



Report and Recommendation of the President to the Board of Directors

Project Number: 46293-004
October 2014

Proposed Loan Kingdom of Cambodia: Greater Mekong Subregion Tourism Infrastructure for Inclusive Growth Project

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 20 October 2014)

Currency unit	–	riel/s (KR)
KR1.00	=	\$0.00025
\$1.00	=	KR4,070

ABBREVIATIONS

ADB	–	Asian Development Bank
DOT	–	department of tourism
DPWT	–	department of public works and transport
EMP	–	environmental management plan
GMS	–	Greater Mekong Subregion
IEE	–	initial environmental examination
MOT	–	Ministry of Tourism
O&M	–	operation and maintenance
PCU	–	project coordination unit
PIU	–	project implementation unit
SDR	–	special drawing right

NOTES

- (i) The fiscal year of the Government of Cambodia and its agencies ends on 31 December.
- (ii) In this report, “\$” refers to US dollars, unless otherwise stated.

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PROJECT AT A GLANCE

1. Basic Data		Project Number: 46293-004	
Project Name	Greater Mekong Subregion Tourism Infrastructure for Inclusive Growth Project	Department /Division	SERD/TRM
Country	Cambodia	Executing Agency	Ministry of Tourism
Borrower	Ministry of Economy and Finance		
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Industry and trade	Small and medium enterprise development		1.00
	Trade and services		2.00
Transport	Water transport (non-urban)		12.00
Water and other urban infrastructure and services	Urban sanitation		3.00
	Total		18.00
3. Strategic Agenda	Subcomponents	Climate Change Information	
Inclusive economic growth (IEG)	Pillar 2: Access to economic opportunities, including jobs, made more inclusive	Adaptation (\$ million)	15.00
Environmentally sustainable growth (ESG)	Global and regional transboundary environmental concerns	Climate Change impact on the Project	Medium
	Natural resources conservation		
	Urban environmental improvement		
Regional integration (RCI)	Pillar 2: Trade and investment		
4. Drivers of Change	Components	Gender Equity and Mainstreaming	
Governance and capacity development (GCD)	Civil society participation	Effective gender mainstreaming (EGM)	✓
	Institutional development		
	Organizational development		
Knowledge solutions (KNS)	Knowledge sharing activities		
Partnerships (PAR)	Civil society organizations		
	Implementation		
Private sector development (PSD)	Promotion of private sector investment		
5. Poverty Targeting		Location Impact	
Project directly targets poverty	No	Nation-wide	High
6. Risk Categorization:	Low		
7. Safeguard Categorization	Environment: B Involuntary Resettlement: B Indigenous Peoples: C		
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		18.00	
Sovereign Project loan: Asian Development Fund		18.00	
Cofinancing		0.00	
None		0.00	
Counterpart		0.77	
Government		0.77	
Total		18.77	
9. Effective Development Cooperation			
Use of country procurement systems		Yes	
Use of country public financial management systems		Yes	

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed loan to the Kingdom of Cambodia for the Greater Mekong Subregion (GMS) Tourism Infrastructure for Inclusive Growth Project.¹ This is one of three complementary projects for the participating GMS countries; the others will be in the Lao People's Democratic Republic and Viet Nam.²

2. The project will remove physical and capacity constraints impeding tourism development in Kampot, Kep, and Koh Kong, three provinces situated in the GMS Southern Coastal Corridor. It will contribute to inclusive economic growth in Cambodia by (i) creating about 17,000 tourism-related jobs, 60% of which will be held by women; (ii) paving 6.5 kilometers of rural roads and constructing a marine ferry terminal to open new areas for tourism and improve access to markets and social services for about 12,000 residents; (iii) improving wastewater management in areas important for tourism to reduce public health hazards for 12,700 residents and 1.16 million annual visitors beginning in 2019; and (iv) facilitating business support services and access to microfinance for at least 375 micro, small, and medium-sized enterprises. The project will strengthen regional cooperation and integration by implementing regional tourism standards, promoting multi-country tour circuits, and facilitating policy dialogue to reduce nonphysical barriers to travel. The project investment plan is in line with the GMS Tourism Sector Strategy, 2005–2015³ and Cambodia's Tourism Development Strategic Plan, 2012–2020.⁴

II. THE PROJECT

A. Rationale

3. **Subregional context.** Among country groupings in Asia and the Pacific, the GMS has a strong comparative advantage in tourism as a result of its diverse cultural and natural assets, good international air and land transport connectivity, and surging demand for intraregional leisure travel. International tourist arrivals are growing by 12.4% per year and reached an all-time high of 44.8 million in 2012, generating \$44.3 billion in receipts. Tourism sustains 7 million jobs and creates significant positive economic spillovers in other sectors. About one-third of international arrivals visit at least two countries while travelling in the GMS, and millions of residents cross borders for day trips. GMS countries are keen to strengthen subregional tourism cooperation and recently reaffirmed their commitment to promote cross-border tourism under the GMS Economic Cooperation Program Strategic Framework, 2012–2022.⁵ Nevertheless, underinvestment in public infrastructure beyond the major gateways holds back the expansion of private tourism enterprises and the dispersal of benefits to less-developed areas.⁶

4. **National priorities.** Cambodia received 3.58 million international tourists in 2012, a 24% increase compared with 2011 but only 8% of total GMS arrivals. Tourism directly contributes 11.5% to gross domestic product and sustains 780,000 jobs (12.4% of total employment).⁷ The government's Tourism Development Strategic Plan 2012–2020 is consistent with the GMS Tourism Sector Strategy, prioritizing transport and urban infrastructure upgrades, human

¹ The design and monitoring framework is in Appendix 1.

