



**ASIAN INFRASTRUCTURE  
INVESTMENT BANK**

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**Project Document  
of the Asian Infrastructure Investment Bank  
Sovereign-backed Financings  
KINGDOM OF CAMBODIA  
National Restoration of Rural Productive Capacity Project  
(under the Covid-19 Crisis Recovery Facility)**

**Currency Equivalents**  
(As of November 26, 2020)

Currency Unit	–	Cambodian Riel (KHR)
USD1.00	=	KHR4,047.95
KHR1.00	=	USD0.000247

**Borrower's Fiscal year**  
January to December

**Abbreviations**

ADB	Asian Development Bank
AIIB	Asian Infrastructure Investment Bank
COVID-19	Coronavirus Disease 2019
DBST	Double Bituminous Surface Treatment
EA	Executing Agency
ECOP	Environment Code of Practice
ESMP	Environmental and Social Management Plan
ESMPF	Environmental and Social Management Planning Framework
ESP	Environmental and Social Policy
ESS	Environmental and Social Standard
GDICDM	General Department of International Cooperation and Debt Management
GDP	Gross Domestic Product
GRM	Grievance Redress Mechanism
ILO	International Labor Organization
IPP	Indigenous People Plan
IPPF	Indigenous People Planning Framework
MEF	Ministry of Economy and Finance
MRD	Ministry of Rural Development
NDF	Nordic Development Fund
PIU	Project Implementation Unit
PMU	Project Management Unit
PPE	Personal Protection Equipment
PPM	Project-affected People's Mechanism
RP	Resettlement Plan
RPF	Resettlement Planning Framework
SDG	Sustainable Development Goal
SFW	Special Fund Window
SMP	Social Management Plan
SOP	Standard Operating Procedures
WASH	Water Sanitation and Hygiene
WHO	World Health Organization
WSUG	Water and Sanitation Users Group

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**1. Summary Sheet**  
**Kingdom of Cambodia**  
**National Restoration of Rural Productive Capacity Project**

Project No.	P000446
Borrower	Kingdom of Cambodia
Guarantor	Sovereign
Sector/Subsector	Economic Resilience/PBF
Project Objective	The Project Objective is to sustain the rural economy and livelihood of vulnerable rural population and returning migrants affected by the COVID-19 pandemic.
Project Description	The Project is proposed under the Bank's COVID-19 Crisis Recovery Facility. The Project objective will be achieved by maintaining and accelerating rural infrastructure spending; creating short term employment and income generation; building capacity of local labor and national contractors to ensure quality infrastructure delivery building on the national standards established with the development partners; establishing foundations for learning and knowledge sharing among key project stakeholders to scale up rural infrastructure and rural basic services delivery in future programs. The Project will also support the Government's communications effort to (i) enhance awareness of targeted rural population about social distancing and hygiene to help contain the spread of the current pandemic; and (ii) build their preparedness and resilience during COVID-19 and beyond.
Implementation Period	January 2021 December 31, 2023
Expected Loan Closing Date	June 30, 2024
Cost and Financing Plan	Project cost: USD 67.5 million <u>Financing Plan:</u> Government of Cambodia: USD 7.5 million (taxes) AIIB loan: USD 60 million (components A and B) Special Fund Window: USD 10 million (interest buy-down)
Size and Terms of AIIB Loan	USD 60 million. Fixed spread: Final maturity of 21 years including 12 years grace period with an average maturity of 16.57 years.  AIIB's standard interest rate for fixed spread sovereign-backed loans, minus interest buy-down through the Special Fund Window
Co-financing	Not Applicable: Stand-alone
Environmental and Social Category	B
Risk (Low/Medium/High)	M
Conditions of Effectiveness	<ul style="list-style-type: none"> <li>Establishment of PMU at the MRD.</li> </ul>
Key Covenants/Conditions for Disbursement	<p>Key Covenants:</p> <ul style="list-style-type: none"> <li>Capacity development plan, satisfactory to the Bank, for rural residents in Project areas on occupational health and safety and national contractors on quality rural infrastructure, finalized within 9 months of effectiveness.</li> </ul>

	<ul style="list-style-type: none"> <li>• Consultation and capacity building, satisfactory to the Bank, in approximately 50 villages in Project areas, conducted within 12 months of effectiveness.</li> <li>• Capacity building, satisfactory to the Bank, with approximately 10 local contractors, conducted within 18 months of effectiveness.</li> </ul> <p>Conditions for Disbursement for Works Contracts:</p> <ul style="list-style-type: none"> <li>• ESMPF, Project Delivery Strategy and Project Operation Manual have each been approved by the Bank and the PIUs have been established</li> </ul>
Retroactive Financing	Not Applicable
Policy Assurance	The Vice President, Policy and Strategy, confirms an overall assurance that AIIB is in compliance with the policies applicable to the Project.

President	Jin Liqun
Vice President	D.J. Pandian, Investment Operations 1
Acting Director General	Rajat Misra, Technical Department Region 1
Manager	Rajat Misra, Technical Department Region 1
Project Team Leader	Hubert Jenny, Senior Investment Operations Specialist
Co-Project Team Leader	Bo Zhang, Investment Operations Specialist
Team Members	Ankur Agrawal, Young Professionals Amy Chua, Environment Specialist Christopher Damandl, Project Counsel (Consultant) Antong Hu, Administrative Assistant Benedetta Magnaghi, Procurement Associate Shodi Nazarov, Financial Management Associate Marife Principe, Senior Social Development Specialist Andrey Sorochan, Senior Treasury Officer Haiyan Wang, Senior Finance Officer

## 2. Project Description

### A. Project fit under the Covid-19 Crisis Recovery Facility.

1. The Kingdom of Cambodia (Cambodia) is located at the heart of the Mekong Region in Southeast Asia with a population of 16.5 million, mostly rural (76%) with a gross domestic product (GDP) of USD1,643.1 per capita (2019). The Government's record of sound macroeconomic management is impressive with: (i) an average GDP growth over 7 percent between 2015 – 2019; (ii) a reduction in income poverty rate from 47.8 percent in 2007 to 13.5 percent in 2014, with about 90 percent of the poor living in rural areas; (iii) a low public debt (in nominal term) at 28 percent of GDP in 2019;<sup>1</sup> a strong Government revenue generation and high debt affordability with healthy growth potential. Cambodia's credit profile balances strong growth prospects, robust fiscal metrics and low external vulnerabilities against financial stability risks stemming from sustained high credit growth compounded by weak and low capacity institutions and a high dollarization of the economy.

2. The Project was initiated as part of a rural infrastructure program proposed by the government for AIIB financing. Rural areas are negatively affected by the increased number of returning migrant workers who lost their jobs due to the COVID-19 outbreak with limited access to reliable rural infrastructure and basic services and prospect for scarce jobs. Two components under the Project have been identified as immediate priority of the government's COVID-19 response and carved out from the proposed comprehensive rural infrastructure program for funding under AIIB's COVID-19 Crisis Response Facility (the Facility). There is urgency to support the government stretched fiscal space worsened by the COVID-19 pandemic; quickly restore rural productive capacity; maintain rural infrastructure spending to sustain the rural economy and livelihood highly affected by the COVID-19 pandemic; and create short term employment benefits that will generate income, especially for the local residents and returning migrants who lost their jobs due to the COVID-19 outbreak. The other components proposed under the rural infrastructure program will be prepared under a second project targeting approval in 2021 as part of the government's longer-term recovery effort. The Project be AIIB's first sovereign backed financing in Cambodia, following a non-sovereign backed financing approved in 2019.<sup>2</sup> Cambodia is an important and strategic partner for the Bank, especially for regional cooperation at the heart of the Greater Mekong Subregion and supports the Bank's Corporate Strategy objective of broadening the outreach to lower income countries.

3. **Macroeconomic Impact of COVID-19.** As of October 2020, Cambodia limited the number of reported COVID-19 cases to 307 people with no death (November 24, 2020). This is due to successful practices of traditional social distancing, migration to rural areas due to job losses, strengthening the social distancing because of the lower populated density and early containment efforts by the government. Nevertheless, the successful containment measures came at the cost of economic impact. The economy was hit hard by the COVID-19 outbreak and projected to contract by 5.5 percent

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<sup>1</sup> Ministry of Economy and Finance. General Department of International and Public Debt Management. *Cambodia Public Debt Statistical Bulletin Vol. 10*.

<sup>2</sup> AIIB. 2019. *Fiber Optic Communication Network Project. Kingdom of Cambodia*. Beijing

resulting in a 30 percent decline in government revenues in 2020.<sup>3</sup> A potential second wave of COVID-19 cases would result in an increased health, economic and financial burden on the government through additional containment measures required to control the outbreak. The global COVID-19 pandemic directly impacts Cambodia's main engines of growth in manufacturing (garment textile and footwear), construction and tourism. Together, these sectors account for 43 percent of GDP, 74 percent of goods and services exported and 35 percent of foreign direct investment (2019). The decline of these sectors has critical social implications as they employ a large number of women and informal workers. As factories closed-down due to public health containment measures and the collapse of global demand, massive layoffs and reduced working hours led to over 100,000 workers returning to their villages and looking for employment benefits under the Project. Official unemployment rate has increased from 0.7 percent to 4.4 percent translates into a loss of 570,000 jobs, compounded by migrant workers returning home. The World Health Organization (WHO) warns that as the economy worsens, a second wave outbreak would quickly overwhelm the under-prepared health system.<sup>4</sup>

4. **Impact of COVID-19 in Rural Areas.** Cambodia's rural areas were already under stress prior to the COVID-19 pandemic with small-scale farmers and food providers struggling to access markets. Beyond the twin-shock of public health and economic crisis resulting from the COVID-19 outbreak, the rural population is more vulnerable to emergency crisis, such as the COVID-19 pandemic, exacerbated by a massive rural migration and natural disasters, compounded by climate change impacts. The lack of reliable rural infrastructure, especially disruption to the rural road network during the period of heavy monsoon rainfall season (May to October) constrains food security with limited access to markets, towns, and trade flows within the country as well as with the neighboring countries.

