Report and Recommendation of the President to the Board of Directors

Project Number: 50101-002
September 2019

Proposed Loans, Grant, and Administration of Grant Kingdom of Cambodia: Third Rural Water Supply and Sanitation Services Sector Development Program

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Asian Development Bank
CURRENCY EQUIVALENTS

(as of 15 August 2019)

Currency unit – riel (KR)
KR1.00 = $0.00024
$1.00 = KR4,079.2

ABBREVIATIONS

ADB – Asian Development Bank
CCA – climate change adaptation
DRM – disaster risk management
HLTF – High-Level Technology Fund
MRD – Ministry of Rural Development
O&M – operation and maintenance
PAM – project administration manual
PDRD – Provincial Department of Rural Development
RWSS – rural water supply and sanitation
RWSSHS – Rural Water Supply, Sanitation and Hygiene Strategy
SDP – sector development program
UNICEF – United Nations Children’s Fund
WSUG – water and sanitation user group

NOTE

In this report, “$” refers to United States dollars.
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# PROGRAM AT A GLANCE

## 1. Basic Data

<table>
<thead>
<tr>
<th>Project Name</th>
<th>Project Number: 50101-002</th>
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<tr>
<td>Third Rural Water Supply and Sanitation Services Sector Development Program</td>
<td>Department/Division: SERD/SEUW</td>
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<tr>
<td>Country</td>
<td>Executing Agency: Ministry of Rural Development</td>
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<tr>
<td>Cambodia</td>
<td></td>
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</tbody>
</table>

| Borrower | |
|----------||
| Cambodia | |

## 2. Sector

<table>
<thead>
<tr>
<th>Subsector(s)</th>
<th>Financing ($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Water and other urban infrastructure and services</td>
<td>49.00</td>
</tr>
</tbody>
</table>

### Subsector(s)
- Urban policy, institutional and capacity development
- Urban sanitation
- Urban water supply

## 3. Strategic Agenda

### Subcomponents
- Inclusive economic growth (IEG)
- Environmentally sustainable growth (ESG)

### Climate Change Information
- Climate Change impact on the Project: Medium
- ADB Financing: Adaptation ($ million): 5.20
- Cofinancing: Adaptation ($ million): 1.00

## 4. Drivers of Change

### Components
- Partnerships (PAR): International finance institutions (IFI)
- Private sector development (PSD): Conducive policy and institutional environment

### Gender Equity and Mainstreaming
- Effective gender mainstreaming (EGM): ✓

## 5. Poverty and SDG Targeting

### Geographic Targeting
- No

### Household Targeting
- No

### General Intervention on Poverty
- Yes

### SDG Targeting
- Yes

### SDG Goals
- SDG1, SDG5, SDG6, SDG10, SDG12, SDG13

### Location Impact
- Rural: High

## 6. Risk Categorization:
- Low

## 7. Safeguard Categorization
- Environment: B
- Involuntary Resettlement: C
- Indigenous Peoples: B

## 8. Financing

### Modality and Sources

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount ($ million)</th>
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<tr>
<td>ADB</td>
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<tr>
<td>Sovereign SDP - Sector grant: Asian Development Fund</td>
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<tr>
<td>Sovereign SDP - Program (Concessional Loan): Ordinary capital resources</td>
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<td>Sovereign SDP - Sector Loan (Concessional Loan): Ordinary capital resources</td>
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<tr>
<td>Cofinancing</td>
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<td>High-Level Technology Fund (Grant, Full ADB Administration)</td>
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</tr>
<tr>
<td>Counterpart</td>
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<tr>
<td>Government</td>
<td>2.87</td>
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<tr>
<td>Total</td>
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**Currency of ADB Financing:** USD
Third Rural Water Supply and Sanitation Services Sector Development Program

This map was produced by the cartography unit of the Asian Development Bank. The boundaries, colors, denominations, and any other information shown on this map do not imply, on the part of the Asian Development Bank, any judgment on the legal status of any territory, or any endorsement or acceptance of such boundaries, colors, denominations, or information.
I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed project loan and grant, and a policy-based loan to the Kingdom of Cambodia for the Third Rural Water Supply and Sanitation Services Sector Development Program. The report also describes the proposed administration of a grant to be provided by the High-Level Technology Fund (HLTF) and, if the Board approves the proposed loans and grant, I, acting under the authority delegated to me by the Board, approve the administration of the HLTF grant.

2. The sector development program (SDP) will support the efforts of the Government of Cambodia to provide universal access to improved water supply and sanitation services, and achieve safe hygiene behavior in rural areas by 2025. The SDP comprises (i) a project, financed by a loan and grants, to expand rural water supply and sanitation (RWSS) services in at least 11 districts across 10 provinces; and (ii) a program, financed by a policy-based loan, to support governance and institutional improvements in RWSS planning, financing, and service delivery.

II. THE SECTOR DEVELOPMENT PROGRAM

A. Rationale

3. Economic outlook. Cambodia has made significant strides in economic development. Its per capita gross domestic product increased fivefold from $300 in 2000 to $1,500 in 2018. Economic growth in 2018 remained strong at 7.3% of its Gross Domestic Product (GDP), fueled by expanding tourism and strong foreign direct investment. Given the strong link between economic growth and the provision of basic services, the government plans to ensure that all rural residents, who account for about 77% of the country’s total population of 16 million, will have access to improved water supply and sanitation services by 2025.

4. Limited access to rural water supply and sanitation services. In 2017, access to improved water supply in rural areas stood at 73%, but only 11% of that water supply was piped. Rural residents spend considerable time and financial resources on acquiring their daily drinking water from distant water sources, collecting rainwater, or having it delivered to their homes. Access to improved sanitation was at 56% in rural areas, and about 41% of rural residents are still practicing open defecation. Inequalities in access by income status are large. For example,
among the poorest income quintile of the rural population, only 21% had access to improved sanitation, while access was at 100% in the richest income quintile.  

5. Impacts on health. Diarrhea, which often results from poor sanitation and hygiene, is a major cause of children’s illnesses, including stunting and impaired brain development. It is the second largest cause of infant and under-five mortality in Cambodia, which is the highest in Southeast Asia. About 30% of children under the age of five has stunted growth, and the prevalence of stunting is 10% higher among children born to mothers from the poorest income quintile (42%). Studies also suggest that open defecation harms the physical and cognitive development of children, drawing attention to the need for improving RWSS services.

6. Climate change and disaster risks. Flooding and drought are major meteorological hazards in Cambodia. In 2011, floods affected more than 1.5 million people in 18 of the 24 provinces, including four provinces along the Mekong River and the Tonle Sap Lake, which suffered the heaviest damage. The total damage caused by floods was estimated to be more than 1% of the country’s gross domestic product. In 2013, floods affected 1.5 million people and claimed 168 lives in 20 provinces. In 2015 and 2016, droughts caused less rainfall, warmer weather, and delayed or shortened monsoon rains, affecting about 2.4 million people. Cambodia is also exposed to climate change risks with increased flooding and prolonged droughts, which may affect the quality of RWSS services.

7. Institutional arrangements for rural water supply and sanitation services. The Ministry of Rural Development (MRD) is the lead agency for RWSS and rural hygiene, through its Department of Rural Health Care and the Department of Rural Water Supply. The Ministry of Health is responsible for providing adequate water, sanitation, and handwashing facilities in health centers, in coordination with the MRD. The Ministry of Water Resources and Meteorology issues the permits required for the abstraction of a defined volume of water. The Ministry of Education, Youth and Sports is responsible for providing sanitation in schools, in coordination with the MRD. At present, Cambodia has no structured approach to tariff setting for RWSS services, and cost recovery is based on expenditures incurred by the service providers or based on the agreed tariff set by the water and sanitation user groups (WSUGs).

