



Report and Recommendation of the President to the Board of Directors

Project Number: 38560-024
Grant Number: 0156-CAM
August 2016

Proposed Loan and Administration of Grant and Technical Assistance Grant for Additional Financing Kingdom of Cambodia: Second Rural Water Supply and Sanitation Sector Project

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 3 August 2016)

Currency unit	–	riel/s (KR)
KR1.00	=	\$0.00024
\$1.00	=	KR4,121.5

ABBREVIATIONS

ADB	–	Asian Development Bank
MRD	–	Ministry of Rural Development
O&M	–	operation and maintenance
PAM	–	project administration manual
RWSS	–	rural water supply and sanitation
TA	–	technical assistance
WSUG	–	water and sanitation user group

NOTE

In this report, “\$” refers to US dollars.

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PROJECT AT A GLANCE

1. Basic Data		Project Number: 38560-024	
Project Name	Second Rural Water Supply and Sanitation Sector Project	Department /Division	SERD/SEUW
Country	Cambodia	Executing Agency	Ministry of Rural Development
Borrower	Cambodia		
2. Sector		ADB Financing (\$ million)	
Water and other urban infrastructure and services	Subsector(s) Urban policy, institutional and capacity development		0.50
	Urban sanitation		4.00
	Urban water supply		10.50
	Total		15.00
3. Strategic Agenda		Climate Change Information	
Inclusive economic growth (IEG)	Pillar 2: Access to economic opportunities, including jobs, made more inclusive	Climate Change impact on the Project	Medium
Environmentally sustainable growth (ESG)	Disaster risk management		
4. Drivers of Change		Gender Equity and Mainstreaming	
Governance and capacity development (GCD)	Civil society participation	Gender equity (GEN)	✓
	Institutional development		
	Organizational development		
	Public financial governance		
Partnerships (PAR)	Implementation		
	Private Sector		
5. Poverty Targeting		Location Impact	
Project directly targets poverty	Yes	Rural	High
MDG-targeting (TI-M)	MDG7		
6. Risk Categorization:		Low	
7. Safeguard Categorization		Environment: B Involuntary Resettlement: C Indigenous Peoples: B	
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		15.00	
Sovereign Project loan: Asian Development Fund		15.00	
Cofinancing		3.50	
Japan Fund for Poverty Reduction - Technical Assistance		2.00	
Bill and Melinda Gates Foundation - Grant		1.50	
Counterpart		3.43	
Beneficiaries		1.33	
Government		2.10	
Total		21.93	
9. Effective Development Cooperation			
Use of country procurement systems		Yes	
Use of country public financial management systems		No	

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed loan to the Kingdom of Cambodia for the additional financing of the Second Rural Water Supply and Sanitation Sector Project. The report also describes (i) the proposed administration of a grant to be provided by the Sanitation Financing Partnership Trust Fund¹ under the Water Financing Partnership Facility, and (ii) the proposed administration of technical assistance (TA) to be provided by the Japan Fund for Poverty Reduction, both for the additional financing of the Second Rural Water Supply and Sanitation Sector Project, and if the Board approves the proposed loan, I, acting under the authority delegated to me by the Board, approve the administration of grant and TA.²

2. The project was designed to expand access to improved rural water supply and sanitation (RWSS) and to improve the health of rural residents in six provinces around the Tonle Sap Lake in Cambodia.³ Since its approval in 2009, the project contributed to government efforts to achieve its Millennium Development Goal targets of increased rural water supply coverage by 50% and rural sanitation coverage by 30% by 2015, and its long-term sector vision of universal coverage by 2025. The project is performing well. The additional financing will finance partial changes in scope and expand activities. It will support the current project's original objectives, enhance monitoring, and test climate change adaptation and disaster risk management initiatives.

II. THE PROJECT

A. Rationale

3. More than 77% of Cambodia's population lives in rural areas. A focus on rural development, infrastructure, and delivery of basic services is the first step in accelerating poverty reduction, reducing regional inequalities, and supporting inclusive growth. Rural residents spend considerable time and financial resources acquiring their daily drinking water from distant water sources, collecting rainwater, or having it delivered to their homes. In 2014, access to improved water supply sources in rural areas was 51.1%, and access to improved sanitation was 46.2%.⁴ The type of water supply and sanitation facilities available to households are important determinants of community health.⁵ An intensified focus on RWSS will increase low levels of coverage, improve health, and accelerate poverty reduction, especially in the Tonle Sap Basin where most of Cambodia's poorest live.⁶ An integrated approach to RWSS will also contribute to gender equity and livelihood improvements.

