



Report and Recommendation of the President to the Board of Directors

Project Number: 43319-033
November 2012

Proposed Loan and Administration of Loan and Grants Kingdom of Cambodia: Greater Mekong Subregion Southern Economic Corridor Towns Development Project

CURRENCY EQUIVALENTS

(as of 19 October 2012)

Currency unit – riel (KR)

KR1.00 = \$.00024

\$1.00 = KR4,024

ABBREVIATIONS

ADB	–	Asian Development Bank
EMP	–	environmental management plan
GMS	–	Greater Mekong Subregion
MPWT	–	Ministry of Public Works and Transport
O&M	–	operation and maintenance
PPCR	–	Pilot Program for Climate Resilience
SCF	–	Strategic Climate Fund
SEC	–	Southern Economic Corridor
SLEDP	–	strategic local economic development plan

NOTES

- (i) The fiscal year of the Government of Cambodia ends on 31 December.
- (i) In this report, "\$" refers to US dollars.

Vice-President	S. Groff, Operations 2
Director General	K. Senga, Southeast Asia Department (SERD)
Director	A. Leung, Urban Development and Water Division, SERD
Team leader	F. Steinberg, Senior Urban Development Specialist, SERD
Team members	L. Adams, Social Development Specialist, SERD A. Garrovillas, Associate Project Officer, SERD S. Kotagiri, Social Development Specialist, SERD C. Png, Senior Counsel, Office of the General Counsel S. Sandhu, Senior Environment Specialist, SERD S. Schapero, Senior Financial Specialist, SERD A. Srinivasan, Principal Climate Change Specialist, SERD
Peer reviewer	D. Kucan, Senior Urban Development Specialist, Central and West Asia Department

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PROJECT AT A GLANCE

1. Project Name: Greater Mekong Subregion Southern Economic Corridor Towns Development Project		2. Project Number: 43319-033	
3. Country: Cambodia		4. Department/Division: Southeast Asia Department/Urban Development and Water Division	
5. Sector Classification:			
	Sectors	Primary	Subsectors
	Water supply and other municipal infrastructure and services	√	Water supply and sanitation
			Urban sector development
			Waste management
6. Thematic Classification:			
	Themes	Primary	Subthemes
	Economic growth	√	Widening access to markets and economic opportunities
	Environmental sustainability		Urban environmental improvement
	Regional cooperation and integration		Trade and investments
	Capacity development		Institutional development
6a. Climate Change Impact No Climate Change Indicator available.		6b. Gender Mainstreaming	
		Gender equity theme (GEN)	
		Effective gender mainstreaming (EGM)	√
		Some gender elements (SGE)	
		No gender elements (NGE)	
7. Targeting Classification:		8. Location Impact:	
General Intervention	Targeted Intervention		
	Geographic dimensions of inclusive growth	Millennium development goals	Income poverty at household level
	√		
		National	Medium
		Regional	Medium
		Urban	High
9. Project Risk Categorization: Complex			
10. Safeguards Categorization:			
		Environment	B
		Involuntary resettlement	A
		Indigenous peoples	C
11. ADB Financing:			
	Sovereign/Nonsovereign	Modality	Source
	Sovereign	Project loan	Asian Development Fund
	Total		
			37.0
			37.0
12. Cofinancing:			
	Financier	Category	Amount (\$ million)
	Strategic Climate Fund - PPCR	Official-Loan	5.0
	Strategic Climate Fund - PPCR	Official-Grant	4.4
	Urban Environmental Infrastructure Fund-Urban Financing Partnership Facility Multi	Official-Grant	1.5
	Total		10.9
13. Counterpart Financing:			
	Source	Amount (\$ million)	
	Government	6.87	
	Total	6.87	
14. Aid Effectiveness:			
	Parallel project implementation unit	No	
	Program-based approach	No	

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on (i) a proposed loan; (ii) the proposed administration of a loan to be provided by the ADB Strategic Climate Fund;¹ (iii) the proposed administration of a grant to be provided by the ADB Strategic Climate Fund; and (iv) the proposed administration of a grant to be provided by the Urban Environmental Infrastructure Fund² under the Urban Financing Partnership Facility, all to the Kingdom of Cambodia for the Greater Mekong Subregion (GMS) Southern Economic Corridor Towns Development Project.³

2. The project will enhance the competitiveness of towns along the Southern Economic Corridor (SEC). It will transform the corridor towns of Battambang, Bavet, Neak Loeung, and Poipet in Cambodia into economic hubs by improving urban environmental infrastructure and strengthening the institutional capacity of provincial and local authorities. The project will increase climate resilience by supporting flood control measures that will significantly improve the productivity of economic enterprises in the towns. It will provide environmental infrastructure for wastewater treatment and solid waste management with benefits including reducing the carbon footprint of the towns, making them cleaner and greener, and more livable. The project will upgrade urban roads to enhance mobility. It will finance 10 subprojects in the towns.

II. THE PROJECT

A. Rationale

3. **Strategic economic development.** Considerable investments by the government and the Asian Development Bank (ADB) in developing priority transport corridors have established physical connectivity between the GMS countries and allowed for more efficient movement of people, goods, and services. The towns and cities along the SEC, which links Cambodia and Viet Nam, are positioned to serve as dynamic centers of investment and inclusive economic growth for the country and the GMS. The strategic location of the corridor towns provides the stimulus for increased trade and investment along the transport routes. Amid these development opportunities, the rapid growth of the urban population, and expansion of urban areas, several corridor towns are now faced with the task of meeting the demands for urban infrastructure and essential support services.

4. The planned development of the towns will induce more regulated and sustainable growth by attracting public sector investment in urban environmental infrastructure and encouraging private sector interest in urban economic infrastructure. The project will strengthen the economic competitiveness and investment attractiveness of the towns. Small and medium-sized towns are crucial in terms of their roles as markets and transport hubs for agricultural produce from rural areas, as well as centers for production and distribution of goods and services to urban areas.