8. Limitations of current institutional arrangements. Cambodia has made progress in reforming the policy, legal, and institutional framework for decentralized RWSS service provision. However, the sustainable delivery of services is still hampered by structural shortcomings, including incomplete decentralization reforms. The MRD has not fully decentralized staff and functions; communities lack adequate guidelines and support to operate and maintain RWSS facilities; and private sector participation is limited to water supply services in a few towns and villages because legislation that properly governs private involvement in the RWSS service provision does not exist.

9. Weak planning and governance functions. Despite broader access to improved RWSS services, the government has not been able to develop a unified registry of RWSS facilities and assets, or a comprehensive information system. The RWSS databases that do exist are scattered and fragmented, and not publicly accessible, making it difficult to obtain accurate information.

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10 Decentralization is expected to improve service delivery since district administrations have better knowledge of the local needs and the decision-making process can be faster.
when planning investments in RWSS facilities or allocating sufficient resources for their operation and maintenance (O&M).

10. **Inadequate fiscal resources.** To meet the target of universal RWSS coverage by 2025, the government would need about $70.0 million annually to create the necessary infrastructure. However, the annual budget allocation to RWSS has been only $1.5 million on average from 2008 to 2019. Moreover, while about $8.0 million a year would be required to ensure proper O&M of RWSS facilities, the annual budget allocation has been only $0.5 million.

11. **Government initiative to improve services and sector reforms.** The government, with the support from development partners and nongovernment organizations, made significant progress in increasing access to improved RWSS services. It boosted the coverage of rural water supply from 48% in 2000 to 73% in 2017, and the coverage of rural sanitation services from 4% in 2000 to 56% in 2017 (footnote 8). It also issued the Rural Water Supply, Sanitation and Hygiene Strategy (RWSSHS), 2014–2025 with the aim of achieving universal access to safe water supply and improved sanitation, and safe hygiene behavior in rural areas by 2025 (footnote 2). The MRD issued a national action plan as a time-bound operational plan to meet the RWSSHS objectives.

12. Both the RWSSHS and the action plan include specific decentralization targets per the government’s wider program of subnational reforms, initiated in 2001 and scaled up under the Law on Administrative Management of Capital, Provinces, Municipalities, Districts and Khan, 2008. The government’s approach to sector reform includes decentralizing the O&M of facilities to district administrations in accordance with the National Program for Subnational Democratic Development, 2010–2019. Since 2016, the MRD has been voluntarily transferring to district administrators the O&M functions for rural sanitation, hygiene, and water supply. This has been piloted in seven districts with the aim of scaling up the transfer as a next step.

13. **Asian Development Bank (ADB) support to service improvements.** Since 2005, three ADB-supported RWSS interventions totaling $54 million collectively improved water supply for about 1 million people and sanitation for about 500,000 in more than 1,300 villages around Tonle Sap Lake. This translates into 8% of Cambodia’s rural population of 12.3 million gaining access to water supply and 4% gaining access to sanitation services.

14. **ADB and development partners’ support to policy reforms.** ADB helped strengthen Cambodia’s RWSS policy by assisting the government’s efforts of decentralization and capacity improvements with two subprograms. Between 2008 and 2016, subprogram 1 supported the pilot devolvement of RWSS O&M to district administrations, and subprogram 2 supported further decentralization of RWSS investment functions to district administrations.

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12 The subnational reform (decentralization) was initiated with the issuance of the Law on Commune and Sangkat Administration Management in 2001.

13 This includes (i) O&M of water supply facilities; and (ii) training and community development in sanitation, health, and hygiene matters.

14 During the pilot, district administrations made progress on some of the newly delegated functions. However, late transfer of funding from the MRD and limited human resources hampered the full implementation of the functions.


15. The World Bank provided 3-year technical assistance (2013–2015) focusing on building the capacities of national government agencies to manage, plan, and develop a policy for the overall RWSS segment; and of subnational agencies to deliver RWSS services in line with the decentralization reform. In 2013, the United Nations Children's Fund (UNICEF) and the Global Sanitation Fund assisted the MRD in developing an RWSS monitoring and evaluation framework by analyzing the quality of RWSS facilities and the institutional arrangements for service delivery. These efforts contributed to the design and implementation of the government’s RWSS reforms.

16. **Sector development program components and design feature.** The SDP is the most appropriate modality, given the need for both an investment project and a reform program to help achieve the RWSSHS development targets by 2025 and implement the national action plan for 2019–2023 in an integrated manner. The investment project will reduce gaps in access to RWSS services by constructing new or rehabilitating existing RWSS facilities. The reform program will support institutional and governance reforms to create a more efficient RWSS planning mechanism; strengthen institutional capacities, particularly at the subnational level; encourage private sector participation in RWSS service provision; and enhance the resilience of RWSS facilities.

17. **The project component.** The project component will expand RWSS access in at least 11 districts in 10 provinces (footnote 3), benefiting about 400,000 people. The project will use a sector lending approach since (i) the government has a clear development plan targeting broader RWSS coverage by 2025 to meet sector priorities; (ii) links with the previous RWSS projects (footnote 15) are strong; (iii) the MRD has performed well in the previous RWSS projects; and (iv) the policies applicable to the sector are appropriate and will be improved as the project progresses with support from the program component. Subprojects with (i) RWSS services coverage below the national average, (ii) high poverty levels, and (iii) no overlapping RWSS projects financed by other development partners or non-government organizations will be eligible for project financing. The detailed selection criteria of subprojects are in the PAM (footnote 3).

18. **The program component.** The program will cover policy reforms to address (i) inefficient RWSS planning systems, (ii) limited authority and capacity of district administrations to deliver RWSS services, (iii) poor RWSS asset inventory and management systems, (iv) limited private sector involvement, and (v) the need to include climate change adaptation (CCA) and disaster risk management (DRM) approaches in the RWSS planning process to enhance the resilience of RWSS facilities.

19. **Lessons.** The SDP’s design benefits from the following lessons from ADB’s three earlier RWSS interventions (footnote 15) in Cambodia: (i) ensure greater focus on addressing gender inequality and supporting women’s leadership to overcome cultural norms; (ii) develop equitable solutions to meet increases in the cost of community-based small piped water supply facilities; and (iii) introduce CCA and DRM measures to mitigate the impact of climate change and natural

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18 Exposure to previous ADB-financed projects has improved MRD’s project management capacity. In the first project, implementation was hampered by MRD’s limited capacity, resulting in the project closing date being extended. In the third project, the implementation has benefited from strengthened capacity, and is likely to be completed on time.
20 “Subproject” refers to project activities at the commune level (e.g., all project activities in a commune are deemed one subproject). Of the 40 targeted subprojects, 15 were appraised during preparation. The project will be implemented in four batches of subprojects, with the first batch consisting of 15 representative subprojects.
hazards on the quality of RWSS services.\footnote{ADB. 2011. Completion Report: Tonle Sap Rural Water Supply and Sanitation Sector Project. Manila; progress reports of the subsequent two projects (footnote 15); and Summary of Lessons Learned (accessible from the list of linked documents in Appendix 2).} Advance procurement of civil works and consulting services helped ensure the timely completion of the first project. A similar approach will be adopted under the project component of the SDP.