5. It also affects rural livelihood with longer travel time or no access to school, health facilities and emergency services. The Government with the assistance of the development partners conducted a road accessibility analysis that concluded that only 32 percent of the rural population can reach referral hospitals under 30 minutes and 27 percent of the rural population is cut off from access during period of flooding. Furthermore, 26 percent of the children lose access to schools during the monsoon season with some children missing out two months per year because of the poor road conditions.<sup>5</sup> The lack of reliable basic services, especially access to water supply during the period of serious droughts (November to April) negatively affects rural livelihood and primary prevention for COVID-19 through basic hygiene practice as preconized by WHO and dedicated COVID-19 recommendation under the Sustainable Development Goal (SDG).<sup>6</sup> In addition, diarrhea, a waterborne disease resulting from a lack of water

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<sup>3</sup> Government of Cambodia. June 16, 2020. *Development Policy Letter* issued for ADB's COVID-19 Active Response and Expenditure Support Program. Phnom Penh.

<sup>4</sup> ADB. 2020. *Report and Recommendation of the President to the Board of Directors Proposed Countercyclical Support Facility Loan. Kingdom of Cambodia.* Manila.

<sup>5</sup> IDA. 2020. *Project Appraisal Document. Kingdom of Cambodia: Cambodia Road Connectivity Improvement Project.* Washington DC.

<sup>6</sup> SDG6 *Ensure access to water and sanitation for all: COVID-19 recommendation: Availability and access to WASH services is fundamental to fighting the virus and preserving the health and well-being of millions. COVID-19 will not be stopped without access to safe water for people living in vulnerability*

sanitation and hygiene (WASH) services in general and hygiene in particular is the major cause of children's illness, including stunting and impaired brain development.<sup>7</sup>

6. **Government's response to the COVID-19 crisis.** With WHO support, the government prepared a Master Plan for COVID-19 Crisis Response, which focuses on public health containment actions and fiscal measures supported by the development partners. The government announced a pro-poor countercyclical fiscal response of USD 816 million (about 3.2 percent of projected 2020 GDP), with USD 300 million directly allocated for the vulnerable groups, including women and children to: (i) Support the health system preparedness; (ii) Boost social assistance; and (iii) Mitigate adverse economic impact (footnote 3). However, as the informal economy is large (about 92 percent), many workers, especially women do not benefit from those measures and have therefore returned to their villages. Furthermore, the pandemic is threatening a potential reversal of recent gains in poverty reduction (ILO, 2019) with 130,000 to 200,000 people falling into extreme poverty and 800,000 to 1.1 million people into moderate poverty.<sup>8</sup> Non-Government Organizations put livelihood support of the vulnerable population as the top priority action in the context of the COVID-19 crisis (footnote 4).

7. **Fiscal condition and debt sustainability.** The joint WB and IMF debt sustainability framework for low income countries suggests that Cambodia is at a low risk of external debt distress, however, debt sustainability is vulnerable to export and growth shocks. In addition, the fiscal response for COVID-19 expects to increase the public debt (in nominal term) from 28 percent in 2019 to about 34.6 percent of GDP in 2021; jeopardizes the de-prioritization of funding to restore the productive capacity of the rural regions and for critical infrastructure. The Bank can add value by contributing to the funding gap of critical rural infrastructure and continue the government's national rural infrastructure program under its Rectangular Strategy (Phase IV: 2019 – 2023) and its overarching objectives of growth, employment, equity, and efficiency supports.<sup>9</sup> This is consistent with the Bank's COVID-19 Crisis Recovery Facility to support the economic resilience of AIB members providing financing social and economic response and recovery including infrastructure investments and restoration of productive capital.

## **B. Project Objective and Expected Results.**

8. **Project Objective.** The Project objective is to sustain the rural economy and livelihood of vulnerable rural population and returning migrants affected by the COVID-19 pandemic.

9. **Expected Results.** The Project objective will be achieved by maintaining and accelerating rural infrastructure spending; creating short term employment and income generation for the local residents and returning migrants; re-skilling and building capacity of local labor and national contractors to ensure quality infrastructure delivery building on the national standards established with the development partners;

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<sup>7</sup> ADB. 2019. *Report and Recommendation of the President to the Board of Directors. Kingdom of Cambodia: Proposed Third Rural Water Supply and Sanitation Services Sector Development Program.* Manila.

<sup>8</sup> Extreme poverty is defined as daily income of less than USD 1.90 and moderate poverty at less than USD 3.20.

<sup>9</sup> Rectangular Strategy-Phase IV, 9 Sep 2018, International Relations Institute of Cambodia.



establishing foundations for learning and knowledge sharing among key project stakeholders to scale up rural infrastructure and rural basic services delivery in future programs. The Project will also support the Government's communications effort to: (i) enhance awareness of targeted rural population about social distancing and hygiene to help contain the spread of the current pandemic; and (ii) build their preparedness and resilience during COVID-19 and beyond. The Project is expected to generate the following key results in the targeted rural areas in five provinces as an emergency response to the COVID-19 pandemic:

- a. 50,000 short-term local employment benefits and income generation, including re-skilling and capacity development of the local labor targeting the vulnerable group of the population and returning migrants who lost their jobs due to the COVID-19 outbreak and who live in the Project areas
- b. 25 national contractors trained in quality rural infrastructure delivery and basic rural services provision including COVID-19 precaution measures;
- c. 100 facilities: economic (markets), health (health centers), social (school), with improved road access; and
- d. 150,000 people with improved access to water sanitation and hygiene facilities, especially hand-washing measures as primary COVID-19 mitigation.

10. **Expected Beneficiaries.** The Project will benefit about 480,000 rural population in the targeted five provinces maximizing benefits to the vulnerable groups (women, children and jobless returning migrants), whose socio-economic conditions are adversely affected by the COVID-19 pandemic and looking for short term employment benefits under the Project. Works and services under the Project are expected to be of low value and based on national competitive bidding prioritizing job opportunities and benefits for the local residents and returning migrants living in the Project's areas. Both local residents and national contractors will be trained under the Project to ensure quality rural infrastructure delivery and basic rural services provision; and capacity development as a strong foundation for learning and sharing among the various stakeholders (the various tiers of the governments, the local contractors, the rural communities and workers) to scale-up future programs by the government with the assistance of the Bank and the development partners.

### C. Description and Components

11. **Overview.** To meet the Project objective in the context of the COVID-19 pandemic, the Project comprises investments in rural economic and capacity development in five provinces, including three border provinces with Thailand (Pailin) and Viet Nam (Prey Veng and Tboung Khum); one province linked to the seaport of Sihanoukville (Koh Kong); and one province linked to the national capital Phnom Penh (Kampong Chhnang). The Project components are as follows:

12. **Component A – Investing in Rural Economic Development (USD 63.50 million, of which AIIB financing: USD 56.00 million):** This component aimed at generating local short-term jobs under the construction contracts for rural roads and water and sanitation financed by the Project and the ensuing operation and maintenance tasks. These short-term jobs will be targeted to the vulnerable group in project areas, including jobless returning migrants negatively affected by the COVID-19 pandemic.

- a. Sub-Component A1 – Rural Road Infrastructure (USD 56.20 million, of which AIB financing: USD 49.60 million): This will include: (i) upgrading and climate proofing of about 235 kilometers of existing rural roads; (ii) adaptation of unstable bridges and collapsed drainage systems to improve access to markets, schools and health centers and sustain urban-rural linkages within the provinces as well as with the national capital and increase climate resilience; and (iii) greening of the embankments using nature-based solutions and indigenous materials to accommodate safe walking and cycling and promote rural roads' safety;
- b. Sub-Component A2 – Water Sanitation and Hygiene (USD 7.30 million of which AIB financing: USD 6.40 million): This will include: (i) Restoring and climate proofing of about 75 community ponds with a strengthening of the embankments using nature-based solutions; (ii) construction of 75 new community ponds and associated WASH facilities; (iii) mapping of safe water access points in the village within a 250 to 350 meters range from each house to reduce water duties allocated to women and children; (iv) promoting sanitation and hygiene, especially hand-washing practices to deliver basic COVID-19 prevention measures to the vulnerable groups of the rural population; and (v) community mobilization for the design, operation and maintenance and raising community awareness on safe water use, sanitation and hygiene improvements as part of COVID-19 primary emergency response.
13. **Component B -- Strengthening capacity development and Project Management Support (USD 4.00 million of which AIB financing: USD 4.00 million)**:  
This includes
- a. Re-skilling of the local residents and the national contractors to deliver quality rural infrastructure and basic rural services under the Project as well as provide the foundation for scaling-up future rural infrastructure programs. During the consultation process on the environmental and social management planning framework (ESMPF), local residents including returning migrants will be briefed on the Project description as well as short-term employment and capacity development opportunities under the Project. The vulnerable group of the rural residents will be prioritized by the communities and encouraged to register interest with the District offices to avail from training on occupational health and safety designed under the Environment Code of Practice (ECOP); and to participate in the contracts financed under the Project. Under the ECOP, national contractors will also be trained to deliver the emergency rural infrastructure program to meet the requirement of the government's well-established standard design; and to construct quality rural infrastructure. The capacity development will allow the Bank and the other development partners to scale-up future rural infrastructure programs in Cambodia with local residents and national contractors adequately trained; and
- b. Project management support to the central PMU and the provincial PIUs with (i) environmental and social/community development consultants to deliver on the environmental and social aspects of the Project, especially

the consultation process as well as the identification, selection and training of the vulnerable groups of the rural population including jobless returning migrants and the environmental and social reporting; (ii) procurement consultant to assist with the preparation of bidding documents and selection process; (iii) financial management consultants to assist with the quarterly financial reporting; and (iv) project management consultant to assist with the monitoring and evaluation including quarterly reporting and supervise the project implementation given the decentralized implementation arrangements with multiple small contracts across the countries, the project provides for project management support consultants for handholding during implementation and organizing learning and knowledge sharing events among key stakeholders.