5. The project is one of three projects for GMS corridor towns; the other two will be in the Lao People's Democratic Republic and Viet Nam.⁴ The project is phase 1 of a long-term engagement with towns of the GMS economic corridors, and is aligned with the strategic framework of the GMS Economic Cooperation Program, 2012–2022, approved by the Fourth

¹ Under the Pilot Program for Climate Resilience financed by the Strategic Climate Fund.

² Contributor: the Government of Sweden.

³ The design and monitoring framework is in Appendix 1.

⁴ ADB provided project preparatory technical assistance. ADB. 2010. *Technical Assistance to the Greater Mekong Subregion for Preparing the Corridor Towns Development Project*. Manila.

GMS Summit on 19–20 December 2011. It is also in line with the country partnership strategy, 2011–2013 for Cambodia,⁵ and supports ADB’s urban operational plan (2012–2020)⁶ and water operational plan (2011–2020).⁷

6. The participating corridor towns in Cambodia now must meet the demands of rapidly growing and expanding urban areas. The goal of local authorities is to plan and manage urban growth using an integrated approach, operate and maintain urban environmental and economic infrastructure, and efficiently deliver municipal services. Despite policy reforms to promote decentralization, local institutional capacity has not kept pace with urban sector development and economic growth. With increasing trade and traffic flow, the capacity of the corridor towns to manage local economic development in an environmentally sustainable manner needs to be strengthened.

7. **Project towns.** Four corridor towns along the SEC were selected as project areas based on their economic potential, infrastructure constraints, and expressed commitment.

8. Battambang is a traditional agricultural trading center. This market town, with a population of 143,000 in 2010, has the potential to be transformed into an agro-industrial hub and tourism destination given its strategic location in West Cambodia, close to the Tonle Sap and the Thailand border. It can become an attractive town for increased trade, economic activities, and tourism through investments in urban infrastructure and capacity development.

9. Bavet is strategically located at the border crossing between Cambodia and Viet Nam. Since its establishment as a new town in 2008, Bavet—a town of 37,000 (in 2010)—has become the prime destination for large manufacturers as well as small and medium-sized enterprises operating from newly established export processing zones. The increasing number of industry locators has caused an influx of migrants working in the export processing zones or seeking employment opportunities. As a border town, Bavet has benefitted from private investment in casino and recreational establishments that have stimulated growth. The town aims to become a dynamic regional industrial and manufacturing hub.

10. Neak Loeung is also a traditional agricultural trading area and a market town at the intersection of the SEC and the Mekong River. Currently under construction, the second Mekong River Friendship Bridge (to be completed in 2014) will improve linkages with other towns and cities along the SEC. With the new bridge, Neak Loeung, a town of 25,000 inhabitants (in 2008), intends to develop into an agro-industrial and trading center.

11. Poipet is an important border town situated at the border with Thailand. Its strategic location has stimulated economic activities in the town center with several recreation and gaming establishments, hotels and restaurants, as well as banks and money exchange shops. Since the opening of cross-border trade in 1993, the town of 84,000 (in 2010) has emerged as a tourism destination and potential site for industrial development in its export processing zone. Rapid growth is due to in-migration from neighboring towns propelled by economic opportunities.

12. **Related policies and strategies.** The project will support the sustainable and inclusive development of Cambodia’s urban centers. This is consistent with the government’s National Strategic Development Plan, which supports efforts to promote balanced regional distribution of strategically located small and medium-sized towns. ADB will integrate its urban interventions with other priority areas, particularly agriculture and natural resources development, climate

⁵ ADB. 2011. *Country Partnership Strategy: Cambodia, 2011–2013*. Manila.

⁶ ADB. Forthcoming. *Urban Operational Plan, 2012–2020*. Manila.

⁷ ADB. 2011. *Water Operational Plan, 2011–2020*. Manila.

change adaptation, water, sanitation, and transport. The required integration of urban sector needs may be achieved by defining mutually reinforcing objectives (footnote 5).

13. **ADB leadership.** ADB will provide leadership for urban sector development with an innovative urban strategy relevant for economic development and poverty reduction. It will primarily have multisector interventions that incorporate rural–urban linkages. Implementation will emphasize cooperation with other development partners as well as collaboration among local governments and the private sector. The government strategy is reflected in ADB’s urban sector assessment, strategy, and road map, 2011 for Cambodia.⁸

14. **Lessons.** Important lessons from official development assistance and ADB experience in urban development include the need to (i) strengthen institutional capacity and skills in project implementation and management as part of project start-up activities; (ii) provide support for project management, financial management, and procurement procedures; (iii) reduce time to finalize design and bidding documents; (iv) implement advance action for land acquisition and resettlement; and (v) develop project coordination mechanisms and networking with government agencies and private sector groups.⁹ These are included in the project design. Experience from wastewater treatment in Siem Reap and Sihanoukville, under ADB’s GMS Sustainable Tourism Development Project,¹⁰ will be very valuable in designing a sustainable mechanism for the operation and maintenance of revenue-earning subprojects, such as wastewater treatment and solid waste management.

15. **Special features.** The project (i) supports regional development in the GMS (and Association of Southeast Asian Nations) by creating growth engines in corridor towns; (ii) supports climate resilience of towns through adaptation initiatives to reduce the adverse impact of climate risk on infrastructure investment, with cofinancing from the ADB Strategic Climate Fund under its Pilot Program for Climate Resilience; (iii) pursues recycling of solid waste through the innovative materials recovery facilities for waste segregation, with cofinancing from the Urban Environmental Infrastructure Fund under the Urban Financing Partnership Facility; and (iv) supports decentralization through capacity development of local authorities to ensure the sustainability of subprojects.¹¹

B. Impact and Outcome

16. The impact will be the development of the project towns of Battambang, Bavet, Neak Loeung, and Poipet to become centers of economic activity in the SEC, thereby contributing to the transformation of transport and economic corridors within the GMS. The outcome will be improved urban infrastructure and enhanced climate resilience in the project towns.