² The Asian Development Bank (ADB) provided project preparatory technical assistance. ADB. 2012. *Preparing the Greater Mekong Subregion Tourism Infrastructure for Inclusive Growth Project*. Manila.

³ ADB. 2005. *Greater Mekong Subregion Tourism Sector Strategy, 2005–2015*. Manila. The estimated cost to implement the strategy is \$430 million, of which 83% is allocated for infrastructure.

⁴ Ministry of Tourism, Cambodia. 2012. *Tourism Development Strategic Plan, 2012–2020*. Phnom Penh.

⁵ ADB. 2011. *Greater Mekong Subregion Economic Cooperation Program Strategic Framework, 2012–2022*. Manila.

⁶ Sector Assessment (Summary): Tourism in the Greater Mekong Subregion (accessible from the list of linked documents in Appendix 2).

⁷ World Travel and Tourism Council. 2013. *Travel and Tourism Economic Impact 2013: Cambodia*. London.

resource development, and policy enhancements to improve the business enabling environment for tourism. The 2009 Law on Tourism provides the legal basis for the plan, directing the Ministry of Tourism (MOT) to lead development of a quality and sustainable tourism industry that contributes to job creation and poverty reduction. Strategic objectives are to (i) diversify tourism products and services with a focus on the coastal zone and northeast, (ii) improve internal transportation networks and regional connectivity, (iii) enhance marketing and promotion, and (iv) minimize negative tourism impacts. Targets for 2020 are 7 million international arrivals, 10 million domestic trips, and \$5 billion equivalent in tourism receipts.

5. **Key issues.** Although Cambodia has long stretches of pristine beaches, a protected area network covering 24% of the country, and widely dispersed cultural attractions with good development potential, tourism is highly concentrated in Siem Reap and the temples of Angkor, which account for 58% of international arrivals, 30% of hospitality investment, and the majority of tour operations.⁸ Women comprise about 60% of tourism workers; however, many are employed in lower-skilled jobs paying lower wages, and women are underrepresented in tourism management. The key impediments to more inclusive and geographically balanced growth are insufficient transport infrastructure in secondary destinations, weak market linkages between the tourism supply chain and other economic sectors, and limited institutional capacity to promote tourism-related enterprise development in lagging areas. Consequently, up to 40% of tourism receipts leave the country to purchase tourism-related imports such as food, souvenirs, and manufactured goods, and as little as 11% of destination spending reaches the poor.⁹ Low service standards and inadequate environmental services also suppress tourist spending and length of stay, limiting average receipts per visitor to about \$620—less than half the benchmark \$1,390 in Asia and the Pacific.¹⁰

6. To engender a more equitable pattern of tourism development, the project will develop an international marine passenger pier in Kampot to facilitate the movement of tourists into the southern coastal zone. This will establish a new gateway between southern Cambodia, Viet Nam, and other destinations in the Gulf of Thailand, helping to unlock the area's clear potential for tourism growth. Complementary project investments will improve wastewater management and sanitation in neighboring Kep province and strengthen the capacity of local entrepreneurs and destination management organizations.¹¹ This integrated approach will catalyze additional private investment in tourism superstructure and services, and ensure that tourism growth is environmentally and socially sustainable.¹²

7. **Related policies and strategies.** The project is in line with the government's Rectangular Strategy for Growth, Employment, Equity, and Efficiency, Phase III, which aims to accelerate economic growth, create jobs, and reduce inequality.¹³ Project outputs align with strategic thrusts to (i) develop physical infrastructure in areas with high economic and tourism potential, (ii) promote private sector development and employment, and (iii) accelerate capacity building and human resource development. The emphasis on improving subregional connectivity, improving the quality and coverage of environmental services, strengthening value chains, and creating jobs for unskilled and semiskilled workers supports the overarching aim of

⁸ Ministry of Tourism, Cambodia. 2012. *Tourism Statistics. Annual Report, 2012*. Phnom Penh.

⁹ J. Mitchell and C. Ashley. 2010. *Tourism and Poverty Reduction: Pathways to Prosperity*. London: Earthscan.

¹⁰ United Nations World Tourism Organization. 2013. *UNWTO Tourism Highlights*. Madrid.

¹¹ A destination management organization is defined as a public, private, or public-private entity responsible for the management and/or marketing of tourism in a geographic region defined for that purpose.

¹² Tourism superstructure includes all facilities that are developed especially to respond to the demands of visitors.

¹³ Government of Cambodia. 2013. *Rectangular Strategy for Growth, Employment, Equity, and Efficiency, Phase III*. Phnom Penh.

the interim country partnership strategy, 2014 of the Asian Development Bank (ADB) for Cambodia: inclusive economic growth and poverty reduction.¹⁴ The project reinforces regional efforts to increase cross-border investment flows and develop the GMS economic corridors.

8. **Development coordination.** The GMS Tourism Working Group is the forum for coordinating regional tourism sector assistance.¹⁵ Senior GMS tourism officials and ADB co-chair semiannual working group meetings to guide implementation of the GMS Tourism Sector Strategy and identify policy issues for elevation to the annual GMS tourism ministers meeting and the triennial GMS summit. In Cambodia, sector coordination is led by the MOT and Council for the Development of Cambodia. Other development partners engaged in tourism are the German development cooperation through Deutsche Gesellschaft für Internationale Zusammenarbeit, the Government of New Zealand, the Japan International Cooperation Agency, and the Wildlife Conservation Society. The Pacific Asia Travel Association is the leading industry group with over 1,100 members.

