplementary Documents

14. Summary of Investment Components
15. Participation Plan
16. Summary on Climate Change
17. Economic Analysis–Supplementary Tables