C. Outputs

17. The outputs will be (i) adoption and implementation of strategic local economic development plans in the project towns, (ii) implementation of priority urban infrastructure investments (including climate resilience measures), and (iii) strengthened institutional capacity. The priority subprojects were selected based on criteria such as (i) consistency with the

⁸ ADB. 2012. *Cambodia: Urban Sector Assessment, Strategy, and Road Map*. Manila.

⁹ Development Coordination (accessible from the list of linked documents in Appendix 2).

¹⁰ ADB. 2008. *Report and Recommendation of the President to the Board of Directors: Proposed Grant to the Lao People’s Democratic Republic and Loan to the Socialist Republic of Viet Nam for the Greater Mekong Subregion Sustainable Tourism Development Project*. Manila.

¹¹ The project stimulates private sector investment in economic infrastructure (dry ports, logistics facilities, and markets). The project preparatory technical assistance supported preparation of prefeasibility studies for these facilities (footnote 4).

project's overall goals and objectives; (ii) potential impact on economic growth and competitiveness; and (iii) expressed interest and commitment of the executing agency to provide the necessary resources. Table 1 lists the subprojects in the four corridor towns.

Table 1: Subprojects

Name and Location	Description
1. Battambang Wastewater Treatment	Rehabilitation of the wastewater and sewerage system, and installation of a new wastewater treatment plant
2. Battambang Flood Control	Construction of a new embankment and related flood control structures
3. Battambang Materials Recovery Facility	Establishment of a materials recovery facility for solid waste recycling
4. Bavet Wastewater Treatment	Rehabilitation of the wastewater and sewerage system, and installation of a new wastewater treatment plant
5. Bavet Urban Roads	Widening of 10 kilometers of the main road (from 2 lanes to 4 lanes), and construction of related drainage structures
6. Bavet Materials Recovery Facility	Construction of a materials recovery facility for solid waste recycling
7. Neak Loeung Flood Control	Construction of flood control structures and an access road
8. Poipet Wastewater Treatment	Rehabilitation of the wastewater and sewerage system, and installation of a new wastewater treatment plant
9. Poipet Solid Waste Management	Enhancement of the solid waste management system, including a new sanitary landfill
10. Poipet Materials Recovery Facility	Establishment of a materials recovery facility for solid waste recycling

Source: Asian Development Bank.

D. Investment and Financing Plans

18. The project is estimated to cost \$54.78 million equivalent, including taxes, duties, and physical and price contingencies (Table 2).

19. The government has requested a loan in various currencies equivalent to SDR24,023,000 from ADB's Special Funds resources 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. The ADB loan will finance civil works, equipment, consulting services, interest during construction on the ADB loan, and contingencies.

20. The Urban Environmental Infrastructure Fund¹² under the Urban Financing Partnership Facility will provide grant cofinancing equivalent to \$1.5 million, to be administered by ADB. The grant will solely finance three subprojects involving construction of material recovery facilities for solid waste recycling. Of the remaining seven subprojects, five have cofinancing from the ADB Strategic Climate Fund (ADB SCF), and two projects solely financed by ADB. The ADB SCF will provide loan cofinancing equivalent to \$5 million and grant cofinancing equivalent to \$4.4 million, both to be administered by ADB. The ADB SCF loan will have a 40-year term, including a grace period of 10 years, and a service charge of 0.1% per annum on the disbursed and outstanding loan amount. The ADB SCF service charge will be capitalized. About \$6.87 million equivalent will be provided by the Government of Cambodia through the Ministry of Economy and Finance to cover taxes and duties and involuntary resettlement costs. The financing plan is summarized in Table 3.

¹² Contributor: the Government of Sweden.

Table 2: Project Investment Plan (\$ million)

Item	Amount ^a
A. Base Cost^b	
1. Battambang town subprojects	17.68
2. Bavet town subprojects	12.11
3. Neak Loeung town subproject	4.24
4. Poipet town subprojects	7.70
5. Project implementation support	1.57
6. Capacity development and training	1.49
7. External monitoring	0.11
Subtotal (A)	44.90
B. Contingencies^c	
1. Physical contingencies	4.43
2. Price contingencies	4.54
Subtotal (B)	8.97
C. Financing Charges during Implementation^d	0.91
Total (A+B+C)	54.78

^a Includes taxes and duties of \$5.22 million and involuntary resettlement and land acquisition of \$1.65 million, to be financed from government sources. The ADB loan, the ADB Strategic Climate Fund loan and grant, and the Urban Environmental Infrastructure Fund grant may finance transportation and insurance costs.

^b In December 2011 prices.

^c Physical contingencies computed at 10% for price escalation factors, which include a provision for potential exchange rate fluctuation assuming purchasing power parity exchange rates. Annual rates are as follows:

	2012	2013	2014	2015	2016	2017	2018
Foreign currency (%)	-1.5	0.5	0.5	0.5	0.5	0.5	0.5

^d Includes interest during implementation for the ADB loan computed at 1% per annum during the grace period. For the ADB Strategic Climate Fund loan a service charge of 0.1% per annum is charged during the grace period.

Source: Asian Development Bank estimates.