9. **Lessons.** ADB's GMS tourism sector assistance program and completed tourism projects in Cambodia are rated *successful*.¹⁶ Lessons from past projects include the need to (i) analyze tourism demand in project areas to guide the selection of infrastructure investments, (ii) improve cross-sector coordination and build synergies with other ADB assistance, (iii) provide capacity building for project management and infrastructure operation and maintenance (O&M), and (iv) promote private enterprise development alongside infrastructure to expand income-generating opportunities for local residents. Applying these lessons, the project has selected relevant infrastructure subprojects based on robust market analysis and complementarities with other ADB and development partner assistance for urban development, water supply and sanitation, vocational training, and tourism.¹⁷ Capacity building for entities responsible for O&M and parallel support for micro and small enterprises that are mainly led by women will enhance the sustainability of project outputs and ensure benefits reach vulnerable groups. The project deliberately focuses on improving infrastructure and capacity to connect lower-income groups to markets, and enabling lower-educated residents to access salaried employment and other economic opportunities.

10. **Special features.** The project will (i) strengthen collaboration between the government, the private sector, civil society, and local communities to improve tourism destination management; (ii) demonstrate how tourist entry fees and charges can help finance the maintenance of public goods such as water transport terminals and wastewater treatment; (iii) strengthen knowledge partnerships among GMS and the Association of Southeast Asian Nations members; and (iv) leverage service sector opportunities to accelerate widening of the GMS transport corridors into economic corridors by linking secondary tourism destinations with increasingly affluent regional markets.

B. Impact and Outcome

11. The impact of the project will be increased tourism employment for people living in underdeveloped segments of the GMS Southern Coastal Corridor. The outcome will be increased tourism receipts in the three project provinces of Kampot, Kep, and Koh Kong. By 2019, aggregate annual international tourism receipts in the three project provinces will increase

¹⁴ ADB. 2014. *Cambodia: Interim Country Partnership Strategy, 2014*. Manila.

¹⁵ Development Coordination (accessible from the list of linked documents in Appendix 2).

¹⁶ ADB. 2009. *Sector Assistance Program Evaluation. Tourism Sector in the Greater Mekong Subregion*. Manila; ADB. 2013. *Completion Report: Greater Mekong Subregion Tourism Development Project*. Manila.

¹⁷ Tourism Demand Analysis (accessible from the list of linked documents in Appendix 2).

to \$60 million, helping to stimulate the creation of 17,000 additional tourism-related jobs by 2025. Based on current workforce participation rates, it is expected that 60% of these jobs will be held by women.

C. Outputs

12. The project will have the following outputs: (i) last-mile tourism access infrastructure improved, (ii) environmental services in cross-border tourism centers improved, (iii) institutional capacity to promote inclusive tourism growth strengthened, and (iv) effective project implementation and knowledge management.¹⁸ Project areas include Kampot province, with well-preserved Khmer and colonial architecture, and seaside towns in Kep and Koh Kong provinces. The following criteria guided the selection of output 1 and output 2 subprojects shown in Table 1: (i) infrastructure constraints; (ii) location in a GMS corridor with good tourism and economic development potential; (iii) the site is in a multi-country tour circuit prioritized in the GMS Tourism Sector Strategy and national tourism strategy; (iv) private enterprises and local communities are interested in managing public tourism amenities that will be developed by the project; and (v) local stakeholders, including women, endorse the subprojects.

Table 1: Infrastructure Subprojects

Output and Subproject	Description
Output 1: Kampot pier development, Kampot	The subproject will construct a new passenger pier, comprising (i) 150 meters of embankment stabilization and a 50 meter jetty with 1,500 square-meter landing area; (ii) arrival hall with customs and immigration facilities, administration offices, and commercial space; (iii) parking and supporting infrastructure including power and water supply, sanitation, and an on-site wastewater treatment system; and (iv) upgrade the existing 6.5 kilometer public access road linking the pier with Kampot town. The pier will create employment and income-generating opportunities for at least 12,000 residents and 119 local tourism enterprises.
Output 2: Kep crab market environmental improvements, Kep	The subproject will (i) install anaerobic baffle reactor septic tanks to treat wastewater and provide connections for all shops and restaurants operating in the Kep crab market; (ii) expand the crab market structure and construct additional toilet blocks; (iii) upgrade the existing parking area, internal drainage, walking paths and public open space; and (iv) provide vacuum tankers and other necessary equipment for routine desludging of septic tanks. Improved sanitation will benefit at least 330 fixed and mobile vendors, 12,700 residents, and 800,000 visitors annually.

Source: Asian Development Bank.

13. Output 3 will complement the project's infrastructure investments and other ADB assistance in the coastal zone such as the GMS Southern Coastal Corridor Project and GMS Biodiversity Corridors Conservation Project by enhancing the capacity of destination management organizations to (i) develop and implement sustainable tourism plans and policies, (ii) conduct public awareness programs on the benefits and potential negative impacts of tourism, (iii) provide business support services for micro and small enterprises, (iv) provide skills training that targets lower-educated learners, and (v) strengthen the protection of heritage assets.¹⁹ The focus will be on assisting local residents better understand the challenges and opportunities that tourism growth presents, and widening access to jobs in retail services, food and craft production, recreation services, and salaried employment in hotels and guesthouses.