14. The Project builds on the Government's Rural Roads Policy Framework,<sup>10</sup> supported by the development partners since 2010 under the Government National Program.<sup>11</sup> The development partners also supported in parallel technical assistance programs for road safety, community awareness and asset management that will benefit the Project. The Project also supports the Government's National Strategy of Rural Water Supply, Sanitation and Hygiene (2014 - 2025) and contributes to the COVID-19 response under SDG6 (footnote 6).

#### **D. Cost and Financing Plan**

15. **Special Fund Window.** The government requested the use of the COVID-19 Crisis Recovery Facility Special Fund Window to buy-down the interest to be paid by the borrower. Considering a 21 years' final maturity and 12 years of grace period, the indicative buy-down amount is USD 10 million based on current disbursement schedule.

16. **Climate finance.** AIIB adheres to the joint multilateral development banks climate finance tracking methods in tracking climate finance in its projects. The percentage contribution of the Project towards climate finance will be assessed during the detailed design.

17. The cost estimates per component and the financing plan are summarized in Table 1.

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<sup>10</sup> Initiated in 1999 and last updated in 2019 by MRD.

<sup>11</sup> ADB. 2010. L2670: Rural Roads Improvement Project (USD 67 m - 505 km - completed); ADB. 2014. L3151; L8299; L8300: Rural Roads Improvement Project II (USD 193 m – 1200 km - completed); ADB. 2018. L3678: Rural Roads Improvement Project III (USD 66 m – 360 km - ongoing). IDA. 2020. L3522: Cambodia Road Connectivity Improvement Project (USD 100 m – 250 km – ongoing)

Table 1. Project Cost and Financing Plan

Item	Project Cost USD million (%)	Financing USD million (%)	
		AiIB	Government
<b>Component A. Investing in Rural Economic Development</b>			
A1. Rural Roads Infrastructure	56.20 (89%)	49.60 (88%)	6.60 (12%)
A2. Water Sanitation and Hygiene	7.30 (11%)	6.40 (88%)	0.90 (12%)
<b>Sub-total Component A.</b>	<b>63.50</b> (94%)	<b>56.00</b> (88%)	<b>7.50</b> (12%)
<b>Component B. Strengthening capacity development and Project Management Support</b>			
B. Capacity Development and Project Management Support	4.00 (6%)	4.00 (100%)	0.00 (0%)
<b>Sub-total Component B.</b>	<b>4.00</b> (6%)	<b>4.00</b> (100%)	<b>0.00</b> (0%)
<b>Sub-total Project</b>	<b>67.50</b> (100%)	<b>60.00</b> (89%)	<b>7.50</b> (11%)
<b>Loan Amount</b>		<b>60.00</b> (89%)	
<i>Special Fund Window Grant Amount</i>		<i>10.00</i>	
<b>Grand Total</b>	<b>67.50</b>		

Numbers and percentages may not add up due to rounding

Source: MRD

## E. Implementation Arrangements

18. **Implementation period.** The Project is expected to be implemented over 36 months to maximize project benefits, especially employment opportunities to the local residents and returning migrants negatively affected by COVID-19 pandemic.

19. **Implementation Management.** The proposed Project is in line with the national policies for rural development. The Ministry of Economy and Finance (MEF) is the representative of the borrower and is responsible for the effective management and administration of public investments financed by the development partners, which is entrusted to its General Department of International Cooperation and Debt Management (GDICDM). The GDICDM is staffed with experienced staff and assisted by national and international experts to support projects and programs funded by the development partners. The MEF developed standard operating procedures (SOP) for procurement, financial management and project management that apply to official development assistance funded projects, including this Project; those procedures are endorsed by the development partners and validated as compliant with the Bank's Policies.<sup>12</sup> The

<sup>12</sup> MEF. Updated December 2019. *Standard Operating Procedures on Financial Management for All Externally Financed Projects/Programs in Cambodia*. Cambodia.

MEF. Updated December 2019. *Standard Operating Procedures on Project Management for All Externally Financed Projects/Programs in Cambodia*. Cambodia.

MEF. Updated December 2019. *Standard Operating Procedures on Procurement for All Externally Financed Projects/Programs in Cambodia*. Cambodia.

Ministry of Rural Development (MRD) is responsible to implement the Project. The MRD will set-up at Ministry level a new project management unit (PMU) in accordance with the SOP on project management comprising experienced and full-time staff. The Bank will issue no objection to the selection of key staff, namely: Project director / project manager, financial management officer, environmental specialist and social development / community development specialist. The MRD will undertake to establish a project implementation unit (PIU) at the province level each with full-time staff, including an environmental specialist and a social development / community development specialist. To ensure the sustainability of the investment under the Project, technical personnel from MRD and the Provincial Department for Rural Development experienced with operation and maintenance will be part of the PMU and the PIUs. The Project supports the funding through the loan of a consulting firm, as well as individual consultants to supplement the skills gap identified at the PMU and the PIUs. For implementation, the PMU and PIUS will maximize short term employment opportunities for local residents and returning migrants under the Project.

20. **Procurement.** Procurement will be conducted in accordance with the Bank's Procurement Policy and associated Procurement Instructions for Recipients (PIR). The SOPs on procurement prepared by the MEF in collaboration with development partners will be used: after review by the Bank's staff, its provisions are considered to be aligned with the Core Procurement Principles and Standards of the AIIB's Procurement Policy. In particular, the value for money principle will ensure effectiveness, efficiency and economy in the procurement of goods, works and services. The SOP specifies that in case of discrepancy between the two sets of policies, the Bank's Policy will prevail. It is anticipated that national competitive tendering directed at national firms and international firms with offices in Cambodia will be the procurement method used for most contracts for goods, works and services expected to be of low value and labor intensive generating local economic development with employment benefits prioritized to the local residents and returning migrants from the Project areas. Capacity development of the local residents and the national contractors ensures the delivery of quality rural infrastructure and basic rural services and provides a strong basis for future scale-up of rural infrastructure programs. Based on the information provided, this appears to be in line with the requirement of PIR 10.4, fit-for-purpose and suitable to achieve value for money. Works are going to be geographically scattered and labor intensive, given the nature of the project, providing short-term job opportunities to the local residents and returning migrants. The current circumstances related to the COVID-19 pandemic contribute to the unlikelihood that these contracts will attract foreign competition with most contracts expected to be based on national competitive bidding. The packaging of the contracts will be reviewed during detailed design to maximize and prioritize short term employment opportunities to local residents and returning migrants living in the Project areas.

21. **Financial Management.** MEF is a representative of the Borrower for this Project. MRD will implement the Project assisted by: (i) Department of Rural Roads (Sub-Component A1); and (ii) Department of Water Supply and Rural Health Care (Sub-Component A2). The established PMU will be responsible for the project financial management and disbursement work. PMU will be staffed with a finance person who will be responsible for maintaining acceptable project financial management arrangements and Bank's compliance.

22. The cash basis accounting system will be followed for project accounting. MEF developed SOP on financial management that applies to official development assistance funded projects, including this Project; it was reviewed and its form and substance acceptable to the Bank. PMU should follow the SOP, taking into account the specifics of project financial management arrangements. Disbursements will follow the transaction-based method, including the following procedures: Advance procedure (through advances to the Designated Account), Direct Payment procedure, and Reimbursement procedure with full documentation. PMU will maintain project accounts and have custody of supporting documents. The financial progress of the project will be reported on a quarterly basis through Interim Unaudited Financial Reports (IUFRs) to be submitted by 45 days from the end of each quarter. The project audited financial statements for each year of project implementation will be submitted within six months from the fiscal year-end.

23. **Monitoring and Evaluation.** The Project will define a project management and monitoring system in line with the Bank's requirements and the government's SOP. Separate consulting firms and individual consultants will be recruited to support component B. to undertake detailed design services and construction supervision and provide project management support to the PMU and the PIUs, including monitoring and evaluation. The PMU will submit quarterly annual progress reports reporting on the status of the Project. A dedicated monitoring and evaluation specialist at the PMU will be responsible for the data collection by the staff of the PIUs and for reporting.

24. **AIB's Implementation Support.** The GDICDM in the MEF is the nodal agency for interaction with the development partners and is responsible for coordinating all activities related to the preparation and implementation of projects funded by official development assistance. The Bank's project team will conduct quarterly virtual missions per year until business travel resumes and coordinates with the PMU and the PIUs through virtual monthly progress meetings. The project team is considering additional digital tool based on augmented reality to better monitor specific issues arising under the Project.<sup>13</sup>

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<sup>13</sup> The augmented reality package constitutes of virtual 3D glasses connected to smart phone cameras onsite with a proprietary communication software for an estimated cost of \$6,000 to be purchased under the Project.

### 3. Project Assessment

#### A. Technical

25. **Project Design.** The Project Team conducted several online meetings with MEF, MRD and selected development partners on lessons learned on the sectors and concluded with the signing of a memorandum of understanding summarizing the agreed Project design. Several projects and sector documents assisted the Project Team to appraise the concept proposal from MRD. The detailed design will include a revision of the feasibility studies to maximize climate resilience, nature-based solutions, indigenous material and short term employment benefits to local residents and returning migrants negatively affected by the COVID-19 pandemic and longer term job opportunities to the local residents and returning migrants for operation and maintenance. Community based organization consulted as part of the environment and social assessment will maximize those employments benefits to the local residents and returning migrants living in the Project areas.

26. The selection of the five provinces allows connectivity within the province as well as connectivity between the province and the national capital and neighboring countries to sustain trade flows and food security as well as sustain rural livelihood and generate short term employment benefits to the local residents who lost their job overseas or in the cities. The roadworks supports the climate proofing and the safety of the rural road infrastructure. The Project roads will be improved along their existing alignment with limited widening of the embankments, if land is available, with the objective of improving road safety for motorbikes, bicycles and pedestrians as well as reduce congestion. The rural roads will be paved and the existing unstable bridges strengthened and the collapsed drainage systems improved and replaced. The design of the rural roads will be validated based on the lessons learned from: (i) Climate vulnerability assessment of the road sector, cited as best practice for the use of indigenous materials,<sup>14</sup> and climate resilient roads,<sup>15</sup> especially on the use of nature-based solutions to address climate change adaptation impacts; (ii) The conclusions of the validation report from the ADB's Independent Evaluation Department concludes that:<sup>16</sup> (a) all the project outcome were achieved<sup>17</sup>; (b) the project is rated relevant, effective and efficient with sustainability rated less than likely because the road maintenance budget is not keeping with inflation with a qualifying note that the newly rehabilitated rural roads actually require less maintenance; and (c) post-evaluation stakeholder surveys identified significant direct benefits.<sup>18</sup> The design and implementation will benefit from the lessons learned and focus on the sustainability and climate proofing of the investment under the Project, such as promoting nature-based solutions for embankments and drainage using indigenous

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<sup>14</sup> NDF. 2020. Climate Vulnerability Assessment. Helsinki.