Table 3: Financing Plan (\$ million)

Source	Amount	Share of Total (%)
Asian Development Bank loan	37.00	67.6
ADB Strategic Climate Fund loan ^a	5.00	9.1
ADB Strategic Climate Fund grant ^a	4.40	8.0
Urban Environmental Infrastructure Fund grant under the Urban Financing Partnership Facility ^b	1.50	2.7
Government of Cambodia	6.88	12.6
Total	54.78	100.0

^a Under the Pilot Program for Climate Resilience financed by the Strategic Climate Fund. The ADB Strategic Climate Fund is administered by the Asian Development Bank.

^b Contributor: the Government of Sweden.

Source: Asian Development Bank estimates.

E. Implementation Arrangements

21. The Ministry of Public Works and Transport (MPWT) will be the executing agency. MPWT's project management unit (PMU) will coordinate implementation. The provincial departments of public works and transport will establish project implementation units in the provinces of Banteay Meanchay, Battambang, Prey Veng, and Svay Rieng.¹³ The concerned provincial or district office of MPWT will be responsible for O&M after project completion.

22. The project will provide consulting services to support project implementation and assist MPWT during project implementation. This will ensure that implementation fully complies with ADB policies and operating requirements in terms of procurement procedures, construction

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

supervision, financial management and disbursement, social and environmental safeguards, and operation and maintenance (O&M). Consulting services will also be engaged for capacity building covering these areas. Monitoring of the social and environmental safeguards will be separate services.

23. The implementation arrangements are summarized in Table 4 and described in detail in the project administration manual. The project will be implemented during 2013–2018.

Table 4: Implementation Arrangements

Aspects	Arrangements		
Implementation period	January 2013–December 2018		
Estimated completion date	31 December 2018		
Project management (i) Executing agency (ii) Implementing agency (iii) Project implementation units	Ministry of Public Works and Transport (MPWT) Project management unit of MPWT Battambang, Bavet, Neak Loeung, and Poipet district offices of MPWT		
O&M	MPWT will maintain national urban roads in Bavet; the districts (municipalities) will provide O&M for wastewater treatment, solid waste management, and urban roads; MPWT will help the districts to achieve sustainability through revenue collection. MPWT will cover financial shortfalls. The towns will provide O&M for the MRFs.		
Procurement	International competitive bidding	20 contracts	\$50.54 million
	All procurement under ADB loans will be in accordance with ADB Procurement Guidelines (2010, as amended from time to time).		
Consulting services	Quality- and cost-based selection Single-source selection	240 person-months External monitoring	\$3 million \$0.11 million
Advance contracting	MPWT asked ADB for advance contracting of project implementation support consultants		
Disbursement	The ADB loan, ADB Strategic Climate Fund loan and grant, and Urban Environmental Infrastructure Fund grant proceeds will be disbursed following ADB's <i>Loan Disbursement Handbook</i> (2012, as amended from time to time) and detailed arrangements agreed between the government and ADB.		

ADB = Asian Development Bank, MRF = materials recovery facility, MPWT = Ministry of Public Works and Transport, O&M = operation and maintenance.

Source: Asian Development Bank estimates.

III. DUE DILIGENCE

A. Technical

24. The project involves the construction of urban and flood protection infrastructure; and improvement of existing urban roads, and wastewater treatment and solid waste management facilities. The technology for undertaking the civil works is within the capacity of the provincial offices and district authorities. The technical and engineering designs, including the O&M plan, are based on standard parameters to ensure long-term sustainability. Technical specifications have been identified for the climate resilience of the five subprojects supported by the ADB SCF.¹⁴

25. The national government introduced the Organic Law on the Management and Administration of Province, Municipality, and District as a new system of governance that is intended to improve the effectiveness and efficiency of local government services. The strategic goals of the decentralization and deconcentration process are to strengthen and expand local governance, promote local economic development, and reduce poverty in the countryside. Local authorities, however, do not have adequate institutional capacity to plan and manage urban

¹⁴ Climate Resilience Measures (Summary) (accessible from the list of linked documents in Appendix 2).

sector development, implement and operate urban infrastructure, and deliver essential urban services. The project will provide capacity development and training support in line with the decentralization and deconcentration program.

B. Economic and Financial

26. Economic analysis was undertaken for all subprojects. In undertaking the cost–benefit analysis, the quantification of economic benefits depended on the nature of the subproject. Benefits that were quantified included savings in vehicle operating cost and travel time for the road subproject. Quantifiable economic benefits from the drainage and flood control subprojects include health benefits, reduction of flood damage, and improvement in economic productivity; economic efficiency of recovering recyclable wastes and reduction in costs of disposal for the materials recovery facilities; and willingness to pay for the wastewater system and solid waste management. The expected beneficiaries of the overall project constitute a diverse group that includes road users, business establishments, tourism service providers, property owners, and households. The base case results indicate all components are economically viable with an estimated economic internal rate of return ranging from 12% to 30%, which exceeds the assumed economic opportunity cost of capital of 12%. Except for the Neak Loeung flood protection subproject where two of the sensitivity tests were below 12%, all the other subprojects are viable under adverse scenarios in which costs are higher and/or benefits lower by 10% than the base case.¹⁵

27. For the three towns with urban road subprojects, the provincial authority has to provide funds to the provincial departments of public works and transport through annual budgetary allocations to cover the required O&M costs and ensure project sustainability. The financial analysis focuses on historical annual budget allocations to the provincial departments of public works and transport. The wastewater treatment, solid waste management, materials recovery facility, and Mekong River embankment protection subprojects are considered revenue-generating, thus financial internal rates of return were computed taking into consideration the fees or income that can be generated from their operation. The financial internal rates of return range from 4.2% to 7.3%, all higher than the computed weighted average cost of capital.¹⁶

C. Governance

28. An assessment of the financial management and fund disbursement system, and procurement capacity indicates that MPWT adheres to the transparency and accountability elements of good governance. Through direct participation and involvement in the procurement procedures of ADB-financed projects, MPWT developed the institutional capacity to undertake international and national competitive bidding for civil works. However, given the limited experience of the provincial and district authorities in projects funded by official development assistance, the project will be implemented by MPWT's project management unit, with support from its provincial offices. Capacity development assistance will provide training on financial management, fund disbursement, and harmonized procurement guidelines of the government and ADB. A good governance framework is attached to the project administration manual.