¹⁸ Detailed descriptions are in Project Administration Manual (accessible from the list of linked documents in Appendix 2).

¹⁹ ADB. 2007. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Grant to the Socialist Republic of Viet Nam: Greater Mekong Subregion Southern Coastal Corridor Project*. Manila; ADB. 2010. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Grants to the Kingdom of Cambodia, the Lao People's Democratic Republic, and the Socialist Republic of Viet Nam for the Greater Mekong Subregion Biodiversity Conservation Corridors Project*. Manila.

14. Output 4 will build capacity within the MOT, departments of tourism (DOTs), and departments of public works and transport (DPWTs) to ensure that financial management and procurement, civil works supervision and O&M, and environmental and social safeguards monitoring complies with ADB and government requirements. Output 4 will (i) support knowledge management and training programs aligned with the Association of Southeast Asian Nations tourism standards, (ii) help steer tourists to project provinces by promoting multi-country tour circuits in GMS corridors, and (iii) assist the participating countries develop common systems to collect and report tourism statistics to facilitate informed decision making and the formulation of sound tourism management policies.

D. Investment and Financing Plans

15. The project is estimated to cost \$18.77 million (Table 2), with 54.7% of the total project cost allocated for civil works, 5.6% for equipment, 0.1% for resettlement, 8.6% for consulting services, 8.7% for capacity building, 7.7% for recurrent costs, and 14.6% for contingencies and finance charges during implementation.

Table 2: Project Investment Plan
(\$ million)

Item	Amount ^a
A. Base Cost^b	
Output 1: Last-mile tourism access infrastructure improved	9.62
Output 2: Environmental services in cross border tourism centers improved	1.33
Output 3: Institutional capacity to promote inclusive tourism growth strengthened	1.26
Output 4: Effective project implementation and knowledge management	3.81
Subtotal (A)	16.02
B. Contingencies^c	2.35
C. Financing Charges During Implementation^d	0.39
Total (A+B+C)^e	18.77

^a Includes taxes and duties of \$1.44 million to be financed from Asian Development Bank loan resources.

^b In mid-2014 prices.

^c Physical contingencies computed at 10% for civil works, equipment, consulting services and training, and capacity building. Price contingencies computed using cost escalation factors of -1.5% to 0.5% progressively for foreign costs and 2.5% to 3.5% for local costs, including provision for potential exchange rate fluctuation assuming purchasing power parity exchange rates.

^d Includes interest charges during implementation for the Asian Development Bank loan computed at 1% per annum.

^e Numbers may not sum precisely because of rounding.

Source: Asian Development Bank estimates.

16. The government has requested a loan in various currencies equivalent to SDR12,170,000 from ADB's Special Funds resources to help finance the project. The loan will have a 32-year term, including a grace period of 8 years, an interest rate of 1.0% per annum during the grace period and 1.5% per annum thereafter, and such other terms and conditions set forth in the draft loan agreement. The loan will finance civil works, equipment, consulting services, capacity building and training, taxes and duties, capitalized interest charges during implementation, contingencies, and recurrent costs.²⁰ The government will finance an estimated amount of \$0.77 million equivalent to cover all land acquisition and resettlement (in cash), annual audit of project accounts (in cash), and counterpart salaries, office space, and utilities (in

²⁰ The ADB loan will finance taxes and duties as requested by the government, as these are within reasonable country thresholds, do not represent an excessive share of project investment, and apply to only ADB-financed expenditures that are relevant to the project's success. ADB will also finance recurrent costs, bank charges, transportation, and insurance to facilitate project implementation. ADB will not finance government counterpart salary supplements.

kind). The government will make the loan proceeds available to the executing agency and implementing agencies on a grant basis. The financing plan is in Table 3.

Table 3: Financing Plan

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank ^a	18.00	95.9
Government	0.77	4.1
Total	18.77	100.0

^a Asian Development Fund loan.
Source: Asian Development Bank.

E. Implementation Arrangements

17. The implementation arrangements are summarized in Table 4 and described in detail in the project administration manual (footnote 18).

Table 4: Implementation Arrangements

Aspects	Arrangements		
Implementation period	1 January 2015–31 December 2019		
Estimated completion date	31 December 2019		
Management			
Subregional steering committee	Minister, MOT; Senior officials representing the Ministry of Information, Culture and Tourism, Lao People's Democratic Republic; and the Ministry of Culture, Sports and Tourism, Viet Nam (rotating chair)		
National steering committee	Minister, MOT (chair); vice-governors of Kampot, Kep, and Koh Kong; officials representing MPWT, MEF, MOI, MOE, and MWA (members)		
Provincial steering committee	Vice-governors (chair); existing provincial tourism development and management committees will act as provincial steering committees		
Executing agency	MOT		
Project coordination unit	Comprising MOT staff; with MEF and MPWT coordinators (11 staff)		
Implementing agencies	DOTs of Kampot, Kep, and Koh Kong		
Implementation units	PIUs comprising DOT and DPWT staff in Kampot and Kep (13 staff); PIU in Koh Kong with DOT staff only (8 staff).		
Procurement	International competitive bidding	2 contracts	\$10,193,000
	National competitive bidding	3 contracts	\$710,000
	Shopping	28 contracts	\$223,000
Consulting services	Firm: QCBS	115 person-months	\$996,000
	Individuals	117 person-months	\$686,000
Retroactive financing and/or advance contracting	Advanced action for consultant recruitment requested Retroactive financing is not requested		
Disbursement	The loan proceeds will be disbursed in accordance with ADB's <i>Loan Disbursement Handbook</i> (2012, as amended from time to time) and detailed arrangements agreed upon between the government and ADB.		