20. **Strategic alignment.** The SDP will contribute to the government’s efforts to achieve universal coverage of improved water supply and sanitation services by 2025. The SDP is aligned with pillars 1 (accelerate competitiveness and economic diversification) and 4 (improve governance) of ADB’s draft country partnership strategy, 2019–2023 for Cambodia, and is included in ADB’s country operations business plan, 2019-2021.\footnote{ADB. 2019. Draft Country Partnership Strategy: Cambodia, 2019–2023. Manila; and ADB. 2019. Country Operations Business Plan: Cambodia, 2019–2021. Manila.} The SDP is also in line with ADB’s Strategy 2030 and its operational priority (OP) 5 (promoting rural development), OP 2 (accelerating progress in gender equality), and OP 6 (strengthening governance and institutional capacity).

21. **Development partner coordination.** ADB is the largest contributor to infrastructure development in Cambodia’s water supply and sanitation segments, both urban and rural, and provides about 25% of the total externally financed aid for RWSS service provision. UNICEF is a key development partner for water supply, sanitation, and hygiene, and the lead development partner in the technical working group for RWSS and hygiene.\footnote{Details of development partner coordination are in the Sector Assessment (Summary) (accessible from the list of linked documents in Appendix 2).} ADB coordinated the assessment and design of the SDP with the development partners, including the International Monetary Fund.

**B. Sector Development Program Description**

22. The SDP’s impact is aligned with the government’s and the RWSSHS’s target of universal access to safe water supply and sanitation services in Cambodia by 2025. The SDP’s outcome is universal access to safe and uninterrupted RWSS services in the participating districts.

1. **Output 1: Rural water supply infrastructure and services improved and expanded**

23. The project will rehabilitate rural water supply facilities that are damaged by age or natural hazards, and build new ones in at least 11 districts in 10 provinces (about 2,500 rural water facilities in at least 400 villages in 40 communes). Selected schools and health centers in the participating districts will also receive such facilities, based on assessed needs, to ensure that they have access to safe and uninterrupted water services. With financing support from the HLTF, a pilot project of air-to-water generation units will be installed in seven locations that now have limited access to safe drinking water, particularly during dry seasons.\footnote{Air-to-water generation is the process of converting water vapor in the air (humidity) to water. Atmospheric water generators replicate this natural process of condensation by simulating the dew point, which allows them to make water continuously, even in low-humidity conditions. The condenser transforms the vapor in the air from gas to a liquid (water) by continuously reaching the dew point with cool air.}

24. The design of the facilities will incorporate the CCA and DRM principles to reduce the impacts of natural hazards and make them more sustainable and resilient to weather shocks. Project beneficiaries will provide in-kind contributions and, prior to the implementation of works, communities will be consulted on their affordability and willingness to contribute. For example, in
villages selected for piped water supply, service connections and meters will be set up after piped water supply has become available to ensure that each house has access to it.\textsuperscript{25}

25. The program will support the target of improving rural water quality by adopting procedures to ensure that rural drinking water is routinely tested and meets government standards. The results of these quality tests will be made available publicly through annual reports to be issued by the MRD.

2. Output 2: Rural sanitation infrastructure and services improved and expanded

26. The project will build new toilets and septic facilities in households in at least 11 districts.\textsuperscript{26} It will also construct public latrines at schools and/or health centers and advocate behavior change toward hygiene and sanitation through awareness campaigns. The design of the sanitation facilities will also incorporate the CCA and DRM principles. The program will support the MRD in reducing ground water contamination by adopting the standard procedures for septic management in rural areas. Routine monitoring to ensure compliance with the standard procedure will be implemented, and results will be published in annual reports to be issued by the MRD.

3. Output 3: Institutional capacity improved

27. The project will (i) strengthen the technical, financial, management, and leadership capacity of national and participating subnational administration staff in RWSS investment planning and O&M; (ii) support the Provincial Departments of Rural Development (PDRDs) in preparing annual reports on the quality of rural drinking water as verified in routine tests; and (iii) help project districts prepare RWSS safety plans by incorporating CCA and DRM in planning and design. As part of the safety plan activities, the project will train community members and government staff on CCA and DRM principles.

28. The program will help develop and strengthen the management capacity of the MRD, its PDRDs, and the district administrations by introducing reforms to RWSS planning approaches. This involves (i) developing an RWSS master plan and updating the RWSSHS; (ii) strengthening the capacity and authority of district administrations by transferring personnel of the MRD’s district offices and delegating their functions to district administrations; (iii) developing a computerized asset registry and information management system, which will help track the progress of asset creation and the conditions of assets nationally, and assist investment planning and allocation of resources for the O&M of facilities; and (iv) encouraging private sector involvement by issuing enabling regulations and guidelines on the principles of responsibility, accountability, and transparency for private RWSS service providers.

C. Value Added by ADB

29. The project will ensure that safety plans with CCA and DRM measures are integrated in

\textsuperscript{25} In this case, the project will finance the construction of water sources and main pipelines. The WSUG will install the house connections and meters after receiving contributions from households. The project will also install public taps to enable poor households and those led by women who cannot afford house connections to have access to water.

\textsuperscript{26} The project will provide the substructure material for latrines, while the beneficiary households will contribute by providing labor and latrine superstructure materials (details as per the PAM [footnote 3]). Overall, community contributions are estimated at $3.05 million for the construction of facilities and the O&M of built facilities. However, the contributions are not included in the project cost because they are voluntary and will not involve any legal agreements between the project and community members.
RWSS designs to enhance the sustainability of RWSS services, and draw from the climate risk and disaster vulnerability analysis carried out during project preparation. The project will also pilot the installation of air-to-water generation units (footnote 24) financed under the HLTF to help villages that have limited access to safe drinking water, particularly during dry seasons. About 2,500 village residents are expected to benefit from this pilot project.

D. Summary Cost Estimates and Financing Plan

30. **Overall financing.** The SDP is estimated to cost $52.9 million. ADB will provide a policy-based loan of $15 million, an investment loan of $29.6 million, and an investment grant of $4.4 million. Grant cofinancing of $1 million from the HLTF will help fund the investment project. Table 1 summarizes the SDP’s financing plan.

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount ($ million)</th>
<th>Share of Total (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Asian Development Bank</strong></td>
<td></td>
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<tr>
<td>Ordinary capital resources (concessional policy-based loan)</td>
<td>49.0</td>
<td>92.6</td>
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<td>Ordinary capital resources (concessional project loan)</td>
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<td>Special Funds resources (Asian Development Fund) (project grant)</td>
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<td><strong>High-Level Technology Fund</strong> (project grant)</td>
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<td><strong>Government</strong> (for project only)</td>
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<tr>
<td><strong>Total</strong></td>
<td>52.9</td>
<td>100.0</td>
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</tbody>
</table>

*a* Includes $8.78 million from disaster risk reduction set-aside of concessional ordinary capital resources.

*b* To be financed by the Asian Development Fund 12 disaster risk reduction financing mechanism.


Source: Asian Development Bank estimates.

31. **Sector needs and investment plan.** The government’s projected total net borrowing requirement for 2019 is estimated at $1.2 billion. To finance the deficit, the government plans to raise about $1 billion from loans, and about $0.2 billion through grants, from official development assistance. Of the annual $70 million required to achieve universal RWSS coverage by 2025, an estimated $10.5 million is needed for institutional and policy reforms. To facilitate the reforms, an estimated $63 million will be required over the 6-year period from 2019 to 2025, which marks the end of the current RWSSHS. The proposed policy-based loan will contribute $15 million (about 23%), the government will finance $12.5 million (about 20%), and other development partners are likely to finance $35.5 million (57%).