D. Poverty and Social

29. **Urban poverty.** The proportion of poor in the towns ranges from 11% in Battambang to 23% in Poipet. The poor mostly live in areas without adequate running water supply, wastewater

¹⁵ Economic Analysis (accessible from the list of linked documents in Appendix 2).

¹⁶ Financial Analysis (accessible from the list of linked documents in Appendix 2).

and solid waste collection and treatment services, and roads and drainage. They often experience serious water supply shortages, poor water quality, wastewater pollution, and poor urban environmental sanitation. They have less capacity to cope with the pollution and degraded environments and, in turn, experience increased exposure and risks to polluted surface and groundwater and air, which compounds their poverty situation. Through the implementation of the subprojects, the project will improve the living environment and health status of urban residents, especially the poor.¹⁷

30. **Gender analysis.** The subprojects will provide benefits to women as individuals and as household members. Street vending is one of the primary income sources for women. Upgrading roads will improve access and mobility, making women's travel more convenient and comfortable. Installing flood control structures and improving drainage and wastewater treatment will decrease flooding, thus reducing physical damage and exposure to waterborne infections from the overflow of drains, which often carry run-off and wastewater. Women will benefit from eliminating the need for cleanup that takes them away from other productive activities. This will also reduce exposure to waterborne infections, decreasing the need to care for sick household members and minimizing women's own exposure.

31. The project will benefit both women and men. Some of the negative impacts that could disproportionately affect women will be addressed through measures included in the gender action plan.¹⁸ The plan also includes activities that will enhance benefits for women by implementing training and awareness-raising programs that focus on wastewater, environmental sanitation and disease, solid waste management and recycling, and health education and promotion, including HIV and sexually transmitted infection awareness and prevention.

32. The effects of involuntary resettlement on women and households headed by women, and required mitigation are discussed in each of the prepared resettlement plans. The design and monitoring framework includes gender-specific targets, and the key features of the gender action plan are incorporated in the framework and the project administration manual.

E. Safeguards

33. **Environment (category B).** The subprojects are not expected to cause irreversible and adverse environment impacts. The initial environmental examinations conducted for all the project cities identified potential impacts and mitigation measures to be implemented through environmental management plans (EMPs).¹⁹ The initial environmental examinations are in accordance with the ADB's Safeguard Policy Statement (2009) and the applicable environment regulations of the government. They indicate that the potential impacts of the subprojects are primarily construction-related and can be mitigated with good practices in construction outlined in the EMPs. At the detailed design stage, when the EMPs are updated and finalized, the final receiving environments for the wastewater treatment plants and landfill will be reviewed to ensure that local groundwater and human use of the affected areas are not adversely affected. Estimated costs for implementing the EMP are integrated into the project costs. The final EMPs, cleared by ADB, will form part of the contract bidding documents. The adequate incorporation of environmental considerations during design and allocation of sufficient budget for O&M will

¹⁷ Summary Poverty Reduction and Social Strategy (accessible from the list of linked documents in Appendix 2).

¹⁸ Gender Action Plan (Summary) (accessible from the list of linked documents in Appendix 2).

¹⁹ Initial Environmental Examination: Environmental Management Plan for Battambang Subproject; Initial Environmental Examination: Environmental Management Plan for Bavet Subproject; Initial Environmental Examination: Environmental Management Plan for Neak Loeng Subproject; and Initial Environmental Examination: Environmental Management Plan for Poipet Subproject (accessible from the list of linked documents in Appendix 2).

mitigate potential adverse impacts during operation. Effective environmental monitoring at all stages of subproject implementation will be ensured. In compliance with ADB's information disclosure and consultation requirements, the safeguard documents will be posted on ADB's website. A grievance redress mechanism was developed and is included in the safeguard document to facilitate resolution of complaints regarding project performance.

34. Involuntary resettlement (category A). One of the subprojects (flood control in Neak Loeung) has significant resettlement impacts. Resettlement plans were prepared for each of the subprojects that will trigger land acquisition and resettlement impacts: (i) wastewater treatment and flood protection, Battambang; (ii) wastewater treatment, Poipet; and (iii) flood control, Neak Loeung.²⁰ Due diligence studies were prepared for the seven subprojects without land acquisition and resettlement impacts: (i) flood control, Battambang; (ii) urban road, Bavet; (iii) wastewater, Bavet; (iv) solid waste management, Poipet; (v) materials recovery facility, Bavet; (vi) materials recovery facility, Poipet; and (vii) materials recovery facility, Battambang. A total of 12.9 hectares will be acquired and 1,249 households (6,582 people) will be affected by the priority subprojects. Of these, 315 households and 1,671 people represent the subproject of Neak Loeung, 185 households (787 people) the subprojects in Poipet, and 744 households (4,091 people) in subproject in Battambang. The flood protection subproject in Neak Loeung will have significant impacts, with 63 affected households (298 affected persons) losing more than 10% of their productive land. The Battambang flood protection subproject will have five affected households (33 affected persons) requiring relocation, while one affected household (five affected persons) will require relocation under the Poipet flood protection subproject. All other impacts are partial and temporary. The cost is estimated to be \$1.65 million, which includes base costs, allowances, and contingencies. Project information was disclosed to affected persons throughout project preparation, and a project information booklet will be updated and distributed during a detailed measurement survey. Resettlement documents were prepared in consultation with local communities according to ADB's Safeguard Policy Statement and Cambodia's laws and regulations. In compliance with ADB's information disclosure and consultation requirements, the resettlement plans will be posted on the ADB website. A grievance redress mechanism will help to facilitate resolution of complaints regarding project performance. The resettlement plans will be updated and disclosed after detailed design and cleared by ADB prior to contract awards.