ADB = Asian Development Bank, DOT = department of tourism, DPWT = department of public works and transport, MEF = Ministry of Economy and Finance, MOE = Ministry of Environment, MOI = Ministry of Interior, MOT = Ministry of Tourism, MPWT = Ministry of Public Works and Transport, MWA = Ministry of Women's Affairs, PIU = project implementation unit, QCBS = quality- and cost-based selection.
Source: Asian Development Bank.

18. All goods and civil works will be procured in accordance with ADB's Procurement Guidelines (2013, as amended from time to time). Civil works valued at \$1 million or above and goods valued at \$500,000 or above will be procured through international competitive bidding. The government's public procurement legislation and regulations (as acceptable to ADB) will be applied for packages below international competitive bidding thresholds for goods and works,

which will be procured using national competitive bidding. Goods and works will be procured through shopping for packages equivalent to \$100,000 and below. All consultants will be recruited in accordance with ADB's Guidelines on the Use of Consultants (2013, as amended from time to time).

19. The implementation arrangements are based on previous ADB projects.²¹ Policy guidance and oversight will be provided by subregional, national, and provincial steering committees that will meet at least twice per year. Development partners and members of the GMS Tourism Working Group will join steering committee meetings to coordinate other tourism sector assistance. The MOT will be the executing agency and DOTs of the project provinces will be the implementing agencies. Overall project coordination and regional cooperation activities will be led by a project coordination unit (PCU) embedded in the MOT. The minister of tourism will be Cambodia's representative to the subregional steering committee and chairperson of the national steering committee. DOTs in each participating province will establish a project implementation unit (PIU) staffed with multidisciplinary teams to oversee day-to-day project implementation. PIUs will report to provincial vice-governors and the PCU, which will consolidate quarterly project progress reports for submission to members of the national steering committee and ADB. The PCU and PIUs will share consultant resources and attend all steering committee meetings to ensure project activities are well coordinated.

20. The project will work directly with community-based organizations, village development committees, and business associations, which will appoint local focal points to ensure good coordination between the PIUs and project beneficiaries.

III. DUE DILIGENCE

A. Technical

21. The project will construct a new marine passenger pier in Kampot and facilitate private investment to operate international ferry services between Cambodia, Viet Nam, and other destinations.²² It will improve wastewater management in Kep to create favorable conditions for economic growth and enterprise development by local residents, particularly women and youth. Engineering solutions are technically feasible and consider cost, durability, affordability, and climate resilience.²³ The civil works are compatible with standard design parameters and the O&M capacity of local authorities. Contract packaging will attract contractors with suitable qualifications and ensure efficient procurement. Capacity building programs will improve the business enabling environment and help small entrepreneurs to become more competitive.

B. Economic and Financial

22. An economic analysis was conducted for infrastructure subprojects following ADB guidelines.²⁴ Benefits quantified are (i) increased tourism receipts arising from an incremental increase in tourist arrivals (1%–7% annually) and length of stay (0.5 days) in the project-supported destinations, and (ii) tourism loss avoidance arising from better environmental management of the Kep crab market and adjacent public beaches. Economic benefits not quantified are transport time savings, increased land values for property owners, and health

²¹ ADB. 2002. *Report and Recommendation of the President to the Board of Directors: Proposed Loans to the Kingdom of Cambodia, the Lao People's Democratic Republic, and the Socialist Republic of Viet Nam for the Greater Mekong Subregion Mekong Tourism Development Project*. Manila.

²² During project preparation the MOT conducted a market sounding and five firms expressed interest in operating international ferry services.

²³ Climate Change Resilience Measures (accessible from the list of linked documents in Appendix 2).

²⁴ Economic Analysis (accessible from the list of linked documents in Appendix 2).

benefits from improved environmental conditions. The base case results indicate all subprojects are economically viable, with estimated economic internal rates of return exceeding the assumed economic opportunity cost of capital of 12.0%. Returns are 23.6% for the Kampot pier and 15.2% for the Kep crab market. Findings of the analysis are consistent with the past performance of other ADB-financed public tourism infrastructure in Cambodia, which applying similar assumptions, generated economic internal rates of return exceeding 29.0%.²⁵ The subprojects are most sensitive to a reduction in tourist arrivals but remain viable under all adverse scenarios tested.²⁶

23. The financial analysis followed ADB guidelines.²⁷ The financial internal rate of return for the Kampot pier is 4.2%, higher than the weighted average cost of capital, calculated at 0.9%. A pier management authority will be established to recover O&M costs through passenger terminal fees, berthing fees, and other income streams. The Kep DPWT will recover the cost of maintaining the wastewater treatment system at the Kep crab market by collecting an environmental fee from businesses in the market. The access road component of the Kampot pier subproject was identified as nonrevenue generating, thus a financial sustainability analysis of the DPWT that will be responsible for O&M of the asset was undertaken. The financial sustainability analysis found that there will be sufficient funds to maintain the road.²⁸

C. Governance

24. An assessment of the executing and implementing agencies' capacity to undertake procurement and financial management envisaged under the project—including the use of statement of expenditure and imprest fund procedure—determined that pre-mitigation financial management risks are high. Measures to mitigate identified risks, such as the potential for corruption from weak procurement oversight and the shortage of financial management skills, will be addressed by applying standard ADB bidding documents, developing a financial management training manual and suitable accounting systems, and embedding long-term consultants in the PCU and PIUs to provide on-the-job training for project staff and counterparts. Compliance with ADB's financial management and external audit requirements will be monitored by review missions and normal project supervision. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government and MOT. The specific policy requirements and supplementary measures, including the MOT-endorsed good governance framework, are described in the project administration manual (footnote 18).