32. **The proposed policy-based loan.** The government requested a concessional loan of $15 million from ADB’s ordinary capital resources to help finance the program. The size of the policy-based loan reflects the government’s overall financing needs, the strength of the reform, and the development expenditures arising from the program, as specified in the development policy letter (Appendix 3) and the policy matrix (Appendix 4). The policy-based loan will be disbursed in two tranches. The first tranche of $5 million will be released upon loan effectiveness. The second tranche of $10 million is expected to be released in March 2022, upon full compliance with the second-tranche conditions. The disbursement is split into two tranches because the first-tranche actions serve as the basis for the implementation of actions included in the second tranche. All policy actions will be applied nationally, i.e., beyond the project areas, to support the government in achieving universal RWSS service coverage.

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27 Climate Risk and Vulnerability Assessment (accessible from the list of linked documents in Appendix 2).

28 All policy actions under Tranche 1 have been completed.
33. **The proposed project financing.** The government requested (i) a concessional loan of $29.6 million from ADB’s ordinary capital resources, (ii) a grant of $4.4 million from ADB’s Special Funds resources, and (iii) grant cofinancing of $1.0 million from the HLTF (financed by the Government of Japan). The loan and grants total $35.0 million and will finance civil works, consulting services, capacity building, and taxes and duties for civil works and capacity building. The government will finance $2.9 million in recurrent costs, interest during construction, and tax exemption for the consulting services. Table 2 summarizes the project’s cost estimates.

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
<th>($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A.</td>
<td>Base Cost&lt;sup&gt;b&lt;/sup&gt;</td>
<td></td>
</tr>
<tr>
<td>1. Rural water supply infrastructure and services improved and expanded</td>
<td>22.9</td>
<td></td>
</tr>
<tr>
<td>2. Rural sanitation infrastructure and services improved and expanded</td>
<td>3.2</td>
<td></td>
</tr>
<tr>
<td>3. Institutional capacity improved</td>
<td>5.6</td>
<td></td>
</tr>
<tr>
<td>Subtotal (A)</td>
<td>31.7</td>
<td></td>
</tr>
<tr>
<td>B.</td>
<td>Contingencies&lt;sup&gt;c&lt;/sup&gt;</td>
<td>5.3</td>
</tr>
<tr>
<td>C.</td>
<td>Financial Charges During Implementation&lt;sup&gt;d&lt;/sup&gt;</td>
<td>0.9</td>
</tr>
<tr>
<td>Total (A+B+C)</td>
<td>37.9</td>
<td></td>
</tr>
</tbody>
</table>

<sup>a</sup> In mid-2019 prices as of 30 June 2019.  
<sup>b</sup> Includes taxes and duties of $2.7 million, of which $2.1 million will be financed by the ADB loan and $0.1 million will be financed by the High-Level Technology Fund. Such amount does not represent an excessive share of the project cost. The government will finance taxes of $0.5 million through exemption (for consulting services and expenditures financed by the Special Funds resources). The disaster risk reduction grant will finance the civil works and goods for sanitation, and the consulting services for capacity development.  
<sup>c</sup> Physical contingencies computed at 12% for civil works, and 7% for consulting services, project management, equipment and machinery, and capacity building. Price contingencies computed at 1.5%–1.6% on foreign exchange costs and 2.6%–3.5% on local currency costs; includes provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.  
<sup>d</sup> Interest during construction has been computed at 1% over a grace period of 8 years.  
Source: Asian Development Bank estimates.

34. The project is considered at medium risk from climate change and disasters. The CCA measures are estimated at $6.2 million, of which ADB will finance $5.2 million and the HLTF will cover $1.0 million. ADB will fully finance the DRM measures estimated to cost $13.2 million.

E. **Implementation Arrangements**

35. The implementation arrangements are summarized in Table 3 and described in detail in the PAM (footnote 3).

<table>
<thead>
<tr>
<th>Table 3: Implementation Arrangements</th>
<th>Arrangements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aspect</td>
<td>Policy-Based Loan</td>
</tr>
<tr>
<td>Implementation period</td>
<td>June 2019–September 2021</td>
</tr>
<tr>
<td>Estimated completion date</td>
<td>31 March 2022</td>
</tr>
<tr>
<td>Estimated loan and grant closing date</td>
<td>31 March 2022</td>
</tr>
</tbody>
</table>

Management  
(i) Oversight body  
Project Steering Committee  
Chair: Ministry of Rural Development  
Members: Ministry of Economy and Finance, and the Provincial Departments of Rural Development of the 10 participating provinces  
(ii) Executing agencies  
Ministry of Rural Development
<table>
<thead>
<tr>
<th>Aspect</th>
<th>Arrangements</th>
</tr>
</thead>
<tbody>
<tr>
<td>(iii) Key implementing agencies</td>
<td>Department of Rural Water Supply (project coordination unit)</td>
</tr>
<tr>
<td>(iv) Implementation units</td>
<td>10 provincial project teams (one each at the 10 Provincial Departments of Rural Development)</td>
</tr>
<tr>
<td>Procurement (civil works, workshops, training, goods)</td>
<td>Open competitive bidding, request for quotations</td>
</tr>
<tr>
<td></td>
<td>Multiple contracts</td>
</tr>
<tr>
<td>Consulting services (project implementation consultant and project auditors)</td>
<td>Quality- and cost-based selection (80:20), consultant qualification selection</td>
</tr>
<tr>
<td></td>
<td>356 person–months</td>
</tr>
<tr>
<td>Advance contracting</td>
<td>Advance contracting for the project implementation consultant, and civil works and goods for the first batch of subprojects (footnote 20)</td>
</tr>
<tr>
<td>Disbursement</td>
<td>The loan and grant proceeds will be disbursed following the Loan Disbursement Handbook (2017, as amended from time to time) of the Asian Development Bank, and detailed arrangements agreed between the government and the Asian Development Bank.</td>
</tr>
</tbody>
</table>

Sources: Asian Development Bank and Ministry of Rural Development estimates.

36. **Project readiness.** The project has initiated advance actions to recruit the project implementation consultant and to tender procurement-ready subprojects under the first of four subproject batches (footnote 20). Contracts are expected to be awarded shortly after the loans and grants have been declared effective.

### III. DUE DILIGENCE

A. **Technical**

37. Feedback from previous project beneficiaries on the equipment, facilities, and technologies used have led to the development of tried-and-tested standard designs, which are selected based on the prevailing conditions at each commune and village. These designs have proven to be robust, durable, technically viable, and well received by the communities. The project will scale up the designs proven to be compatible with local conditions, and build community capacity for O&M. Location and design features of RWSS facilities will factor in climate change and disaster risk considerations, specifically to provide better protection against flood damage and potential contamination from latrines during flooding. Additional refinements will be made as more emphasis is placed on sustainability, CCA, and DRM.

B. **Economic and Financial Viability**

38. The economic benefits of the project component were quantified in terms of health benefits. The economic analysis was done by conducting a cost–benefit analysis over the project period, calculating the economic net present value and economic internal rate of return, and carrying out sensitivity analysis to assess the impact of changes in key variables. The project benefit is estimated at $57.3 million, and the economic net present value is estimated at $32.3 million. The economic internal rate of return is 22.0%, which is above the economic opportunity cost of capital at 9.0%, indicating significant economic returns. The results of the sensitivity analysis ranged from 18.7% to 21.9%, and are deemed satisfactory under all scenarios. As the project is not generating income, the financial analysis focused on assessing the project’s financial sustainability.