35. Indigenous peoples (category C). The Cambodian population comprises Khmer, Cham, Chinese, Vietnamese, and a smaller number of Lao and hill tribes. None of the 24 indigenous groups reside in the participating corridor towns. For all the project towns, the surveys undertaken for the poverty and social assessments identified that the subproject areas are predominantly Khmer. The beneficiary communities, which include some nonindigenous minorities, are supportive of the subprojects, as they can see clear and direct benefits for them, and understand that the adverse impacts are manageable and can be properly mitigated. The social assessment confirms that the project is under category C, which does not require the preparation of an indigenous peoples plan.

F. Risks and Mitigation Measures

36. The major risk elements associated with the project are presented in detail in the risk management plan and summarized in Table 5.²¹

²⁰ Resettlement Plan: Battambang Wastewater Treatment; Resettlement Plan: Neak Loeung Flood Control; and Resettlement Plan: Poipet Wastewater Treatment Plant and Solid Waste Management (accessible from the list of linked documents in Appendix 2).

²¹ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

Table 5: Summary of Risks and Mitigating Measures

Major Risks	Mitigation Measures
Corridor towns are unable to collect revenues for wastewater treatment plants, sanitary landfill, and solid waste management.	Ministry of Public Works and Transport will pursue the planned establishment of local authorities for the collection of fees and charges for urban environment infrastructure to recover the cost for operation and maintenance expenditures.
Municipalities not yet fully prepared collect revenues for operation and maintenance of urban infrastructure.	The project towns will introduce business plans and cost recovery instruments for revenue earning services (waste water treatment, solid waste management).
Procurement and corruption risks do exist.	Mass media will be used for bidding announcements. Government and ADB procurement guidelines will be disseminated to the project management unit.
The settlement of land acquisition and resettlement entitlements is delayed or incomplete.	Resettlement plans provide clear entitlements. External monitoring organization will be engaged.
Quality control and performance evaluation in municipalities is lacking.	Capacity development assistance will increase local capacity.

Source: Asian Development Bank.

IV. ASSURANCES

37. The government has 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 disbursements as described in detail in the project administration manual and loan documents. The government has agreed with ADB on certain covenants for the project, which are set forth in the loan and grant agreements.

V. RECOMMENDATION

38. I am satisfied that the proposed loans would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve

- (i) the loan in various currencies equivalent to SDR24,023,000 to the Kingdom of Cambodia for the Greater Mekong Subregion Southern Economic 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;
- (ii) the administration by ADB of the loan not exceeding the equivalent of \$5,000,000 to the Kingdom of Cambodia for the Greater Mekong Subregion Southern Economic Corridor Towns Development Project, to be provided by the ADB Strategic Climate Fund;
- (iii) the administration by ADB of the grant not exceeding the equivalent of \$4,400,000 to the Kingdom of Cambodia for the Greater Mekong Subregion Southern Economic Corridor Towns Development Project, to be provided by the ADB Strategic Climate Fund; and
- (iv) the administration by ADB of the grant not exceeding the equivalent of \$1,500,000 to the Kingdom of Cambodia for the Greater Mekong Subregion Southern Economic Corridor Towns Development Project, to be provided by the Urban Environmental Infrastructure Fund under the Urban Financing Partnership Facility.

Haruhiko Kuroda
President

19 November 2012

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
<p>Impact The towns of Battambang, Bavet, Neak Loeung, and Poipet will become centers of economic activity in the Southern Economic Corridor</p>	<p>By 2023</p> <p>In project towns (represented by provincial data), trade services increased from 8.4% of GDP in 2007 to 18.4%; transport and communication services increased from 6.9% of GDP in 2007 to 16.9%; hotels and restaurant services increased from 4.3% of GDP in 2007 to 14.3%</p> <p>Employment opportunities^a for women increased from 52% in 2012 to 53.5% (nationally)</p> <p>Flood-affected population in Battambang and Neak Loeung reduced by 30% of regularly affected population (50,400 in 2012)</p>	<p>National statistics</p> <p>Annual socioeconomic data of the government, i.e., National Institute of Statistics, 2009.</p> <p>General Population Census of Cambodia, 2008</p> <p>National business data</p> <p>Project progress reports with employment impact data of female participants</p> <p>Labor data school attendance records (reported incidence of sick days, i.e., missed work and missed school)</p> <p>Annual socioeconomic surveys disaggregated by sex</p>	<p>Assumption Government remains fully committed to the project</p> <p>Risk Corridor towns unable to collect revenue for wastewater treatment plants, sanitary landfill, and solid waste management</p>
<p>Outcome Urban infrastructure improved and climate resilience enhanced in Battambang, Bavet, Neak Loeung, and Poipet</p>	<p>From 2013 to 2018</p> <p>Improved access to urban infrastructure affects 558,220 inhabitants (cumulative figure) in four project towns</p> <p>Annual economic impact of poor sanitation, accounting for a loss of \$33 in 2005 per capita per year, reduced by 40%</p> <p>Urban areas affected by perennial flooding reduced by 30%</p>	<p>Provincial, district, and town statistics</p>	<p>Assumption The government remains committed to sustainable management of urban infrastructure as a national development priority</p> <p>Risk Municipalities not yet fully prepared to collect revenues for the operation and maintenance of urban infrastructure.</p>
<p>Outputs 1. SLEDPs adopted and implemented in Battambang, Bavet, Neak Loeung, and Poipet</p>	<p>By 2018</p> <p>SLEDPs with sex-specific and climate-resilience measures incorporated, adopted, and disclosed; updated as required</p> <p>Baseline: 2010 no such development plans available</p> <p>Gender awareness and sensitization training conducted for 30 executing and implementing agency staff</p>	<p>Local development plans of implementing agencies and corridor towns</p>	<p>Assumptions Local authorities endorse the SLEDPs and associated budgets</p> <p>Women's participation in SLEDP preparation increased, women's needs identified through participatory processes and reflected in the SLEDPs</p> <p>Environmental and social risks can be mitigated</p>