D. Poverty and Social

25. The project will directly benefit about 30,000 people in the three participating provinces.²⁹ Poverty rates in project areas range from 16% in Kampot to as high as 42% in Koh Kong, mainly due to a lack of access to economic opportunities, underdeveloped human capital, and a lack of enterprise support services. The project's complementary investments to improve access infrastructure and environmental services, build capacity to strengthen tourism management, and provide micro and small enterprises with training and business support services are designed to overcome these constraints and expand economic opportunities to benefit the poor and low-income households. The project is categorized "effective gender

²⁵ ADB. 2011. *Completion Report: Greater Mekong Subregion Tourism Development Project*. Manila.

²⁶ 10% decrease in tourist arrivals, 10% decrease in foreign tourist spending, 10% increase in investment cost, and 1-year implementation delay.

²⁷ Financial Analysis (accessible from the list of linked documents in Appendix 2).

²⁸ Institutional Analysis and Arrangements for Operation and Maintenance of Project Facilities (accessible from the list of linked documents in Appendix 2).

²⁹ Summary Poverty Reduction and Social Strategy (accessible from the list of linked documents in Appendix 2).

mainstreaming.” It will improve women’s access to economic opportunities, social services, and decision making. A gender action plan has been prepared specifying women will comprise 50% of participants in community consultations, 60% of participants in hospitality training, 40% of leadership positions in destination management organizations, and 25% of project management and technical staff.³⁰ The project will reduce the vulnerability of women and children to HIV/AIDS transmission, human trafficking, and other forms of exploitation by conducting awareness programs and promoting collaboration between private enterprises, nongovernment organizations, and law enforcement agencies.³¹

E. Safeguards

26. All safeguards documents were prepared following ADB’s Safeguard Policy Statement (2009) and are posted on the ADB website in compliance with disclosure requirements (Public Communications Policy 2011). The safeguards categorization for environment and involuntary resettlement is B, and the categorization for indigenous peoples is C. Initial consultations with men and women residents, government officials, and civil society confirm broad support for the project. Consultation with these groups will continue throughout the project cycle following the consultation and participation plan and stakeholder communications strategy. The project includes resources to effectively implement social and environmental safeguards. Monitoring requirements and appropriate grievance redress mechanisms are in the safeguards documents.

27. Initial environmental examinations (IEEs) were prepared in the context of the project’s area of influence and based on current information.³² The potential environmental impacts are not irreversible, diverse, or unprecedented. Expected impacts and risks are site-specific, and appropriate mitigating measures are incorporated into environmental management plans (EMPs) prepared for each infrastructure subproject. The Kampot pier will be developed a safe distance upstream of seagrass conservation areas in Kampot bay. Mitigating measures are designed in accordance with international good practice and applicable national laws and regulations. The IEEs and EMPs will be updated and finalized at the detailed design stage. The updated documents will be cleared by the government and ADB, posted to the ADB website, and form part of bidding and contract documents. The final IEEs and EMPs will guide the preparation of site management plans with environmentally sensitive O&M guidelines.

28. Land acquisition and resettlement impacts involve only temporary disruption of 33 businesses in the Kep crab market during construction of the wastewater treatment system, with no permanent impacts, no land acquisition, and no physical dislocation or severely affected persons. Due diligence undertaken confirms that there is no past or present involuntary land acquisition for either infrastructure subproject, there are no pending resettlement issues for existing facilities, and the process of voluntary land donation for the Kampot pier is legitimate. A resettlement plan has been prepared for the Kep crab market subproject that is commensurate with the extent and degree of the expected impacts.³³ The initial cost of compensation for business losses is estimated at \$11,000. This amount is considered adequate, based on the census and inventory of losses prepared in consultation with affected persons and the government’s interministerial resettlement committee. Project information was disclosed to all affected persons, and a cutoff date for inclusion in the resettlement plan was established during

³⁰ Gender Action Plan (accessible from the list of linked documents in Appendix 2).

³¹ The project will collaborate with the Child Safe Tourism Campaign in cooperation with World Vision, the United Nations Office on Drugs and Crime, and Interpol.

³² Initial Environmental Examinations (accessible from the list of linked documents in Appendix 2).

³³ Resettlement Plan: Kep Crab Market Environmental Improvements (accessible from the list of linked documents in Appendix 2).

resettlement consultations. The project information booklet will be updated and disseminated during the detailed measurement survey. The resettlement plan will be updated and finalized at the detailed design stage, cleared by the government and ADB, and posted on the ADB website.

F. Risks and Mitigating Measures

29. With mitigating measures, the overall risk for the project is assessed as low, and the benefits and impacts are expected to outweigh the costs. Major risks and mitigating measures are summarized in Table 5 and described in the risk assessment and risk management plan.³⁴

Table 5: Summary of Risks and Mitigating Measures

Risks	Mitigating Measures
Provincial project staff lack experience with ADB financial management and procurement procedures; delays in civil works procurement and safeguards implementation	Advance actions for consultant recruitment and capacity building for financial management, procurement, and safeguards
Asynchronous implementation of regional activities	Appointment of counterparts with regional planning and coordination experience; meetings of the subregional and national steering committees to resolve implementation issues
Lower-than-expected tourist arrivals in project provinces	Destination marketing programs target fast-growing priority markets; selection of provinces that are in multi-country tour circuits being promoted by all GMS countries
Lack of private sector interest in operating ferry services at Kampot pier	Preparation of a professional project brief and transaction advisory services to facilitate selection of a suitable private operator
Ineffective financial management undermines infrastructure O&M	Preparation of O&M plans for all infrastructure subprojects and financial management training for entities responsible for O&M

ADB = Asian Development Bank, GMS = Greater Mekong Subregion, O&M = operation and maintenance.