C. **Sustainability**

39. The estimated annual O&M cost of $365,000 will be shouldered by the 100,000 benefiting households, implying that each household will be required to contribute $3.65 annually through
the WSUG. Historical data on funds collected by WSUGs under the previous projects (footnote 15) indicate that households can afford this cost, which establishes the financial sustainability of the project. Following the government’s policies on O&M of RWSS facilities, a WSUG will be established for each facility built. The institutional arrangement, roles, and responsibilities of the WSUGs will be in accordance with guidelines issued by the MRD. Details of the WSUGs’ tasks, roles, and arrangements are provided in the PAM (footnote 3).

D. Governance

40. The procurement risk is rated medium because the MRD and the Ministry of Economy and Finance provided satisfactory procurement supervision under the previous projects (footnote 15). This is expected to continue given that the same team will undertake project implementation and that the nature of procurement remains unchanged, i.e., involving small civil works and/or goods contracts. The procurement of civil works and goods and selection of consultants will be implemented according to the ADB Procurement Policy (2017) and the Procurement Regulations for ADB Borrowers (2017), as amended from time to time.

41. Financial management assessments. The financial management risk is rated substantial because of the low capacity of MRD and PDRD staff for accounting and financial reporting, the presence of manual data inputs in financial reporting, and a poor internal audit function. To mitigate this risk, the project will finance training sessions, system enhancements, and improvements to the scope of internal audit. The financial management risk for this project is also affected by the lack of an acceptable and fully adopted accounting standard in Cambodia’s public sector. ADB and other development partners are supporting the government in developing national financial reporting standards that fully align with the International Public Sector Accounting Standards.

42. ADB’s Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government and the MRD. The specific policy requirements and supplementary measures are described in the PAM (footnote 3).

E. Poverty, Social, and Gender

43. The SDP is classified as effective gender mainstreaming and will continue the gender mainstreaming activities begun under previous projects (footnote 15). Women and girls will benefit from time saved by not having to collect water, and from improvements to family health and quality of life. With better access to safe drinking water and sanitation, and greater awareness of hygiene, households will appreciate (i) spending less time or money on collecting or buying water; (ii) spending less time on caring for family members who fall victim to water-borne illnesses because of unsafe water supply and sanitation; and (ii) spending less on medicines.

44. Gender action plan. The SDP’s gender action plan combines (i) targets for female staffing and decision-making in RWSS and communal institutions; (ii) women’s participation in planning, design, and O&M of facilities; and (iii) actions to improve gender awareness among the implementing agencies. It places high importance on ensuring that the design of subprojects conforms to the strategic objectives and principles of the RWSSHS. The gender action plan is mindful of the mandates of the RWSSHS, particularly its aspirations to mainstream gender in RWSS service provision. The SDP will target women for decision-making positions (at least 40%).
F. Safeguards

45. In compliance with ADB’s Safeguard Policy Statement (2009), the project’s safeguard categories are detailed below.29

46. **Environment (category B).** The project involves the construction of small-scale RWSS infrastructure in villages to expand RWSS services. All subprojects are within residential areas, and environmental impacts are anticipated to be minor and localized and can be mitigated through good construction site management. The 15 representative subprojects (the first batch) are classified as category C. The overall project classification is confirmed as B.30

47. **Involuntary resettlement (category C).** Subprojects under the first batch are classified as category C for involuntary resettlement impact because they will be established on either public or privately owned land, where the infrastructure will be used based on the shared-use agreement between beneficiary households. The overall project classification is confirmed as C. RWSS facilities in the subsequent subprojects may require voluntary donation of minor portions of land and will be selected on a participatory basis by the communities.31

48. **Indigenous peoples (category B).** The poverty and social assessment, conducted as part of the project preparation, found that ethnic minorities and indigenous peoples reside in the areas where the subprojects will be implemented. The ethnic and indigenous people groups are fully integrated into mainstream society and enjoy equal rights. The project is classified category B for indigenous people impact because of the residents’ improved access to sustainable and safe water supply and sanitation. However, the first batch of subprojects does not have any impact on ethnic or indigenous people groups. An Indigenous Peoples Planning Framework32 was prepared to guide the site selection process for subprojects under batches 2–4.

G. Summary of Risk Assessment and Risk Management Plan

49. The summary of risks and mitigating measures is in Table 4 and described in detail in the Risk Assessment and Risk Management Plan.33

<table>
<thead>
<tr>
<th>Risks</th>
<th>Mitigating Measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project sustainability may be affected by the O&amp;M management capacity of WSUGs.</td>
<td>The institutional setup of WSUGs was defined by the government. The MRD will provide training to WSUGs on managing and</td>
</tr>
</tbody>
</table>

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29 ADB. Safeguard Categories. [https://www.adb.org/site/safeguards/safeguard-categories](https://www.adb.org/site/safeguards/safeguard-categories).
30 An initial environmental examination, which includes an environmental management plan, was prepared for the first batch of subprojects to provide a template for subsequent batches. An environmental assessment and review framework was prepared to guide subsequent subproject screening, assessment, monitoring, and reporting. Initial Environmental Examination, Environmental and Review Framework (accessible from the list of linked documents in Appendix 2).
31 The MRD has implemented projects covering about 1,300 villages without any land acquisition and/or resettlement impact; a similar approach will be adopted under the project component of the SDP. Landowners will have the power of choice, and another site will be selected if the owner refuses or is not qualified to donate because of the vulnerability status. A community participation framework was prepared to guide the site selection and voluntary land donation process for subsequent subprojects (batches 2, 3, and 4). The social safeguards due diligence report for the first batch subprojects and the framework are accessible from the list of linked documents in Appendix 2.
32 Any subsequent indigenous peoples plans will be disclosed upon concurrence by ADB. The Indigenous Peoples Planning Framework (accessible from the list of linked documents in Appendix 2) and the plans will ensure the involvement of ethnic minorities in deciding subprojects’ design and implementation, consultation and monitoring, as well as in sanitation and hygiene awareness campaign activities.
33 Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).
<table>
<thead>
<tr>
<th>Risks</th>
<th>Mitigating Measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial management arrangements are not properly implemented because of the MRD’s and PDRD’s limited financial management capacity in the areas of staffing, information system, and internal audit.</td>
<td>ADB and the MRD will provide training to provincial staff on financial reporting and internal audit. The scope of internal audit will be improved to focus on controls and procedures. The information system will be enhanced to eliminate manual data inputs in financial reporting. Terms of reference for audits are to be agreed with ADB to ensure that audits focus on internal control and procedures.</td>
</tr>
<tr>
<td>The project is unlikely to achieve output 2 if the beneficiaries fail to contribute the superstructure of the sanitation facility.</td>
<td>Beneficiaries will be selected based on a set of criteria that will include affordability and willingness of the beneficiaries to pay for the structure.</td>
</tr>
</tbody>
</table>

ADB = Asian Development Bank, MRD = Ministry of Rural Development, O&M = operation and maintenance, PDRD = provincial department of rural development, WSUG = water and sanitation user group.


IV. ASSURANCES

50. The government and the MRD have assured ADB that the SDP’s implementation 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 other related program documents.

51. The government and the MRD have agreed with ADB on certain covenants for the SDP, which are set forth in the draft loan and grant agreements.

V. RECOMMENDATION

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

(i) the policy-based loan of $15,000,000 to the Kingdom of Cambodia for the Third Rural Water Supply and Sanitation Services Sector Development Program, from ADB’s ordinary capital resources, in concessional terms, with an interest charge at the rate of 1.0% per year during the grace period and 1.5% per year thereafter, for a term of 24 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 project loan of $29,610,000 to the Kingdom of Cambodia for the Third Rural Water Supply and Sanitation Services Sector Development Program, from ADB’s ordinary capital resources, in concessional terms, with an interest charge at the rate of 1.0% per year during the grace period and 1.5% per year 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;

(iii) the project grant not exceeding $4,390,000 to the Kingdom of Cambodia for the Third Rural Water Supply and Sanitation Services Sector Development Program, from ADB’s Special Funds resources (Asian Development Fund), on terms and conditions that are substantially in accordance with those set forth in the draft grant agreement presented to the Board.