<sup>15</sup> CTCN. 2019. *Technology Needs Assessment and Technology Action Plans for Climate Change Adaptation* (Section VIII. Climate Resilient Roads). Copenhagen.

<sup>16</sup> ADB. 2019. PVR626 "Cambodia Rural Road Improvement Project". Manila.

<sup>17</sup> (i) Decrease in road accidents by 20%, (ii) Decrease in average travel time by 25%, (iii) Increase in average trip lengths by 40%, (iv) Increased share of the rural road network to the category of average or good condition to 20%, and (v) Project roads becoming accessible all year round.

<sup>18</sup> (i) Easier transport of crops and agricultural inputs; (ii) Easier for students to reach schools; (iii) Reduced time to reach most health centers; (iv) Reduced time to reach certain amenities and businesses, such as markets, farms, and other agricultural production services; and (v) Reduced average travel times from villages to commune centers, district centers, and provincial centers along the rural roads.

materials and pavement to facilitate road maintenance and improve the resilience of the rural population.

27. Cambodia has limited access to WASH services; in 2017, access to improved water supply in rural areas stood at 73% with only 11% piped water supply to the households. Rural residents, especially women and children allocate considerable time and money to access safe water from distant water sources, collecting rainwater or delivery by small scale providers to the households. Inequality in access to basic rural services by income status is large (footnote 7). The Project will use rainfall collected into the community ponds supplemented, if need be, by surface or groundwater sources depending on the project location and the environmental impacts, including water rights and competition within the water-food-energy nexus. The embankments of the community ponds traditionally use stone masonry construction, as indigenous material for structural reason as well as to maintain the water quality. The revised feasibility study will review technology options and nature-based solutions available with the objective to minimize operation and maintenance cost and increase the resilience of the rural population. By improving and securing the water resources with proper community ponds, rural residents will have increased access to safe water within 250 to 350 meters of their premises all year-round and continue to rely on boiling water for cooking and drinking. The selection of community ponds for water supply supplements other water resources for household rural water supply, such as rainwater (tanks and jars); surface water (reservoirs, rivers and ponds) and underground water (dug and borehole wells) as well as boiling water for cooking and drinking and contributes towards SDG6. The promotion of WASH activities is expected to improve hygiene and reduce water-borne diseases for the local residents and the returning migrants living in the Project areas.

28. **Climate Change:** An outline climate vulnerability assessment concluded that the overall climate risk level is high, with particularly high risk of temperature increase, precipitation increase, flood, landslide, precipitation decrease, water availability, sea level rise, and solar radiation change in the targeted provinces. The topography and the tropical climate of Cambodia highly expose the sensitive rural road network and the water resources to climate induced disasters. The 5.5 months of monsoon bring three quarters of the country's annual rainfall resulting in flooding along the Mekong river and its tributaries. Rural roads are usually the hardest hit by disasters. Investment needs for resilient transport infrastructure account for about 20% of the total climate change-related expenditures.<sup>19</sup> Resilience measures to address the primary climate risk of flooding would include: (i) raising road embankments in flood prone areas; (ii) adaptation of unstable bridges to increase rainfall intensity and frequency; (iii) adaptation of vulnerable road surfaces with resilient pavement materials to withstand both heat waves and floods; (iv) adaptation of the drainage system with additional larger culverts and side ditches and (vi) introducing nature based solutions and indigenous materials as much as possible for protection of the road embankments. With uneven time-distribution of rainfall, Cambodia is exposed to prolonged droughts affecting the availability and the quality of water resources for 2.4 million people in 2015 and 2016; long term water resources availability is a key criteria to address in the environmental and social management system. The adaptation and resilient measure would maximize the use of

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<sup>19</sup> Asian Disaster Preparedness Center and UN Office for Disaster Risk Reduction. 2018. *Disaster Risk Reduction in Cambodia: Status Report 2018*. Bangkok.



nature-based solutions and indigenous materials for the slope protection of both existing and new water supply community ponds.

29. Cambodia signed its nationally determined contribution (NDC) at the Paris Agreement with a focus on climate change mitigation. The country's NDC does not include a National Adaptation Plan, but existing national development and resilience policies consist in National Communications, Climate Investment Funds-Pilot Program for Climate Resilience and cross cutting sector strategies with conditional actions in: (i) Capacity Building and Knowledge Transfer: Promoting and improving the adaptive capacity of communities, especially through community based adaptation actions; (ii) Infrastructure and Roads: Repairing and rehabilitating existing road infrastructure and ensuring effective operation and maintenance taking into account climate change impacts; and (iii) Health: Up-scaling of national programs to address the risk of acute respiratory infection, diarrheal disease and cholera in disaster prone areas. The NDC process ensures increased resilience is recognized under the United Nations Framework Convention on Climate Change and climate finance mobilization is enhanced with an aim to achieve a balance between adaptation and mitigation flows. The Project's components contribute to climate change adaptation by increasing the resilience of the rural population with investment to climate proof 235 km of rural roads, bridges, drainage systems (refer to (i) and (ii)) and 150 community ponds for water supply and associated WASH facilities (refer to (i) and (iii)).

30. **Operational sustainability.** Sustainability of the investment on previous programs is flagged as an issue (footnote 11). MRD is strengthening the capacity of the PMU to include technical staff from the Ministry and the Provincial Department of Rural Development, so that operational sustainability can be built into the Project design. The Provincial Department of Rural Roads under MRD is responsible for the operation and maintenance of the rural roads, funded through the national budget allocation. Previous technical assistance to MRD from the development partners implemented an asset management system for rural roads maintenance, that will be used for the Project. Community-based organizations consulted during the initial stage of the Project design are contributing to the long term financial and operational sustainability of the Project by providing the local residents and the returning migrants living in the Project areas with employment opportunities to operate and maintain the investment financed under the Project, construction activities for both the local residents and the national contractors and capacity development to scale-up future rural infrastructure programs of the government with the assistance of the Bank and the development partners.

31. The Office of Rural Water Supply and Rural Health Care of the Provincial Department of Rural Development under MRD is responsible for rural WASH programs with operation and maintenance delegated to a WSUG. Cambodia does not have a structured approach to tariff setting for WASH services. Cost recovery is based on expenditures incurred by the service providers or based on tariff set by the WSUG. The operation and maintenance cost is traditionally shouldered by the households through an annual contribution of less than USD4. Historical data, affordability studies and willingness to pay from previous projects show that rural households can afford this level of contribution, which establishes the financial and operational sustainability of the Project (footnote 7). Under the government's policy, a WSUG will be established in each

of the project sites following MRD guidelines.<sup>20</sup> In addition, community participation into the design through community surveys and consultations will strengthen the design, the implementation and operation and maintenance arrangements, as well as provide and prioritize employment opportunities to the local residents and the returning migrants living in the Project areas. The WSUG can delegate the operation and maintenance to a rural community-based organization providing longer term job opportunities to the local residents or an existing private small-scale provider.

## **B. Economic and Financial Analysis**

32. A cost-benefit analysis is derived from similar and recent rural road projects in Cambodia (footnote 11) to calculate the economic internal rate of return (EIRR) and the economic net present value (NPV) of the Rural Road sub-component A1. over 20 years with a discount rate of 10%. The major economic benefits arise from: (i) reduced vehicle operating costs; (ii) travel time savings; and (iii) avoided emergency maintenance costs in the without project scenario. It is assumed that the pavement treatment of the rural roads will improve vehicle operations and save vehicle operating costs by USD 0.023 per vehicle-kilometer on average. The time savings for rural roads are calculated based on an estimated number of rural residents with improved access in terms of travel time saved and reduced accessibility disruption to schools, health centers and markets. The emergency maintenance cost savings are calculated based on the actual costs and a probabilistic average of severe floods occurring every three years and that about 30% of the emergency maintenance could be avoided because of the Project. The EIRR for the base case is 24% with a NPV of USD 22.80 million indicating significant economic returns and justifying public financing under a sovereign based loan. Sensitivity analysis shows that the EIRR and the NPV are robust to an increase in maintenance cost by 20% and traffic lower by 20% and reduced to over 18% with NPV above USD 15 million when construction cost increases by 20%; both construction and maintenance costs increase by 20% and when both construction and maintenance costs increase by 20% and traffic is 20% lower than expected. Other direct economic benefits include: (i) Decrease in road accidents by 20%, (ii) Decrease in average travel time by 25%, (iii) Increase in average trip lengths by 40%, (iv) Increase share of the rural road network to the category of average or good condition to 20%, and (v) Project roads accessible all year round.

33. For the WASH facilities, water, sanitation and hygiene economic benefits apply. For public health linked to the COVID-19 pandemic, another significant set of economic impact will result from the uncoordinated efforts of private individuals to avoid becoming infected or to survive the results of infection by moving to the rural areas. The SARS outbreak of 2003 provides a good example. The number of deaths due to SARS was estimated at “only” 800 deaths and it resulted in economic losses of about 0.5% of annual GDP for the entire East Asia region, concentrated in the second quarter. The measures that people took resulted in a severe demand shock for services sectors such as tourism, mass transportation, retail sales, and increased business costs due to workplace absenteeism, disruption of production processes and shifts to more costly procedures. Prompt and transparent public information policy can reduce economic losses. An economic analysis conducted on a similar and recent project in Cambodia (footnote 7) quantifies health benefits showing an EIRR of 22% with a NPV of USD 4

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<sup>20</sup> MRD. 2005. *Guidelines on Establishment of Water and Sanitation User Group (WSUG)*. Phnom Penh.

million indicating significant economic return and the justification of using public financing under a sovereign backed loan. The results of the sensitivity analysis ranges from 18% to 22% and are deemed satisfactory under all the scenarios of increasing project costs by 20%, increasing operation and maintenance cost by 20% and a combination of both. As the Project is not generating income, the financial analysis focuses on assessing the Project's financial sustainability.