Source: Asian Development Bank.

IV. ASSURANCES AND CONDITIONS

30. The government has assured ADB that implementation of the project shall conform to all applicable ADB policies including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in detail in the project administration manual and loan documents. The government has agreed with ADB on certain covenants for the project, which are set forth in the loan agreement.

V. RECOMMENDATION

31. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the loan in various currencies equivalent to SDR12,170,000 to the Kingdom of Cambodia for the Greater Mekong Subregion Tourism Infrastructure for Inclusive Growth Project, from ADB's Special Funds resources, with an interest charge at the rate of 1.0% per annum during the grace period and 1.5% per annum thereafter; for a term of 32 years, including a grace period of 8 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement presented to the Board.

Takehiko Nakao
President

30 October 2014

³⁴ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
<p>Impact</p> <p>Increased tourism employment for people living in underdeveloped segments of the GMS Southern Coastal Corridor</p>	<p>By 2025:</p> <p>Aggregate tourism employment in the three project provinces is 22,000</p> <p>60% of jobs created are held by women</p> <p>60% of jobs created are salaried and accessible to lower-educated workers^a (2012 baseline: 5,000 jobs)^b</p>	<p>MOT Tourism Statistics Report</p> <p>WTTC Travel and Tourism Economic Impact Report</p>	<p>Assumptions</p> <p>Residents of project areas continue to seek employment in the tourism sector</p> <p>Equal access to opportunities, resources, assets, and decision making</p>
<p>Outcome</p> <p>Increased tourism receipts in Kampot, Kep, and Koh Kong</p>	<p>By 2019:</p> <p>Aggregate annual international tourism receipts in the three project provinces equals \$60 million (2012 baseline: \$15 million)</p>	<p>MOT Tourism Statistics Report</p> <p>Completion report</p>	<p>Assumptions</p> <p>Government continues to support policies that facilitate travel, tourism, and regional tourism cooperation</p> <p>Responsible agencies effectively implement destination management plans</p> <p>Risk</p> <p>Ineffective financial management undermines infrastructure O&M</p>
<p>Outputs</p> <p>1. Last-mile tourism access infrastructure improved</p>	<p>By 2019:</p> <p>Kampot pier constructed with embankment stabilization, customs and immigration facilities, administration offices, commercial space, utilities, sanitation, and 6.5-kilometer access road, benefiting at least 12,000 residents and 119 local tourism enterprises</p> <p>Kampot pier services 360,000 passengers annually</p>	<p>Project progress reports</p> <p>End of project impact evaluation</p> <p>Completion report</p>	<p>Assumption</p> <p>Infrastructure is suitably constructed for dual use by tourists and residents</p> <p>Risks</p> <p>Delays in civil works procurement and safeguards implementation</p> <p>Lack of private sector interest in operating ferry services at Kampot pier</p>
<p>2. Environmental services in cross-border tourism centers improved</p>	<p>By 2019:</p> <p>500 cubic meters per day wastewater treatment facility installed at Kep crab market with connections and maintenance equipment; expanded market structure, additional public toilets, drainage, parking, and public space constructed, with improved sanitation benefitting at least 330 fixed and mobile vendors, 12,700 residents, and 800,000 visitors annually</p>	<p>Project progress reports</p> <p>End of project impact evaluation</p> <p>Completion report</p>	<p>Assumption</p> <p>Residents and tourists are willing to pay for improved environmental services</p> <p>Risk</p> <p>Delays in civil works procurement and safeguards implementation</p>
<p>3. Institutional capacity to promote inclusive tourism growth strengthened</p>	<p>By 2019:</p> <p>Four DMOs formed with systems and procedures in place to implement</p>	<p>Project progress reports</p>	<p>Assumption</p> <p>Public and private entities maintain their commitment to</p>