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
<p>2. Priority urban infrastructure investments implemented</p> <p>Battambang</p> <p>(i) Wastewater treatment (PPCR)</p> <p>(ii) Flood control (PPCR)</p> <p>(iii) Materials recovery facility</p> <p>Bavet</p> <p>(iv) Wastewater treatment (PPCR)</p> <p>(v) Urban roads</p> <p>(vi) Materials recovery facility</p> <p>Neak Loeung</p> <p>(vii) Flood protection (PPCR)</p> <p>Poipet</p> <p>(viii) Wastewater treatment (PPCR)</p> <p>(ix) Solid waste management</p> <p>(x) Materials recovery facility</p>	<p>Priority infrastructure operational by 2018</p> <p>30% of construction workers hired under the project are female</p> <p>(i) 52,000 residents serviced by new and rehabilitated wastewater treatment plants (capacity 2,800 m³/day). Flood events of facility reduced (based on 50-year flood frequency)</p> <p>(ii) Flood events of city center, near river, reduced (based on 50-year flood frequency), benefiting 15,120 persons</p> <p>(iii) 30 m³ of recyclables per day segregated benefiting 128,000 residents</p> <p>(iv) 29,000 residents serviced by wastewater treatment plant (capacity 255 m³/day); flood events of facility reduced (based on 50-year flood frequency)</p> <p>(v) 8 km of main urban road upgraded with drainage structures, benefiting 37,100 residents</p> <p>(vi) 30 m³ of recyclables per day segregated, benefiting 24,000 residents</p> <p>(vii) 5.4 km flood protection dike constructed; 363 ha of residential and commercial areas protected from annual flooding (based on 50-year flood frequency), benefiting 24,700 residents</p> <p>(viii) 65,000 residents serviced by wastewater treatment plants (capacity 16,400 m³/day). flood events of facility reduced (based on 50-year flood frequency)</p> <p>(ix) 20 tons/day of solid waste deposited in sanitary landfill, benefiting 58,600 residents</p> <p>(x) 30 m³ of recyclables from dry sources segregated, benefiting 58,600</p>	<p>Subproject completion reports of implementing agencies</p> <p>Quarterly and annual progress reports of implementing agencies</p> <p>Local authorities' statistical data</p>	<p>Priority infrastructure will promote gender equality and/or women's empowerment by improving women's access to, and use of opportunities, services, resources, and assets; and contribute to increased participation in decision making</p> <p>Capacity development activities take gender balance into account</p> <p>Specific training on gender aspects and issues provided to all staff of executing and implementing agencies and project implementing units</p> <p>Risks</p> <p>Procurement and corruption risks do exist.</p>