### C. Fiduciary and Governance

34. **Procurement and Financial Management.** The Project team has reviewed the government's SOP for project management, financial management, and procurement, and has validated them as substantially aligned with the Bank's respective Policies. A Project Delivery Strategy is currently under preparation. It is anticipated that national standard bidding documents adjusted to reflect AIIB's procurement requirements will be used, considering the labor intensive nature of the works and services expected to be of low value, but providing short term employment opportunities to the local residents and returning migrants living in the Project areas. National contractors will benefit from capacity development financed under the Project to deliver quality rural infrastructure and rural basic services. A new PMU will be established with experienced staff from MRD to implement the Project; MRD and the provinces have 10 years' experience implementing similar projects with the development partners. The PMU and the PIU are set-up according to the government' SOP on project management found to be acceptable under official development assistance funded projects. Key staff in the PMU require the Bank's no objection (para. 19.). The full financial management assessment will be conducted through virtual sessions and desk reviews of Financial Management Questionnaire and shared documents. It will be focused mainly on institutional capacity, staffing, planning/budgeting, funds flow, accounting, internal controls/audit, reporting and external audits of the MRD. Based on the initial assessment, the Financial Management risk is considered High as the PMU with financial management responsibility is newly established. Annual Project financial audits will be required. The external audits will be conducted by independent private auditors on terms of reference acceptable to the Bank, as agreed in the loan agreement. The cost of the Project's audits will be financed from the proceeds of the Project.

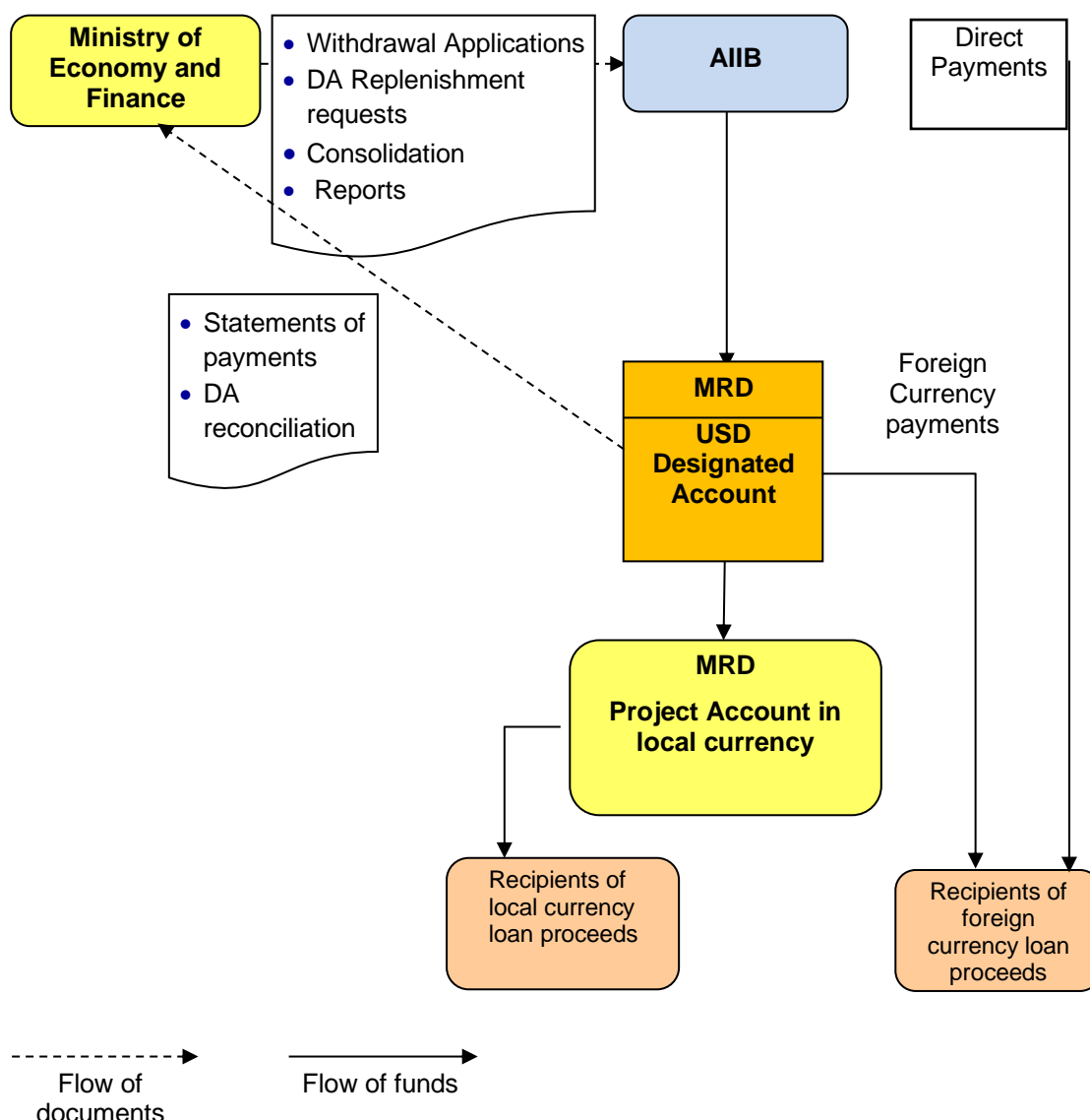
35. **Disbursements.** The loan will adopt a combination of direct payment, advance and reimbursement methods for payments. The Borrower will submit the withdrawal applications to the Bank with appropriate documentation for further processing. The Bank will disburse the loan proceeds to the Borrower. The expected disbursements to be confirmed during the detailed design are presented in Table 2.

**Table 2:** Expected Disbursements in USD million

Fiscal Year	2021	2022	2023
Annual	10.0	30.0	20.0
Cumulative	10.0	40.0	60.0

Source: MRD and AIIB Project Team

36. An outline of the funds' flow for disbursements is presented hereafter:



DA = Designated Account; MRD = Ministry of Rural Development  
 Source: AIIB Project Team

37. **Governance and Anti-corruption.** The Bank is committed to preventing fraud and corruption in the projects it finances. For this project, the Bank’s Policy on Prohibited Practices (2016) shall apply. The Bank reserves the right to investigate, directly or indirectly through its agents, any alleged corrupt, fraudulent, collusive, coercive or obstructive practices, and misuse of resources and theft or coercive practices relating to the program and to take necessary measures to prevent and redress any issues in a timely manner, as appropriate.

38. **Institutional Capacity.** The Project includes the necessary implementation arrangements with one PMU at MRD and five PIUs at the province level to attain and sustain the Project objective. MRD is benefitting from several ongoing technical assistance programs from the development partners on institutional strengthening for rural roads and WASH, road security, road asset management, computerized water asset registry and information management system that will contribute to the Project objective and the sustainability of the investment. Additional training under the ECOP will be provided to the local residents and returning migrants living in the Project area

on occupational health and safety prior to working under the contracts. The capacity building activities to the local labor and to the national contractors supports the upscaling of future rural infrastructure programs financed by the Bank and the development partners and ensure a strong foundation for learning and knowledge sharing.

39. **Reporting and Monitoring.** The Project will be monitored by the Bank's project team through four virtual missions per year until safe business travel resumes. While preparing the second project with the Ministry of Water Resources and Meteorology targeting approval in 2021, the project team can maximize its engagement with the counterpart with common issues on procurement, financial management, environment and social. The PMU will submit quarterly reports ahead of the virtual mission. The report will focus on project progress against the procurement plan, disbursement and results framework.

#### **D. Environmental and Social.**

40. **Environmental and Social Policy (including Standards) and Categorization.** AIIB's Environmental and Social Policy (ESP) including the Environmental and Social Exclusion List and relevant Environmental and Social Standards (ESS) apply to this Project. Given the emergency nature of this Project, a phased approach for addressing environmental and social (ES) risks and impacts has been adopted, as permitted under the ESP for Situations of Urgent Need of Assistance. The Project has been categorized as Category B and an ESMPF including a generic Environmental and Social Management Plan (ESMP) will be used as the Project's ES instrument. Under the phased approach, the preparation of the ESMPF may be deferred to the Project implementation phase. Consequently, the Bank may approve the Project prior to the preparation of the ESMPF and the field-based ES due diligence.<sup>21</sup>

41. Given the nature and potential of spread of the COVID-19 pathogen, the risks in Cambodia are considered to be significant by the Bank. However, the project is expected to have mostly positive ES impacts and generate local economic development and create jobs in rural areas supported by the Project and WASH sub-component A2. and the promotion of hygiene activities, contributing to preventing a wider spread of the disease during project implementation.

42. The ESMPF will review national and local laws and regulations on environmental and social management. It will also include mitigation actions for improving capacity and training on the proper use of Personal Protective Equipment, and social and behavioral awareness during project preparation and project implementation. The use of nature-based solutions and indigenous material is expected to reduce environmental impacts due to construction. The potential environmental impacts of the project will be from the construction of the rural roads and community ponds, which mostly will be temporary and reversible in nature during construction phase. Mitigation measures to address potential risks will be identified in the ESMP.

43. The Project components on rehabilitation and restoration of existing rural roads and community ponds, does not require acquisition of land. The construction of new

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<sup>21</sup> The government issued Standard Operating Procedures on Land Acquisition and Resettlement in 2018, which are being reviewed by the project team for compliance with the Bank's ESP.

ponds, which may require about 0.25 hectare each, is expected to have limited or no land acquisition impacts. In addition to the ESMPF, a resettlement planning framework (RPF), and Indigenous Peoples Planning Framework (IPPF) will be prepared to guide the preparation and assessment of subprojects identified if there are any involuntary resettlement impacts or impacts to Indigenous Peoples or ethnic minorities. The ESMPF will also include the conduct of due diligence on lands of existing roads and ponds for upgrading and restoration.