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
	<p>destination management plans (women hold 40% of DMO management positions)</p> <p>At least 80% of newly constructed vendor space in project facilities is allocated to women</p> <p>Awareness of heritage protection measures, health and safety, and tourism impacts increases among 4,500 people (50% of whom are women)</p> <p>375 micro, small, and medium-sized enterprise operators (60% of whom are women) gain access to professional tourism-related business support services and microfinance</p> <p>At least three service enterprises are operating tourist attractions or services under a public-private partnership</p>	<p>End of project impact evaluation</p> <p>Completion report</p>	<p>improve destination management</p> <p>Risk Lower-than-expected tourist arrivals undermine private sector and community interest in operating tourism services</p>
<p>4. Effective project implementation and knowledge management</p>	<p>By 2019:</p> <p>PCU and PIU staff possess the knowledge, skills, and equipment needed for effective project management (at least 25% of PCU and PIU staff are women)</p> <p>12 new gender-inclusive knowledge products published to Cambodia's web-based tourism knowledge center</p> <p>20% of tourism enterprises in the three project provinces meet ASEAN tourism standards</p> <p>Collection and reporting of tourism statistics by GMS national tourism organizations in harmonized format</p> <p>At least three joint marketing activities undertaken annually in cooperation with another GMS country (2012 baseline: one event)</p> <p>Well-maintained infrastructure in accordance with O&M plans</p> <p>PCU and PIU staff effectively implement gender-sensitive PPMS, with sex-disaggregated data reporting</p>	<p>Project progress reports</p> <p>Internet search</p> <p>GMS TWG summary of proceedings</p> <p>End of project impact evaluation</p> <p>Completion report</p>	<p>Assumptions Suitably qualified staff is appointed full time to the PCU and PIUs</p> <p>Timely recruitment of qualified consultants</p> <p>Risk Asynchronous implementation of regional activities</p>
Activities with Milestones		Inputs	
<p>1. Last-mile tourism access infrastructure improved</p> <p>1.1 Prepare detailed civil works design and bidding documents by Q1 2016</p> <p>1.2 Approve updated safeguards documents (IEEs and resettlement plan) by Q1 2016</p> <p>1.3 Complete land acquisition and resettlement by Q4 2015</p> <p>1.4 Award civil works contracts by Q3 2016</p> <p>1.5 Complete civil works and supply equipment by Q1 2018</p> <p>2. Environmental services in cross-border tourism centers improved</p> <p>2.1 Prepare detailed civil works design and bidding documents by Q1 2016</p> <p>2.2 Approve updated safeguards documents (IEEs and resettlement plan) by Q1 2016</p> <p>2.3 Complete land acquisition and resettlement by Q4 2015</p>		<p>Loan ADB: \$18,000,000</p> <p>Government: \$770,000</p>	

<p>2.4 Award civil works contracts by Q3 2016</p> <p>2.5 Complete civil works and supply equipment by Q4 2017</p> <p>3. Institutional capacity to promote inclusive tourism growth strengthened</p> <p>3.1 Prepare destination management plans by Q1 2016</p> <p>3.2 Implement heritage protection and interpretation program, Q1 2015–Q4 2018</p> <p>3.3 Implement micro and small enterprise support program, Q1 2015–Q4 2018</p> <p>3.4 Implement health, safety, and tourism-awareness programs, Q1 2015–Q4 2018</p> <p>3.5 Facilitate establishment of public–private partnerships, including establishment of Kampot pier management authority Q2 2015–Q4 2018</p> <p>3.6 Implement national marketing and promotion program, Q2 2015–Q4 2018</p> <p>3.7 Implement program to combat child exploitation and human trafficking, Q2 2015–Q4 2018</p> <p>4. Effective project implementation and knowledge management</p> <p>4.1 Establish project steering committees, PCU, and PIUs by Q3 2014</p> <p>4.2 Mobilize consultants and procure PCU and PIU equipment by Q1 2015</p> <p>4.3 Implement training on financial management by Q1 2015</p> <p>4.4 Finalize and train PIU and PCU staff to implement comprehensive sex-disaggregated PPMS, including safeguards monitoring, Q1 2015–Q2 2019</p> <p>4.5 Establish and maintain web-based knowledge center, Q2 2015–Q2 2019</p> <p>4.6 Implement the gender action plan, IEE and environmental management plans, and resettlement plan, Q1 2015–Q2 2019</p> <p>4.7 Implement GMS marketing and statistics harmonization programs, Q2 2015–Q2 2019</p> <p>4.8 Implement ASEAN tourism standards program, Q2 2015–Q2 2019</p> <p>4.9 Approve and implement O&M plans with sustainable finance mechanisms, Q4 2016–Q2 2019</p> <p>4.10 Update baseline information and prepare end-of-project impact evaluation, Q1 2015–Q2 2019</p>	
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ADB = Asian Development Bank, ASEAN = Association of Southeast Asian Nations, DMO = destination management organization, GMS = Greater Mekong Subregion, IEE = initial environmental examination, MOT = Ministry of Tourism, O&M = operation and maintenance, PCU = project coordination unit, PIU = project implementation unit, PPMS = project performance management system, TWG = Tourism Working Group, WTTC = World Travel and Tourism Council.

Notes:

1. Baseline year is 2012 and baseline figures are zero unless otherwise indicated.
2. Progress reports comprise quarterly, annual, midterm, and the government's completion report.
3. Numbers may not sum precisely because of rounding.

^a Workers who have completed or have some primary education only.

^b Based on receipts to job ration of \$2,834 =1 job in 2012 and \$5,326 =1 job in 2025.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=46293-004-3>

1. Loan Agreement
2. Sector Assessment (Summary): Tourism in the Greater Mekong Subregion
3. Project Administration Manual
4. Contribution to the ADB Results Framework
5. Development Coordination
6. Financial Analysis
7. Economic Analysis
8. Country Economic Indicators
9. Summary Poverty Reduction and Social Strategy
10. Gender Action Plan
11. Initial Environmental Examination: Kampot and Kep Provinces
12. Initial Environmental Examination: Kampot Pier Development Subproject
13. Initial Environmental Examination: Kep Crab Market Environmental Improvements
14. Resettlement Plan: Kep Crab Market Environmental Improvements
15. Risk Assessment and Risk Management Plan

Supplementary Documents

16. Lessons from Past Greater Mekong Subregion Tourism Projects
17. Tourism Demand Analysis
18. Consultation and Participation Plan
19. Institutional Analysis and Arrangements for Operation and Maintenance of Project Facilities
20. Climate Change Resilience Measures