Takehiko Nakao
3 September 2019
President
## DESIGN AND MONITORING FRAMEWORK

**Impact the Sector Development Program is aligned with**  
Universal access to safe water supply and sanitation services in Cambodia by 2025.\(^a\)

<table>
<thead>
<tr>
<th>Results Chain</th>
<th>Performance Indicators with Targets and Baselines</th>
<th>Data Sources and Reporting Mechanisms</th>
<th>Risks</th>
</tr>
</thead>
</table>
| **Outcome**   | Universal access to safe and uninterrupted rural water supply and sanitation services in participating districts | By 2024:  
a. The cost of acquiring safe drinking water in at least 11 districts reduced by 50% (2019 baseline: $15–$20 per month per household).  
b. At least 90% of water quality tests conducted in at least 11 districts show that the quality of rural drinking water meets the standard (2019 baseline: not applicable). | a–b. District, commune council database; Ministry of Planning statistical book; and baseline and follow-up surveys in at least 11 districts. | Drought conditions beyond projected levels |
| **Outputs**   | 1. Rural water supply infrastructure and services improved and expanded | Program  
By 2021:  
1a. At least 80% of PDRDs and district administrations implement water quality testing procedures issued by the MRD (2019 baseline: 0%).  
Project  
By 2023:  
1b. At least 2,500 water supply facilities either rehabilitated, upgraded, or constructed to provide safe rural water supply (2019 baseline: 0).  
1c. Water supply facilities for at least 100 primary schools and 100 health centers rehabilitated or constructed (2019 baseline: 0).  
1d. At least 40% women members in 2,500 WSUG boards (2019 baseline: 0%).  
2. Rural sanitation infrastructure and services improved and expanded | 1a. Annual monitoring reports on rural drinking water quality.  
1b–1d. District and commune council database, quarterly progress reports. | Inadequate water availability because of prolonged drought |
|              | Program  
By 2021:  
2a. Standard procedure for septage management in rural areas is issued (2019 baseline: no procedure).  
Project  
By 2023:  
2b. At least 8,000 improved household latrines built (2019 baseline: none).  
2c. At least 100 primary schools and 100 health centers provided with separate toilets in adequate numbers | 2a. Standard procedure for septage management system in rural areas.  
2b–2d. District and commune council database, quarterly progress reports. | Prices of materials increase beyond projections |
<table>
<thead>
<tr>
<th>Results Chain</th>
<th>Performance Indicators with Targets and Baselines</th>
<th>Data Sources and Reporting Mechanisms</th>
<th>Risks</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>for males and females (2019 baseline: 0).</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2d. At least 40,000 households residing in at least 11 districts have reported improved awareness and/or knowledge of sanitation and hygiene (2019 baseline: 0).</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| 3. Institutional capacity improved | **Program**  
**By 2021:**  
3a. The transfer of personnel from MRD DRDOs and delegation of DRDO functions to the district administrations completed. (2019 baseline: not applicable).  
3b. MRD regulation on the principles of responsibility, accountability, and transparency for private sector involvement in RWSS services issued (2019 baseline: none). | 3a. MRD report on the transfer of personnel from DRDOs and delegation of DRDO functions to district administrations  
3b. MRD regulation on the principles of responsibility, accountability, and transparency for private sector involvement in RWSS services |       |
|               | **Project**  
**By 2023:**  
3c. 250 national and subnational staff (at least 40% women) participated in technical, financial, management, and leadership training. (2019 baseline: not applicable).  
3d. All 10 target provinces produce an annual water quality monitoring report based on the rural drinking water quality standard (2019 baseline: not applicable).  
3e. RWSS safety plans incorporating CCA and DRM principles completed in at least 11 districts (2019 baseline: not applicable). | 3c–3e. District, commune council database; quarterly progress reports |       |

<table>
<thead>
<tr>
<th>Key Activities with Milestones (Project)</th>
</tr>
</thead>
</table>
| **1. Rural water supply infrastructure and services improved and expanded**  
1.1. Procure contractors or suppliers to implement civil works and/or equipment for batch 1 subprojects (Q4 2019)  
1.2. Construct and/or rehabilitate water supply facilities for batch 1 (Q1 2020)  
1.3. Review water supply service needs for the subsequent batches (Q2 2020, Q2 2021)  
1.4. Procure contractors or suppliers to implement civil works and/or equipment for the subsequent batches (Q2 2020, 2021, 2022, 2023)  
1.5. Construct or rehabilitate water supply facilities for the subsequent batches (Q3 2020, 2021, 2022, 2023) |
2. **Rural sanitation infrastructure and services improved and expanded**
   2.1 Construct public latrines at schools, health centers, and houses (starting Q1 2020)
   2.2 Develop new solutions for latrine emptying, treatment, and disposal (Q1 2020)
   2.3 Implement behavioral change training or workshops or campaigns with at least 40% women participants (starting Q1 2020)
   2.4 Train private sector on RWSS development (technical and management) with at least 40% women participants (starting Q2 2020)

3. **Institutional capacity improved**
   3.1 Establish WSUGs in villages (starting Q4 2019)
   3.2 Organize various training units for commune council, district, and provincial officials on RWSS investment planning, O&M of RWSS assets, project management, with at least 40% women participants (starting Q2 2020)
   3.3 Conduct training on CCA and DRM and prepare CCA and DRM plans for RWSS at national, provincial, and local levels with at least 40% women participants (Q1 2021)
   3.4 Conduct training on the preparation of an open-defecation-free strategy with at least 40% women participants (starting Q2 2020)

**Inputs:**
- **Asian Development Bank:**
  - $15,000,000 (policy-based loan)
  - $29,610,000 (project loan)
  - $4,390,000 (grant)
- **Government:** $2,590,000
- **High-Level Technology Fund:** $1,000,000

**Assumptions for Partner Financing**
Not applicable

CCA = climate change adaptation, DRDO = District Rural Development Office, DRM = disaster risk management, MRD = Ministry of Rural Development, PDRD = Provincial Department of Rural Development, Q = quarter, RWSS = rural water supply and sanitation, WSUG = water supply and sanitation user group.

LIST OF LINKED DOCUMENTS
http://www.adb.org/Documents/RRPs/?id=50101-002-3

1. Loan Agreement: Policy-Based Loan
2. Loan Agreement: Project Loan
3. Grant Agreement: Special Resources
4. Grant Agreement: High-Level Technology Fund
5. Sector Assessment (Summary): Water and Other Urban Infrastructure and Services
6. Project Administration Manual
7. Contribution to the ADB Results Framework
8. Economic and Financial Analysis
9. Country Economic Indicators
10. International Monetary Fund Assessment Letter
11. Summary Poverty Reduction and Social Strategy
12. Risk Assessment and Risk Management Plan
13. Climate Risk and Vulnerability Assessment
14. Gender Action Plan
15. Environmental Assessment and Review Framework
16. Initial Environmental Examination
17. Indigenous Peoples Planning Framework
18. Social Safeguards Due Diligence Report

Supplementary Documents
19. Community Participation Framework
20. Stakeholder Communication Strategy
21. Summary of Lessons Learned
22. Program Impact Assessment
DEVELOPMENT POLICY LETTER

KINGDOM OF CAMBODIA
Nation Religion King

MINISTRY OF ECONOMY AND FINANCE

MINISTRY OF RURAL DEVELOPMENT
Phnom Penh 16 Aug 2019

H.E. Mr. Takehiko Nakao
President
Asian Development Bank
Manila, Philippines

Subject: DEVELOPMENT POLICY LETTER AND POLICY MATRIX
Third Rural Water Supply and Sanitation Services Sector Development Program (TRWSSSDP)

Your Excellency,

1. On behalf of the Royal Government of Cambodia, allow us to thank the Asian Development Bank (ADB) for the sustained commitment and valuable support for our national development agenda and reform efforts.