44. The ESMPF will also provide measures to support equitable access to project benefits for women and children, the elderly and the disabled. A Stakeholder Engagement Plan will be prepared and an appropriate project level Grievance Redress Mechanism (GRM) will be included as an element of the ESMPF.

45. Construction works for the rural road and community pond upgrading may require the engagement of workers, both from outside and within the communities. The ESMPF will include provisions for the Borrower to ensure that the project: (i) complies with applicable labor laws, (b) provides equal pay for equal work of equal value regardless of gender and ethnic groups, and on (c) prohibition of child and forced labor. Training to the local residents interested to participate in the civil works or the operation and maintenance will be provided by a non-government organization financed under the Project to ensure good practices on occupational health and safety, guided by the ECOP.

46. The ESMPF will be prepared following Loan effectiveness in parallel with development of the Project's detailed design and updated regularly as the COVID-19 situation evolves. All the activities will be screened and relevant ES assessment, consultations, and ES plans will be prepared before these are initiated. The ESMPF in English and summary in Khmer and the local language, as appropriate, will be disclosed by the Client on its website and in hard copies in the Project areas. This documentation will also be disclosed on AIIB's website.

47. AIIB's Policy on the Project-affected Peoples Mechanism (PPM) applies to this Project. The PPM has been established by AIIB to provide an opportunity for an independent and impartial review of submissions from Project-affected people who believe they have been or are likely to be adversely affected by AIIB's failure to implement the ESP in situations when their concerns cannot be addressed satisfactorily through the Project-level GRM or the processes of AIIB's Management. Information on AIIB's PPM is available at: <https://www.aiib.org/en/policies-strategies/operational-policies/policyon-the-project-affected-mechanism.html>.

## E. Risks and Mitigation Measures

**Table 3:** Summary of Risks and Mitigating Measures

Risk Description	Rating	Mitigation Measures
<b>A. Technical</b>		

<p><b>Climate change and natural disaster:</b></p> <p><b>Rural Roads:</b> Lack of technical capability to ensure quality of road works.</p> <p>Project roads suffer serious damage from severe and frequent disasters triggered by natural hazards.</p> <p>Insufficient financial and operational sustainability for appropriate road maintenance</p> <p><b>WASH:</b> Water supply may be affected by the variation in intensity and frequency of rainfall along with extended periods of drought in rural areas.</p> <p>Sustainability of water supply could be adversely affected by a lack of financial and institutional support.</p>	<p>Low</p> <p>Moderate</p> <p>Moderate</p> <p>Low</p> <p>Low</p> <p>Low</p>	<p>Even though the PMU is new, it is staffed with experienced personnel from MRD, which built its supervising capacity over the last 10 years through implementing the government national program supported by the development partners (footnote 11).</p> <p>Disaster and climate resilient road design will be applied based on the experience in other projects (footnote 13).</p> <p>Application of rural road asset management systems designed through previous and ongoing national rural roads programs to provision budget for O&amp;M.</p> <p>PMU supported by MRD operation and maintenance staff.</p> <p>Design incorporates climate proofing for adaptation: (i) Above likely predicted flood levels (return 10 years); (ii) Community ponds are deep enough to sustain the drought period and water storage well sealed to reduce evaporation and seepage. In addition, building awareness to the local population will focus on hygiene and water safety plans.</p> <p>User groups will be set up for each communal facility to take responsibility for ongoing O&amp;M with standardized timed-bound digital reporting to VDC. The user groups will be trained on operation and minor maintenance and repairs work. PDRD will manage major repairs requested by the user groups through VDC.</p> <p>Detailed Design, preparation of environmental and social documents and procurement activities will take place during the</p>
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<p>Delays in construction because of poor weather or COVID-19 containment.</p> <p>Inadequate water sources (quantity &amp; quality)</p>	<p>Moderate</p>	<p>rainy season (May to October) as much as possible. The contractor will prepare a catch-up plan for the dry season if weather conditions become severe or if additional containment measures are enforced.</p> <p>If surface or underground water sources cannot sustain adequate water supply in terms of flow or water quality (presence of arsenic, iron, ...), other alternative solutions will be selected from MRD's standard technical designs</p>
<p><b>B. Governance</b></p>		
<p><b>Fund flow</b> Government resources may not be available in a timely manner because of fiscal pressure from COVID-19 pandemic.</p>	<p>Moderate</p>	<p>Development partners provided budget support to support the government response to the COVID-19 crisis.</p> <p>Counterpart funding is mostly allocated to PMU incremental cost and taxes and duties.</p>
<p><b>Environmental and Social Risk</b> Implementation of the activities covering 5 provinces.</p> <p>Construction activities will be temporary, limited and reversible in nature. Limited land acquisition impacts are anticipated.</p>	<p>Moderate</p>	<p>An ESMPF will be developed and use to minimize the anticipated environmental and social impacts and provide mitigation and monitoring measures for the Project. The impacts will be temporary and reversible in nature.</p> <p>There will be a PMU and one PIU in each of the five project provinces which will include an environmental specialist; a social development specialist/community development specialist to ensure proper implementation of the ESMPF and the mitigation measures during project implementation.</p>
<p><b>Procurement:</b> Government resources may not be available in a timely manner because of fiscal pressure from COVID-19 pandemic.</p>	<p>Moderate</p>	<p>PMU consists of experienced staff properly trained with the support of a procurement consultant for the preparation and evaluation of bid documents in a transparent manner. Prior review by AIIB for some contracts. Procurement oversight by MEF Central PMU.</p>



<p><b>Staffing</b> Financial management, Environment &amp; Social and Procurement risks caused by significant turnover of staff as well as new PMU and PIUs</p> <p>Decentralized management over five provinces of mostly national contractors and communities level consultations and work</p>	<p>Substantial</p> <p>Moderate</p>	<p>MRD will consider additional stipend for provincial staff to secure stable human resources for the project.</p> <p>The PMU at MRD is associated with five PIUs located in each of the target provinces. The loan allocates funding for consulting services to support the Project including individual consultants to strengthen the PMU and the PIUs and a Project Management Consultant.</p>
<p><b>Overall</b></p>	<p><b>Moderate</b></p>	

AIIB = Asian Infrastructure Investment Bank; ESMPF = Environmental and Social Management Planning Framework; MEF = Ministry of Economy and Finance; MRD = Ministry of Rural Development; O&M = operation and maintenance; PDRD = Provincial Department of Rural Development; PMU = Project Management Unit; PIU = Project Implementation Unit; VDC = village development committee.

Source: AIIB Project Team

## Annex 1: Results Monitoring Framework

Project Objective:	Sustaining the rural economy and livelihood of vulnerable rural population and returning migrants affected by the COVID-19 pandemic							
Indicator Name	Unit of measure	Base-line Data (Year)	Cumulative Target Values			End Target	Frequency	Responsibility
			YR1	YR2	YR3			
<b>Project Objective Indicators:</b>								
1. Increased employment benefits income generation and capacity development of the vulnerable group of the rural population affected by the COVID-19 outbreak living in the Project areas.	Number of people	0 (2020)	10,000	25,000	50,000	50,000	Yearly	PMU
2. Capacity building of national contractors in quality rural infrastructure delivery and basic rural services delivery, including COVID-19 precaution measures	Number of contractors	0 (2020)	5	15	25	25	Yearly	PMU
3. Facilities with improved access: a. Economic b. Health c. Social	Number of Facilities a. Number of markets b. Number of health centers c. Number of School	0 (2020)	20 a. 10 b. 5 c. 5	100 a. 30 b. 15 c. 15	100 a. 50 b. 25 c. 25	100 a. 50 b. 25 c. 25	Yearly	PMU
4. Improved access to WASH services, especially hand-washing measures as primary COVID-19 mitigation.	People	0 (2020)	25,000	75,000	150,000	150,000	Yearly	PMU

<b>Project Objective:</b>	Sustaining the rural economy and livelihood of vulnerable rural population and returning migrants affected by the COVID-19 pandemic							
Indicator Name	Unit of measure	Base-line Data (Year)	Cumulative Target Values			End Target	Frequency	Responsibility
			YR1	YR2	YR3			
<b>Intermediate Results Indicators:</b>								
1. Rural roads upgraded with climate resilience measures	Kilometers	0 (2020)	35	135	235	235	Yearly	PMU
2. Water Supply Sanitation and Hygiene services	Villages	0 (2020)	25	75	150	150	Yearly	PMU

Source: AIIB Project Team

## Annex 2: Detailed Project Description

1. In Cambodia, road is the primary mode of transport. The national road network is approximately 60,602 km, including about 45,088 km of rural roads vulnerable to erosion and flooding compounded by climate change. Rural roads are known as lifeline to support the growth of multi-sector economic activities, including social development and connectivity between cities, villages, and agricultural farms. A strong rural road network is indispensable for Cambodia to restore its economic development during and after the COVID-19 pandemic. MRD is responsible for the management of the rural roads network in the country with strong capacity in road development and construction projects based on the last twenty years' experience with the development partners on the national rural roads' infrastructure programs, now in its Phase III (footnote 11). The Strategy steps-up the construction of national, provincial, and rural roads and targets paving 300 to 400 km of roads each year (footnote 10). The Project contributes to the national strategic development plan to improve, enhance and effectively maintain rural infrastructure under the country rural development' slogan "having road is having hope" and provide short term employment opportunities to the local residents and the returning migrants living in the Project areas.

2. The Project focuses on generating local economic development; creating employment opportunities and improving road surface of about 235 km existing rural roads to stimulate the agriculture sector and sustain rural livelihood, trade flows and food security impacted by the COVID-19 pandemic. The Project is consistent with an increased rate of rural roads utilization because of the natural growth of the rural population and the high number of returning migrants both who will benefit from employment benefits under Project. The rural roads to be restored under the Project were strictly selected by the Provincial Department of Rural Development, based on current road conditions, geography of the target provinces and suggestions, complaints and requests from the population consulted through public forum and consultation meetings.