4. On 15 September 2009, the Asian Development Bank (ADB) approved a grant equivalent to \$21 million for the Second Rural Water Supply and Sanitation Sector Project.⁷ The expected outcome was improved access to water supply for 377,000 rural residents and sanitation for 290,000 rural residents in 400 villages in 40 communes in 16 districts of six provinces. The project covers 100% of villages in each commune and aims to achieve 100%

¹ Financing partner: Bill & Melinda Gates Foundation.

² The design and monitoring framework is in Appendix 1.

³ Banteay Meanchey, Battambang, Kampong Chhnang, Kampong Thom, Pursat, and Siem Reap provinces.

⁴ Ministry of Planning. 2015. *Cambodia Socio-Economic Survey 2014*. Phnom Penh.

⁵ Diarrhea is a major cause of child morbidity and mortality, which can be reduced through safe and clean water and proper hygienic and sanitation practices.

⁶ ADB. 2014. *Cambodia Country Poverty Analysis 2014*. Manila.

⁷ ADB. 2009. *Report and Recommendation of the President to the Board of Directors: Proposed Asian Development Fund Grant to the Kingdom of Cambodia for the Second Rural Water and Sanitation Sector Project*. Manila.

water supply and at least 80% physical sanitation coverage in each commune. It is a sector investment project with five outputs: (i) improved community health and hygiene practices; (ii) rehabilitated, upgraded, and new water facilities; (iii) improved public and household sanitation; (iv) strengthened sector planning and development; and (v) improved capacity for project implementation.

5. **Implementation progress.** The project is performing well and rated *on track*, with cumulative contract awards amounting to \$21 million (99%), and cumulative disbursements amounting to \$21 million (99%) as of 30 June 2016. ADB approved a cumulative extension of 12 months (to 31 December 2016) to (i) complete latrine building works, and (ii) process additional financing. The performance of the experienced executing agency—the Ministry of Rural Development (MRD), implementing agencies, and consultants was consistently satisfactory. Targets for contract awards and disbursements were met annually and MRD substantially complied with grant covenants.⁸

6. **Achievements to date and opportunity for expansion.** The project successfully completed assistance to 32 communes in four batches, covering 364 villages in six provinces around the Tonle Sap Lake. The project benefited a population of 338,200 through improved water supply facilities.⁹ The project also provided sanitation grants to 45,677 households (208,500 people) for latrine construction and encouraged a further 4,219 households (25,000 people) to finance their own latrine, increasing average sanitation coverage to 80%.¹⁰ While the project covered fewer communes, it achieved 90% of its rural water supply target and 93% of its rural sanitation target. The project (categorized *gender equity* as a theme) significantly contributed to strengthening women's roles in local government and project-related committees, including all training activities (mostly exceeding the 40% target). In partnership with other donors, the project assessed the means to enhance climate change resilience for rural water infrastructure, including the provision of low-cost bottled water and the treatment and reuse of household latrine waste. Building on the project's success, there is opportunity to expand access to improved RWSS to an additional 275 villages in 28 communes in the same six provinces,¹¹ increasing the total number of villages to 639 across 59 communes.¹²

7. **Modification and cost increase.** The project suffered marginal overspending of 10%, under output 2, to construct new deeper wells because of the inability to rehabilitate some wells, which could not supply safe water year round. In addition, \$500,000 was reallocated for emergency well rehabilitation in 2012 following the severe 2011 Cambodia flooding. As a result, only 32 out of 40 communes were completed. Other project components met budget allocations.

8. **Rationale for additional financing.** Additional financing will be needed to (i) scale up project activities in 19 new communes (para. 6), increasing beneficiaries; and (ii) complete the originally targeted 40 communes, which fell short after changes in project design (para. 7). According to the National Action Plan 2014–2018, the government target for 2018 is 60% coverage for RWSS, resulting in a national gap of 439,400 households (2.02 million people) for water supply and 580,400 households (2.67 million people) for sanitation.¹³ The current annual

⁸ Summary of Progress Against Grant Covenants (accessible from the list of linked documents in Appendix 2).