2. This letter highlights the Royal Government of Cambodia’s continued effort to strengthen Sub-National Democratic Development reforms focusing on three areas: (i) new and additional budget allocations to the Rural Water Supply and Sanitation (RWSS) sector; (ii) significant policy changes in terms of resource mobilization and participation from the private sector; and (iii) operationalization of a new asset monitoring system. Together, these reforms represent a concentrated effort by the Royal Government of Cambodia to achieve two important development goals: universal RWSS coverage nationwide, and an open defecation free (ODF) Cambodia, where every household has a toilet.

3. Cambodia has shown robust economic growth with an annual gross domestic product (GDP) growth rate of 7.9% over the past two decades (1998-2017). Cambodia is expected to graduate from the Least Developed Country status by the 2020s. Notwithstanding these achievements, Cambodia still faces a significant economic and socioeconomic gap between urban and rural areas. Incomes in rural areas are about 30%-40% lower than in urban areas. Rural areas also lag urban areas in access to basic public goods and services. This is particularly true for water supply and sanitation services; rural areas have significantly lower access to improved water supply (69.1% in rural areas versus 100% in urban areas in 2015) and improved sanitation facilities (30.5% in rural areas versus 88.1% in urban areas in 2015).

4. To address the gap between urban and rural areas, the Royal Government of Cambodia has made efforts to improve rural water supply and sanitation based on our Rural Water Supply, Sanitation and Hygiene Strategy (RWSSHS) 2014–2025 and the National Action Plan for Rural Water Supply, Sanitation and Hygiene (NAP) 2019–2023. The RWSSHS 2014–2025 aims to provide universal access to water supply, improved sanitation, and safe hygiene behavior in rural areas by 2025. The NAP 2019–2023 aims to secure 90% improved access for both rural water supply and rural sanitation by 2023. Both the RWSSHS 2014–2025 and NAP 2019–2023 include specific decentralization targets per the Royal Government of Cambodia’s wider program of subnational reforms which were initiated in 2001 and scaled up under the Law on Administrative Management of Capital, Provinces, Municipalities, Districts and Khan (Organic Law), 2008. The
Royal Government of Cambodia’s integrated approach to reform the RWSS sector includes decentralization of selected expenditure assignments in line with the National Program for Sub-National Democratic Development (NP-SNDD) 2010–2019.

5. In this letter, we would like to appraise the ADB of recent policy reforms supporting (i) the improved rural water supply and sanitation services, and (ii) strengthened sector institutions and management capacity. The policy reform program, described in detail in the policy matrix accompanying this letter, carries forward improvement of the rural water supply and sanitation services through strengthening capacities of local agencies in short-term and preparing relevant guidelines in medium-term period. The policy actions will support the following immediate and medium-term objectives for the RWSS sector. Under the policy-based loan component in the policy matrix, the Government has completed the policy actions as explained below.

6. **Improved rural water supply infrastructure and services.** Rural water supply infrastructure and services have been improved and expanded. By the third quarter of 2018, the Ministry of Rural Development (MRD) enhanced the capacities of Provincial Departments of Rural Development (PDRDs) and district administrations for effective delivery of water supply by issuing rural drinking water quality standards and water quality testing procedures. MRD also improved district administrations and village residents’ capacities for sustainable delivery of water by providing updated standard procedures for the operation and maintenance (O&M) rural water supply facilities. In the medium-term, while strengthening annual monitoring systems for ensuring safe drinking water for rural residents, MRD will complete and implement capacity development on RWSS investment planning for PDRDs and district administrations.

7. **Improved rural sanitation infrastructure and services.** Reducing groundwater pollution caused by poor sanitation facilities is a key objective to improve overall sanitation and reduce public health risks in rural areas. MRD strengthened capacities of PDRDs, district administrations and village residents for septage management by issuing a standard procedure for septage management system in rural areas. In the medium-term, MRD plans to provide a Monitoring Order designating PDRDs to perform a continuous monitoring function. To ensure the quality and sustainability of sanitation services at villages, MRD will develop a regulation on the development and implementation of post-ODF strategy and its integration into district administrations’ development plan.

8. **Strengthened institutional capacity in rural water supply and sanitation sector.** To improve institutional capacity in RWSS services sector, MRD has taken several actions: (i) taken steps to improve the competencies of district administration staff by issuing an Order designating its Departments of Rural Water and Rural Sanitation to develop, conduct and manage training programs on RWSS facility operation and maintenance (O&M) and investment planning; (ii) encouraged private sector involvement in RWSS services provision by issuing an Order designating PDRDs to closely coordinate with the private sector and identify measures for expanding private sector investments in RWSS sector; and (iii) enhance preparedness of PDRDs and district administrations for the climate change adaptation (CCA) and disaster risk management (DRM) by providing them with the draft regulation on the inclusion of CCA and DRM in RWSS investment planning and management to enhance its resilience.

9. By 2021, MRD plans to significantly improve management capacity in RWSS sector through several key measures. These include: (i) strengthening the capacity of district administrations by transferring personnel of its District Rural Development Offices (DRDOs) and delegate the DRDO functions to district administrations; (ii) improving asset management by operationalizing an asset inventory and management information system (AIMIS) to support efficient investment planning and resource allocation and mobilization decisions; (iii) improve the accountability and transparency for private sector involvement in RWSS sector by issuing the regulation on principles of responsibility, accountability and transparency; (iv) issue the regulation on the inclusion of CCA and DRM in RWSS investment planning and management for compliance by PDRDs and districts administrations; and (v) complete the review on its RWSSH 2014-2025 in cooperation with RWSS stakeholders and develop RWSS sector and investment masterplans accordingly.
10. **Future Developments.** The policy reforms in the RWSS services sector require a long-term commitment from the Royal Government of Cambodia, from development partners like ADB and from civil society stakeholders. A decentralized system of administration in the RWSS sector is evolving and adapting new features with the progress of subnational democratic development reforms. The overarching goal is to improve the responsiveness, quality and accountability of service delivery to reduce the urban-rural divide. The Royal Government of Cambodia would like to reiterate that sustained support by the ADB for the successful implementation of the policy reforms in RWSS sector is critically important. We are happy to reaffirm our commitment in continuing our partnership with the ADB in the inclusive, resilient and sustainable development of Cambodia through rural water supply and sanitation and other priority sectors.

11. **Conclusion.** The Royal Government of Cambodia highly appreciates the proposed sector development loan as part of ADB’s continued support to the Cambodia’s water supply and sanitation sector. We wish to reiterate the Government’s full and sustained commitment to successfully implement the policy actions contained in the policy matrix and to maintain and monitor such actions thereafter in line with the Royal Government of Cambodia’s RWSSHS 2014–2025 and NAP 2019–2023, together with other development partners.

12. The key reform initiatives undertaken by the Royal Government of Cambodia, through various departments of the Ministry of Economy and Finance and relevant line ministries, are necessary conditions to support Cambodia to achieve its overarching development goals of universal access to water supply and sanitation. We believe that the policy reform initiatives supported under the Program will comprehensively address the issues and challenges we are facing. The Royal Government of Cambodia is committed to continue to work with ADB and deeply appreciate ADB’s leading role in support to the rural water supply and sanitation services sector in Cambodia.