3. The Project covers five provinces; three provinces, Kampong Chhang, Tboung Khmum and Prey Veng are located in mostly flat areas and two provinces, Palin and Koh Kong in mountainous areas. All the Project's roads connect from a town to agricultural farms and contribute to the rural development agenda under the COVID-19 pandemic. Existing rural roads are mostly earth or laterite road; some roads are surfaced with mountain sand. The rural population 's main income comes from rice paddy, casava, corns and fruits. During dry season, the roads are subject to sandstorm with numerous potholes due to erosion; in rainy season, the roads are flooded with bridges collapsing due to insufficient drainage facilities resulting in erosion. The proposed location of the rural roads financed under the Project are shown in the following map and table:

No	Province	Name of sub-projects	Length (Km)	Districts	Communes
1	Kampong Chhnang	KCH 1	20.30	Kampong Tralach	Seb, Chhouk Sar and AkPhivath
		KCH 2	12.40	Teuk Phos	Tang Krasang and Akphivath
		KCH 3	6.60	Kampong Tralach	Seb
		KCH 4	13.30	Rolea Beir	Andoung Snav and Kouk Bunteay
2	Prey Veng	PV1	24.10	Preah Sdach and Peam Chor	Boeung Dal, Krang Trayong, Roeusey Srok and Koh Sampov
		PV2	8.00	KanhChriech	Preil
		PV3	12.30	Preah Sdach	Lvea, Cheykampok, Angkoreach
3	Tboung Khmum	TBK1	26.00	Memot	Chaom Treath and Chaom Tamao
		TBK2	18.00	Memot and Ponhea Kraek	Dar and Kraek
4	Pailin	PL1	19.00	Srok Sala Krao	Kach, Ou Angdong and Steung Trang
		PL2	14.60	Srok Sala Krao	Srok Sala Kraov
		PL3	11.40	Srok Sala Kraov	Ou Angdong and Steung Trang
5	Koh Kong	KK1	32.30	Thmar Bang	Roeusey Chrom, Chomnub and Brolay
		KK2	16.20	Botum Sakor, Thmar Bang	Chiphat
		<b>TOTAL</b>	<b>234.50</b>		

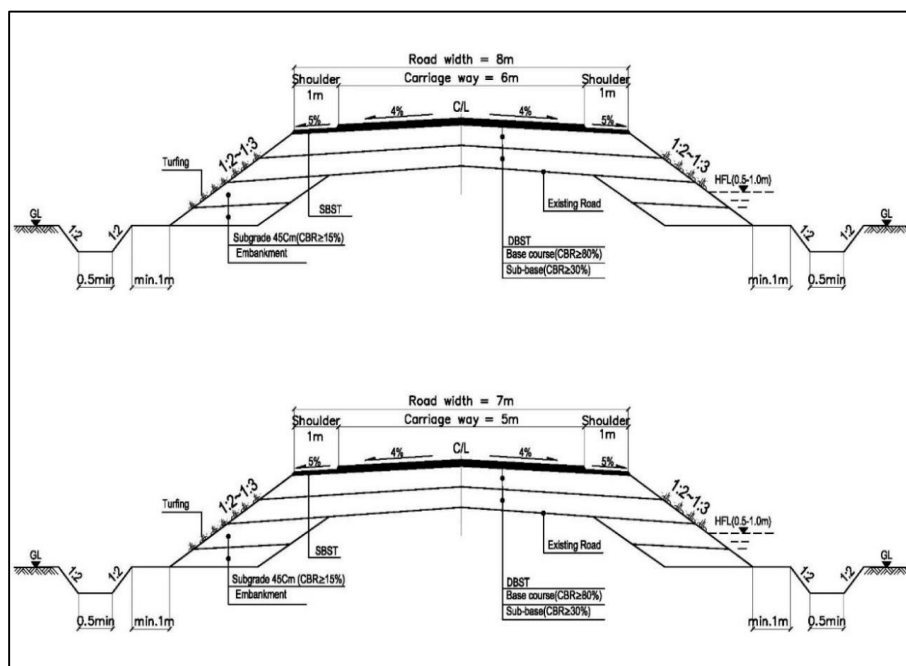
Source: MRD

4. MRD developed road policy, strategies, designs, guidelines and specifications to meet the operation and maintenance budget for sustainable rural road development, including the formulation of a policy framework for rural roads (1999, 2002 and latest revision in 2009) which gives a competitive advantage to upgrade laterite into Double Bituminous Surface Treatment (DBST) pavement rural roads. Current technical specifications and standards were designed by MRD's engineers with the structural design developed under previous and ongoing programs to match the local conditions and meet the increasing traffic demand and necessary climate-resilient standards for climate proofing. Key technical specifications parameters proposed for the Project are outlined hereafter:<sup>22</sup>

<sup>22</sup> This will be reconfirmed during the detailed engineering design by taking into consideration indigenous material and nature-based solutions against fast tracking project implementation.

- Roads' width of carriage way: 6.0 meters and shoulder width 1.0-1.50 meters for road type 1 (RR1: district to district)
- Roads' width of carriage way: 5.0 meters and shoulder width 1.00-1.50 meters for type 2 (RR2: district to commune).
- Roads' width of carriage way: 3.5 meters and shoulder width 1.00-1.50 meters for type 3 (RR3: commune to commune).
- Roads' width of carriage way: 3.5 meters and shoulder width 0.75-1.00 meter for type 4 (RR4: village to village).

5. Rural roads design follows the least cost economic option available for a specific location taking into consideration the traffic demand and the whole life-cycle costs, in particular maintenance costs to ensure the sustainability of the assets.



Source: Standard Cross Sections DBST improvement, MRD

6. Nearly 80% of the rural road traffic is motorcycles with road user behavior accounting for over 90% of road crashes. Paved rural roads experience a higher risk for road crashes caused by higher speed. A road safety component based on the methodology developed by the development partners (footnote 11) will be implemented as part of the Project.

7. For a sustainable and effective rural water supply system promoting WASH awareness, the Project includes both new and rehabilitation of water supply investments and community mobilization to promote the community's active participation in the operation and maintenance arrangements ; raise community awareness on safe water use, sanitation and hygiene, including personal protective equipment; and provide employment opportunities for local residents and returning migrants living in the Project areas for both contracting and operation and maintenance. The Project includes four key activities:

- Rehabilitate 75 Ordinary Community Ponds and Construct 75 New Community Ponds with Stone Masonry Slope Protection.
- Build community awareness to safe water use, sanitation and personal hygiene.

- Establish water user groups at the village level to ensure that end users are committed to operate and maintain WASH facilities.
- Provide technical training on the operation and maintenance to the community ponds in technical aspects and WASH issues.

8. The Project will contribute to improve the public health in the target villages and the rural residents will benefit from better social services, especially women and girls who are usually responsible for household water collection as well as local economic development through employment benefits for jobless local residents and returning migrants. The community awareness building is expected to enhance the creation of a safe and hygienic environment in rural Cambodia. The WASH Program will be an entry point for other community development action plans in the target villages and will be upscaled to other villages.

9. The provision of adequate drinking water supply can be considered as a major health intervention which is expected to decrease health care expenditures and the total number of healthy days lost. The increased COVID-19 preparedness through handwashing, the reduction of waterborne diseases and improved community health will have economic benefits in the form of improved general work efficiency and productivity, reduced number of work or school-days lost due to sickness from waterborne diseases and reduced household expenditures on medicine and medical care.

10. The Project will be implemented in the same five provinces as the rural roads (Annex 2. Para. 3.). Those areas are subject to serious drought with high impact of the water sources and failing groundwater level preventing year-round water supply. The construction and rehabilitation of community ponds will enhance the living and health conditions of the rural residents through employment benefits and improve COVID-19 preparedness.

<b>Target Province</b>	<b>Rehabilitation Ordinary Community Ponds</b>	<b>New Community Ponds</b>	<b>Total</b>
Kampong Chhnang	15	15	30
Tboung Khmum	15	15	30
Prey Veng	15	15	30
Pailin	15	15	30
Koh Kong	15	15	30
<b>Total</b>	<b>75</b>	<b>75</b>	<b>150</b>