⁹ Facilities include (i) rehabilitation of 1,324 drill wells, 325 hand dug wells, 365 combined wells, and 53 community ponds; and (ii) development of 985 new drill wells, 6 combined wells, 75,330 rainwater jars, 1,130 bio-sand and ceramic water filters, 24 piped water supply systems, 99 river water distribution points, and 28 production wells.

¹⁰ Summary of Project Performance (accessible from the list of linked documents in Appendix 2).

¹¹ 28 communes comprise: 1 commune only half completed from initial list of 32, and 27 additional communes.

¹² Scope of Additional Financing (accessible from the list of linked documents in Appendix 2).

¹³ MRD. 2014. *National Action Plan: Rural Water Supply, Sanitation, and Hygiene 2014–2018*. Phnom Penh.

levels of growth for water supply (1.8%) and sanitation (4.3% post-2010) are insufficient to reach the 2018 target coverage, and both must be accelerated to at least 5% per annum until 2025 to realize the vision of 100% coverage. Improved water supply coverage ranges from 3.5% to 42.0% in the 27 additional proposed communes, and sanitation coverage ranges from 0.9% to 45.0%. These figures are lower than the national average.

9. The project is performing well: it has successfully delivered expected outputs and maintained satisfactory implementation progress and compliance with ADB's policies. The eligibility criteria for additional financing are met, including (i) the overall project's continuing scope; (ii) its validity, soundness, and strategic importance to underpin welfare and poverty reduction; and (iii) its consistency with ADB's country partnership strategy for Cambodia, 2014–2018.¹⁴ The additional financing modality is suitable because of (i) strong links with the current project, including capacities developed; (ii) a high degree of project readiness, and a well-performing executing agency; and (iii) scaling up project benefits using innovative designs in climate change and sanitation developed under the TA and grant.

10. **Strategic alignment.** Additional financing will contribute to the government's efforts to achieve universal coverage for improved water supply and sanitation coverage by 2025. The project (i) remains consistent with ADB's country partnership strategy, which focuses on strengthening urban–rural links in the Tonle Sap Basin; and (ii) is included in ADB's country operations business plan for Cambodia, 2016–2018.¹⁵ Lessons include (i) the need for greater focus on gender and leadership to overcome cultural norms; (ii) the need to develop equitable solutions to address increases in the cost of community small piped water supply facilities, which hamper poorer households meeting beneficiary contributions; and (iii) the need to introduce climate change adaptation and mitigation together with disaster risk management to address the impact of climate change on RWSS, which is becoming significant with more severe floods and droughts and the depletion of groundwater sources in the dry season.

B. Impact, Outcome, and Outputs

11. The impact of the overall project, which is aligned with the government's National Strategy for Rural Water Supply, Sanitation and Hygiene (footnote 13), will be universal access to sustainable RWSS nationwide by 2025 and improved health of rural households in project provinces. The outcome of the overall project remains unchanged: increased access to improved RWSS in selected communes of six provinces around the Tonle Sap Lake. The number of rural residents with access to improved water will increase from 377,000 to 578,500, while the number of rural residents with access to improved sanitation will increase from 290,000 to 462,800. Additional financing will build and expand the current project outputs as follows:

12. **Improved community health and hygiene practices.** Output 1 will (i) increase community mobilization and action in 275 additional villages; (ii) prepare additional village water supply and sanitation plans for 27 additional communes; (iii) form and train 2,200 additional water and sanitation user groups (WSUGs); (iv) strengthen community groups and individuals for effective delivery of health and hygiene, as well as climate and disaster risk messages; and (v) improve household-level water and sanitation management.

¹⁴ ADB. 2014. *Country Partnership Strategy: Cambodia, 2014–2018*. Manila.

¹⁵ ADB. 2015. *Country Operations Business Plan: Cambodia, 2016–2018*. Manila.

13. **Rehabilitated, upgraded, and developed new water facilities.** Output 2 will deliver the following additional targets: (i) rehabilitation and/or upgrading of existing water supply points and development of new water supply points to provide universal safe water supply coverage for 275 villages (2,200 water supply points); (ii) new rainwater collection systems and storage tanks for at least 140 public facilities, including schools and health facilities; and (iii) improved monitoring of water quality for all water facilities, including the development of a national water quality monitoring program. New construction will be based on the cost-sharing principles already adopted and implemented under the current project.