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks																																																
3. Institutional capacity strengthened	<p>By 2018</p> <p>2,000 people trained in project management and implementation, financial management, procurement, and social and environment safeguards; gender targets achieved: staff quota of 30% women in the PMU and PIU with increased role in decision making</p> <p>Memorandum of agreement signed between implementing agencies and district and corridor town authorities on subproject O&M and climate resilience measures</p> <p>Women hold 30% of overall staff positions and 30% of the management positions in the PMU and PIU</p>	<p>Executing and implementing agency records of capacity building and training events (disaggregated by sex);</p> <p>Number of staff (by gender) before and after project implementation</p> <p>Community capacity building for increased gender awareness and participation of women in local decision-making</p>	<p>Risks</p> <p>Delayed or incomplete settlement of land acquisition and resettlement entitlements</p> <p>Lack of municipal quality control and performance evaluation</p>																																																
<p>Activities with Milestones</p> <p>1. Four SLEDPs adopted and implemented</p> <p>1.1 Adopt four SLEDPs, with gender-specific measures incorporated, by 2014</p> <p>1.2 Update SLEDPs as required by 2018</p> <p>2. Urban infrastructure investments implemented</p> <p>2.1 Complete detailed design by Q4 2013</p> <p>2.2 Complete land acquisition and resettlement by Q2 2014</p> <p>2.3 Conduct prequalification and bidding by Q3 2013</p> <p>2.4 Sign contract by Q4 2013</p> <p>2.5 Complete civil works by Q4 2016</p> <p>3. Institutional capacities strengthened</p> <p>2.1. Conduct capacity needs assessment and update capacity development plan Q3 2013</p> <p>2.2. Conduct public awareness and information campaign program Q2 2014</p> <p>2.3. Conduct training needs assessment related to female employment opportunities triggered by the project, by 2014</p> <p>2.4. Prepare capacity building modules and training manuals for project management, procurement and financial disbursement, and monitoring and evaluation by Q2 2014</p> <p>2.5. Establish networks and coordination with training institutions and human resource development learning centers for capacity development</p> <p>2.6. Implement institutional capacity development plan from 2013 to 2016</p>		<table border="1"> <thead> <tr> <th data-bbox="985 846 1300 930">Inputs</th> <th data-bbox="1300 846 1442 930">Amount (\$ million)</th> </tr> </thead> <tbody> <tr> <td colspan="2" data-bbox="985 930 1442 961">ADB loan: \$37 million</td> </tr> <tr> <td data-bbox="985 961 1300 989">Civil works</td> <td data-bbox="1300 961 1442 989">28.41</td> </tr> <tr> <td data-bbox="985 989 1300 1016">Consulting services</td> <td data-bbox="1300 989 1442 1016">4.40</td> </tr> <tr> <td data-bbox="985 1016 1300 1043">Contingencies</td> <td data-bbox="1300 1016 1442 1043">3.28</td> </tr> <tr> <td data-bbox="985 1043 1300 1071">Interest during construction</td> <td data-bbox="1300 1043 1442 1071">0.90</td> </tr> <tr> <td colspan="2" data-bbox="985 1071 1442 1129">ADB Strategic Climate Fund loan: \$5 million</td> </tr> <tr> <td data-bbox="985 1129 1300 1157">Civil works</td> <td data-bbox="1300 1129 1442 1157">3.78</td> </tr> <tr> <td data-bbox="985 1157 1300 1184">Consulting services</td> <td data-bbox="1300 1157 1442 1184">0.76</td> </tr> <tr> <td data-bbox="985 1184 1300 1211">Contingencies</td> <td data-bbox="1300 1184 1442 1211">0.45</td> </tr> <tr> <td data-bbox="985 1211 1300 1239">Interest during construction</td> <td data-bbox="1300 1211 1442 1239">0.01</td> </tr> <tr> <td colspan="2" data-bbox="985 1239 1442 1297">ADB Strategic Climate Fund grant: \$4.4 million</td> </tr> <tr> <td data-bbox="985 1297 1300 1325">Civil works</td> <td data-bbox="1300 1297 1442 1325">3.27</td> </tr> <tr> <td data-bbox="985 1325 1300 1352">Consulting services</td> <td data-bbox="1300 1325 1442 1352">0.73</td> </tr> <tr> <td data-bbox="985 1352 1300 1379">Contingencies</td> <td data-bbox="1300 1352 1442 1379">0.40</td> </tr> <tr> <td colspan="2" data-bbox="985 1379 1442 1438">Urban Environmental Infrastructure Fund grant: \$1.5 million</td> </tr> <tr> <td data-bbox="985 1438 1300 1465">Civil works</td> <td data-bbox="1300 1438 1442 1465">1.25</td> </tr> <tr> <td data-bbox="985 1465 1300 1493">Consulting services</td> <td data-bbox="1300 1465 1442 1493">0.11</td> </tr> <tr> <td data-bbox="985 1493 1300 1520">Contingencies</td> <td data-bbox="1300 1493 1442 1520">0.14</td> </tr> <tr> <td colspan="2" data-bbox="985 1520 1442 1579">Government of Cambodia: \$6.87 million</td> </tr> <tr> <td data-bbox="985 1579 1300 1606">Civil works</td> <td data-bbox="1300 1579 1442 1606">4.08</td> </tr> <tr> <td data-bbox="985 1606 1300 1633">Consulting services</td> <td data-bbox="1300 1606 1442 1633">0.67</td> </tr> <tr> <td data-bbox="985 1633 1300 1661">Land acquisition and resettlement</td> <td data-bbox="1300 1633 1442 1661">1.55</td> </tr> <tr> <td data-bbox="985 1661 1300 1688">Contingencies</td> <td data-bbox="1300 1661 1442 1688">0.57</td> </tr> </tbody> </table>		Inputs	Amount (\$ million)	ADB loan: \$37 million		Civil works	28.41	Consulting services	4.40	Contingencies	3.28	Interest during construction	0.90	ADB Strategic Climate Fund loan: \$5 million		Civil works	3.78	Consulting services	0.76	Contingencies	0.45	Interest during construction	0.01	ADB Strategic Climate Fund grant: \$4.4 million		Civil works	3.27	Consulting services	0.73	Contingencies	0.40	Urban Environmental Infrastructure Fund grant: \$1.5 million		Civil works	1.25	Consulting services	0.11	Contingencies	0.14	Government of Cambodia: \$6.87 million		Civil works	4.08	Consulting services	0.67	Land acquisition and resettlement	1.55	Contingencies	0.57
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ADB = Asian Development Bank, GDP = gross domestic product, ha = hectare, km = kilometer, m³ = cubic meter, PIU = project implementation unit, PMU = project management unit, PPCR = Pilot Program for Climate Resilience, Q = quarter, SLEDP = strategic local economic development plan.

^a Refers to outcomes from a strategy that the corridor towns development project undertakes for local employment capture, particularly for vulnerable groups that might otherwise be excluded. This refers to female employment in economic growth opportunities generated by the project, including construction, market trading, solid waste management, and recycling.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://adb.org/Documents/RRPs/?id=43319-033-3>

1. Loan Agreement: Special Operations
2. Loan Agreement: Strategic Climate Fund
3. Grant Agreement: Urban Environmental Infrastructure Fund under the Urban Financing Partnership Facility
4. Grant Agreement: Strategic Climate Fund
5. Sector Assessment (Summary): Water Supply and Other Municipal Infrastructure and Services
6. Project Administration Manual
7. Contribution to the ADB Results Framework
8. Development Coordination
9. Financial Analysis
10. Economic Analysis
11. Country Economic Indicators
12. Summary Poverty Reduction and Social Strategy
13. Gender Action Plan (Summary)
14. Initial Environmental Examination: Battambang, Bavet, Neak Loeung, and Poipet Subprojects
15. Initial Environmental Examination: Environmental Management Plan for Battambang Subproject
16. Initial Environmental Examination: Environmental Management Plan for Bavet Subproject
17. Initial Environmental Examination: Environmental Management Plan for Neak Loeung Subproject
18. Initial Environmental Examination: Environmental Management Plan for Poipet Subproject
19. Resettlement Plan: Battambang Wastewater Treatment
20. Resettlement Plan: Neak Loeung Flood Control
21. Resettlement Plan: Poipet Wastewater Treatment Plant and Solid Waste Management
22. Risk Assessment and Risk Management Plan

Supplementary Document

23. Climate Resilience Measures (Summary)