Source: MRD

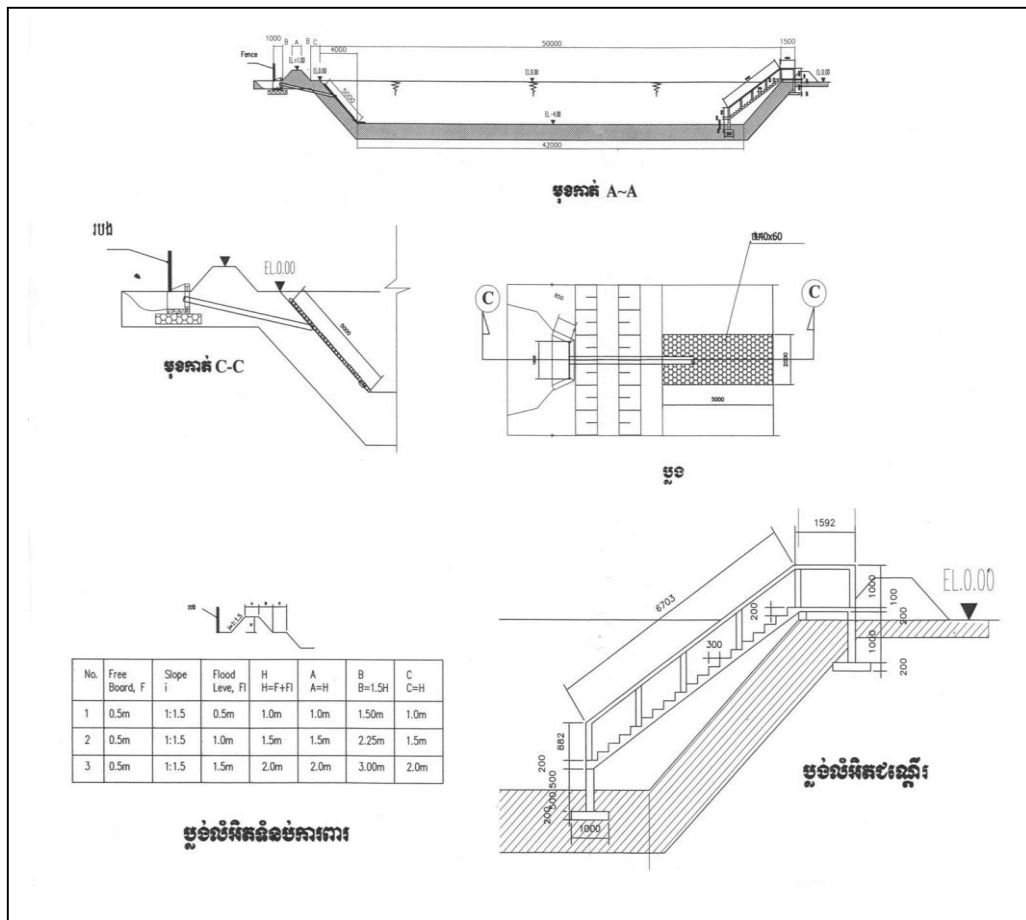
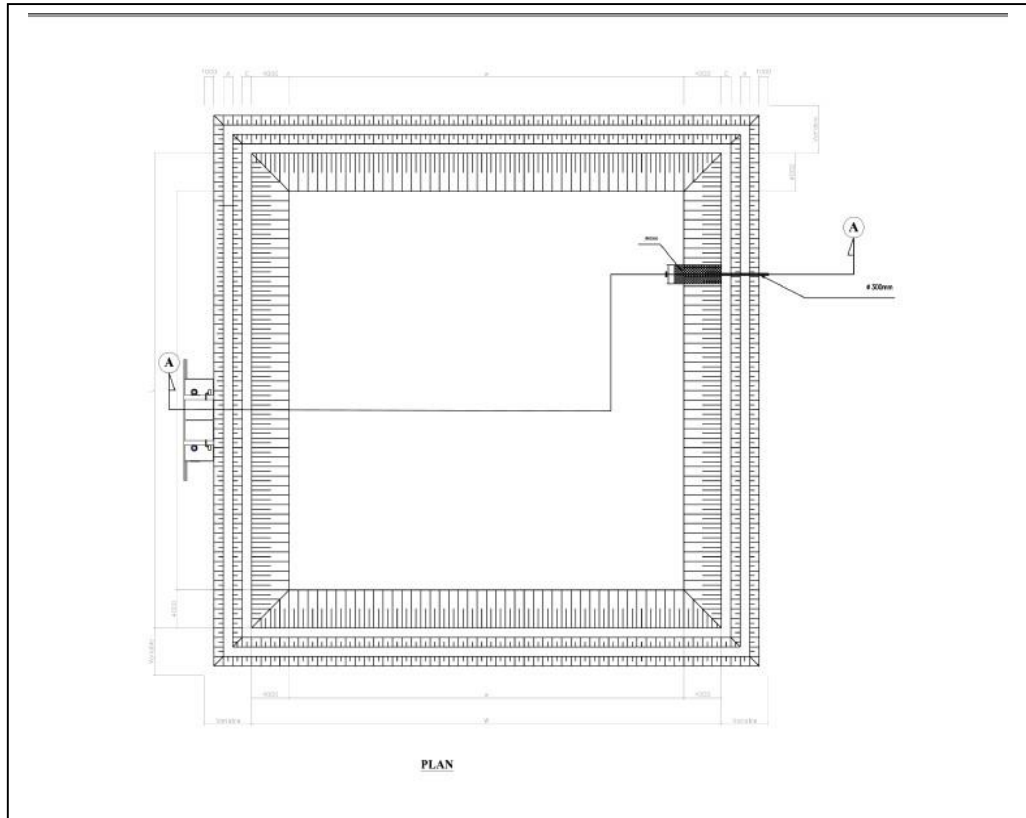
11. The government is prioritizing access to water supply and sanitation service to meet the Sustainable Development Goal,<sup>23</sup> but most importantly to provide water supply for handwashing as part of COVID-19 primary protection measures in addition to PPE. In 2011, the government approved the “*National Strategy of Rural Water Supply, Sanitation and Hygiene*” (2011 - 2025)” with the ultimate goal that “*every person in rural community has sustained access to safe water supply and sanitation service and lives in a hygienic environmental by 2025*”. MRD recently approved the “*National Action Plan of Rural Water Supply (2019-2023)*” targeting 90% coverage by 2023 from 73% in 2017.

12. MRD coordinates the *Technical Working Group for Rural Water Supply, Sanitation and Hygiene* to operationalize the strategy and action plan in order to achieve those targets. MRD also designed several technical handbooks to harmonize standards for rural water supply construction and improvement. The new ordinary community ponds are designed with input from the communities through a participatory and consultation process: (i) Survey of existing water ponds, including sustainability of the water sources; (ii) Village mapping exercise to locate existing hand pump wells, ponds, and users (within 350 meters range of a point source); and (iii) identification and localization of new ordinary ponds, based on the location of households without any water assets within 350 meters.

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<sup>23</sup> SDG6: *Ensure availability and sustainable management of water and sanitation for all.*





Source: Standard design ordinary community ponds, MRD.

### Annex 3: Sovereign Credit Fact Sheet

#### Recent Economic Development

1. Cambodia is a lower-middle-income country with GDP per capita at USD 1,645 and a population of 16.2 million.<sup>1</sup> The country achieved high growth rates in the last few years, thanks to an increase in exports, strong internal demand, as well as an increase in FDI. Growth slowed down slightly in 2019 but remained strong at 7 percent. Although there was a contraction in the agriculture sector due to low rainfall, growth was driven by the construction sector, exports of garments and footwear, as well as tourism.
2. Cambodia has been able to avoid the health crisis associated with COVID-19, with less than 300 cases in total. The economic impact of the pandemic, however, coupled with EU's partial suspension of the Everything But Arms agreement (which limits the quota for garment and textile products and tariff-free access into the EU market) have had a significant negative impact on the economy.
3. Cambodia has been running persistent current account deficits, and the deficit worsened in 2019. Global headwinds such as sluggish demand, along with strong domestic consumption led to import growth outpacing export growth. The current account deficit reached 15.8 percent of GDP in 2019. Strong FDI inflows, which increased in 2019, financed the deficit.
4. Inflation remained low in much of 2019 and decreased to 2.0 percent, thanks to steady food prices and fuel price easing but increased to 3.1 percent towards the end of the year as food prices rose. By March 2020, inflation had decreased again, due to low demand and consumption, but it has picked up afterwards due to higher food prices.
5. Fiscal performance has been supported by gains from customs and tax administration reforms and strong economic activity. Record revenues in 2019 led to a fiscal surplus of 3.2 percent of GDP, despite a rising wage bill and the budgeted deficit. The government has planned to use the savings to finance a series of public health and social assistance measures.

#### Selected Macroeconomic Indicators (FY2016-FY2021)

<b>Economic Indicators<sup>#</sup></b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020*</b>	<b>2021*</b>
<b>Real GDP Growth</b>	7.0	7.5	7.0	-2.8	6.8
<b>Inflation (CPI average)</b>	2.9	2.4	2.0	2.5	2.9
<b>Current account balance (% of GDP)</b>	-7.9	-12.2	-15.8	-25.4	-16.3
<b>General government overall balance (% of GDP)</b>	-0.8	0.7	3.2	-2.4	-2.4

<sup>1</sup> The income group classification for fiscal year 2019 is based on World Bank criteria, details seen: <https://datahelpdesk.worldbank.org/knowledgebase/articles/906519>; Population and GDP per capita data are sourced from World Bank 2019 data.

<b>Public Sector Debt (% of GDP)</b>	30.0	28.6	28.6	31.5	31.4
<b>Gross Financing Needs (% of GDP) 1/</b>	1.4	0.0	0.4	3.6	2.9
<b>External debt (% of GDP) 1/ 2/</b>	30.0	28.6	28.5	31.5	31.4
<b>Gross External Financing Need (% of GDP) 1/</b>	-3.3	0.5	1.7	14.2	5.6
<b>Gross official reserves (billions of USD)</b>	12.2	14.6	16.9	-	-
<b>Exchange Rate (KHR/USD) 3/</b>	4,025	3,992	4,055	4,060	

Note: \* denotes projected figures.

1/ Data in 2020 and 2021 come from AIIB staff projection, based on IMF assumption;

2/ Due to data deficiency, private sector external debt is excluded from the analysis;

3/ FX rate come from National Bank of Cambodia.

Data source: IMF World Economic Outlook October 2020

### **Economic Outlook and Risks**

6. Looking ahead, the Cambodian economy is expected to contract by 2.8 percent in 2020. The sharp decline in orders from Europe and North America has already led to closures of many garment, textile and footwear factories. Similarly, the slump in tourism activities is expected to weigh negatively on the service sector. Although growth is expected to pick up in 2021, as the pandemic wanes, the impact of the pandemic and EU's withdrawal of the preferential market access will continue to affect Cambodia's near-term growth. Key risks include weakness in garment, textile and footwear and construction, poor agriculture output and subdued consumer demand. Construction and infrastructure industry are likely to continue playing a significant role as country's growth drivers.
7. Fiscal balance is expected to turn negative in 2020. The impact of COVID on trade and services is expected to lead to a significant decline in revenues: the least-affected sector, agriculture, is tax-exempt and the most-affected export and construction are revenue-drivers. Similarly, the government's stimulus package to counter the economic losses from the suspension of the preferential trade agreement with the EU is expected to push the government expenditure bill up.
8. The current account is projected to deteriorate sharply, driven by a strong decline in tourism and a drop in orders from the EU and the US. Given the global impact of the pandemic and the uncertain recovery outlook, FDI inflows are projected to be muted. Hence, the country is expected to borrow externally to finance the current account deficit. Inflation is expected to inch up due to food inflation, despite the suppressed demand.
9. The joint WB and IMF debt sustainability framework for low income countries suggests that Cambodia is at a low risk of external debt distress, however, debt sustainability is vulnerable to export and growth shocks.

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