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H.E. Dr. Aun Pornmoniroth  
Deputy Prime Minister  
Minister of Economy and Finance

H.E. Dr. Ouk Rabun  
Minister  
Ministry of Rural Development
## POLICY MATRIX

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<tr>
<td><strong>Output 1: Rural water supply infrastructure and services improved and expanded</strong></td>
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<td>1. Ensuring access of rural households to improved rural water supply.</td>
<td>1.A. Ministry of Rural Development (MRD) has issued new drinking water quality standards to ensure drinking water in rural areas is safe to consume.</td>
<td>1.B. Provincial Department of Rural Development (PDRDs) and districts administrations implement semi-annual drinking water quality tests as part of their new monitoring and controlling protocols for ensuring safe drinking water for rural residents.</td>
<td>1.A. MRD regulation on rural drinking water quality standard. RA=MRD</td>
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<td>2.A. MRD has issued a new procedure for drinking water quality test to ensure drinking water in rural areas is safe to consume.</td>
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<td>2.A. The procedure for rural drinking water quality testing, RA=MRD</td>
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<td>1.B. Provincial Department of Rural Development (PDRDs) and districts administrations implement semi-annual drinking water quality tests as part of their new monitoring and controlling protocols for ensuring safe drinking water for rural residents.</td>
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<td>1.B. Annual monitoring reports on rural drinking water quality. RA=MRD</td>
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<td>2. Improving sustainability of built rural water supply facilities.</td>
<td>1.A. To improve the sustainability of rural water supply, MRD introduced new standardized operation and maintenance (O&amp;M) procedures for rural water supply facilities across the country.</td>
<td>1.B. Standardized O&amp;M procedures for rural water supply facilities are successfully implemented in at least 75 district administrations and 1,000 villages.</td>
<td>1.A. Standard procedure for the O&amp;M of rural water supply facilities. RA=MRD</td>
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<td>2.A. MRD strengthened monitoring of rural water supply facilities by assigning PDRDs and district administrations to supervise rural water supply facility O&amp;M arrangements.</td>
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<td>2.A. MRD office order designating PDRDs and district administrations to undertake semi-annual monitoring of RWSS O&amp;M arrangements. RA=MRD</td>
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<td>1.B. Annual monitoring reports of rural water supply facility O&amp;M arrangements. RA=MRD</td>
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<td>Output 2: Rural sanitation infrastructure and services improved and expanded</td>
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<td>3. Reducing ground water pollution from poorly managed sanitation facilities by improving the septage management system.</td>
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<td>1.B. To reduce ground water pollution in rural areas, MRD standardizes the procedure for septage (fecal sludge) management.</td>
<td>1.B. Standard procedure for septage management in rural areas. RA=MRD.</td>
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<td>2.B. MRD assigns PDRDs to supervise district and village compliance with new septage management procedures.</td>
<td>2.B. MRD office order designating PDRDs to undertake routine monitoring of compliance with the standard procedure for septage (fecal sludge) management in rural areas. RA=MRD and PDRDs.</td>
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<td>3.B. At least 75 district administrations and 1,000 villages are in full compliance with the new standard procedures for septage (fecal sludge) management in rural areas issued by MRD.</td>
<td>3.B Annual monitoring reports on compliance by district administrations and village residents with the new standard procedure on septage (fecal sludge) management in rural areas issued by MRD. RA=MRD.</td>
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<td>4. Ensuring the sustainability of sanitation services through the development and implementation of a post-open defecation free (ODF) strategy.</td>
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<td>1.B. To ensure the sustainability of sanitation services at rural areas, MRD introduces a new policy on post-ODF strategy, which requires district administrations to develop and implement action plans to maintain their ODF status.</td>
<td>1.B. MRD regulation on post-ODF strategy. RA=MRD.</td>
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<td>2.B. At least 75 district administrations develop and implement their post-ODF action plans in line with the new MRD policy.</td>
<td>2.B. Post-ODF action plans of at least 75 district administrations. RA=MRD and district administrations.</td>
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<td>3.B. Annual reports on progress of the adoption and implementation of the post-ODF strategy. RA=MRD.</td>
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<td>3.B. MRD promotes transparency and disclosure of implementation of post-ODF strategy by tracking progress of post-ODF action plan implementation and publishing results in an annual report.</td>
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**Output 3: Institutional capacity improved**

5. Strengthening district administration capacity for the provision of RWSS services including O&M of built RWSS facilities.

1.A. MRD assigned the Department of Rural Water Supply (DRWS) and Department of Rural Health Care (DRHC) to oversee a new sustainable capacity-development approach on RWSS management for district administration personnel.

1.B. DRW and DHC complete the training programs on RWSS facility O&M and investment planning for district administration personnel (in at least 75 districts), with at least 40% of the training participants comprising women.

2.B. MRD strengthens the capacity of district administrations by transferring the personnel of its District Rural Development Offices (DRDOs) and delegating DRDO’s functions to district administrations.

1.A. MRD office order designating DRW and DHC to develop, conduct and manage training programs on RWSS facility O&M and investment planning for district administration personnel. RA=MRD

1.B. Report on the implementation of training programs on RWSS facility O&M and investment planning for district administration personnel. RA=MRD.

2.B. A report on the completion of the DRDOs personnel transfer and delegation of DRDO functions to district administrations. RA=MRD.

6. Strengthening asset inventory and management information system (AIMIS) to support an efficient planning mechanism.

- 1.B. MRD strengthens its asset inventory and management information system by developing and operationalizing a computerized rural water supply and sanitation (RWSS) asset inventory and management information system (AIMIS) to support in RWSS investment planning and O&M budget allocation.

1.B. Operational and regularly updated RWSS AIMIS. RA=MRD.

2.B. RWSS AIMIS that is accessible to RWSS stakeholders. RA=MRD.
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<td>7. Encouraging private sector participation in the provision of RWSS services.</td>
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<td>1.B. MRD introduces new principles of responsibility, accountability, and transparency for private sector involvement in RWSS sector to encourage private sector involvement in RWSS sector.</td>
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<td>2.B. MRD disseminates and promotes new private sector RWSS principles through (i) broad public consultations and discussions on public sector participation principles; and (ii) publishing an annual report on private sector participation in RWSS service provision.</td>
<td>1.B. MRD regulation on the principles of responsibility, accountability, and transparency for private sector involvement in RWSS sector services. RA=MRD.</td>
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<td>2.B. Report on the dissemination of the regulation on principles of responsibility, accountability, and transparency for private sector involvement in RWSS sector to RWSS stakeholders; and annual reports on the progress of private sector participation in RWSS service provision. RA=MRD.</td>
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<td>8. Mainstreaming water and sanitation safety plans, which include climate change adaptation (CCA) and Disaster Risk Management (DRM), in RWSS investment planning to enhance the resilience of RWSS facilities and infrastructure.</td>
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<td>1.B. MRD regulates mandatory inclusion of CCA and DRM principles in RWSS investment planning by district administrations.</td>
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<td>2.B. At least 15 provinces and 75 district administrations prepare RWSS investment plans incorporating CCA and DRM dimensions.</td>
<td>1.B. MRD regulation on the inclusion of CCA and DRM in RWSS investment planning. RA=MRD.</td>
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<td>2.B. Provincial and district administration RWSS investment plans, which have reflected CCA and DRM principles (at least 75 districts and 15 provinces). RA=MRD.</td>
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