14. **Improved public and household sanitation.** Output 3 will reduce open defecation by expanding sanitation coverage to at least 80% through the provision of (i) 135 new public latrine blocks at schools and health facilities; and (ii) 34,500 additional grants for the poor and vulnerable for household latrine construction.

15. **Strengthened sector planning and development.** Output 4 will continue to provide (i) improved monitoring and supervision of RWSS facilities by maintaining and upgrading the RWSS database used under the current project in six provinces, (ii) support to the water and sanitation sector working group coordination meetings, (iii) strengthened private sector involvement in RWSS development through training in technical and management fields, and (iv) improved RWSS monitoring and evaluation for health outcomes. Additional financing will finance training for climate change adaptation and mitigation and develop disaster risk management plans for RWSS at national, provincial, commune, and village levels.

16. **Improved capacity for project implementation and sustainability.** Output 5 will be delivered through (i) project orientation workshops at national and subnational levels; and (ii) a capacity development program for MRD, provincial departments and district offices of rural development, commune councils, RWSS committees at the village level, and WSUGs.

C. Investment and Financing Plans

17. Additional financing is estimated to cost \$19.93 million equivalent (Table 1), including government financing for taxes, duties, beneficiary contributions, and interest charges on the ADB loan and physical and price contingencies. The financing plan is in Table 2.

Table 1: Project Investment Plan (\$ million)

Item	Current Amount ^a	Additional Financing ^b	Total
A. Base Cost			
1. Improved community health and hygiene practices	1.20	0.14	1.34
2. Rehabilitated, upgraded, and developed new water facilities	9.80	10.60	20.40
3. Improved public and household sanitation	7.80	5.66	13.46
4. Strengthened sector planning and development	1.30	0.00	1.30
5. Improved capacity for project implementation and sustainability	1.80	0.92	2.72
Subtotal (A)	21.90	17.32	39.22
B. Contingencies^c	3.90	2.38	6.28
C. Financing Charges During Implementation^d	0.00	0.23	0.23
Total (A+B+C)	25.80	19.93	45.73

^a Refers to the original amount. Includes taxes and duties of \$1.69 million financed from government resources.

^b In December 2015 prices. Includes taxes and duties of \$2.10 million to be financed from government resources, except for recurrent costs and training, and beneficiary contributions of \$1.34 million (in cash and in kind).

^c Physical contingencies computed at 5%. Price contingencies computed at 1.5% (2016), 1.4% (2017), and 1.5% (2018 onward) for foreign exchange costs and 2.7% (2016), and 3.5% (2017 onward) for local currency costs; includes provision for exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

^d Includes interest charges. Interest during construction for Asian Development Bank loans computed at 1%.

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

Table 2: Financing Plan

Sources	Current ^a		Additional Financing		Total	
	Amount (\$ million)	Share of Total (%)	Amount (\$ million)	Share of Total (%)	Amount (\$ million)	Share of Total (%)
Asian Development Bank						
Special Funds resources (loan)	0.00	0.0	15.00	75.3	15.00	32.8
Special Funds resources (grant)	21.00	81.4	0.00	0.0	21.00	45.9
Sanitation Financing Partnership Trust Fund under the Water Financing Partnership Facility ^b	0.00	0.0	1.50	7.5	1.50	3.3
Government	1.80	7.0	2.10	10.5	3.90	8.5
Beneficiaries ^c	3.00	11.6	1.33	6.7	4.33	9.5
Total	25.80	100.0	19.93	100.0	45.73	100.0

^a Refers to the original amount.

^b Financing partner: Bill & Melinda Gates Foundation. Administered by the Asian Development Bank.

^c Beneficiaries contribute 10% of the total cost of new facilities (3% in cash and 7% in kind). Beneficiary contributions will not be collected from households opting to rehabilitate or upgrade existing wells.

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

18. The government requested a loan in various currencies equivalent to SDR10,835,000 from ADB's Special Funds resources for the additional financing. 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 Sanitation Financing Partnership Trust Fund¹⁶ under the Water Financing Partnership Facility will provide a grant not exceeding the equivalent of \$1.5 million and the Japan Fund for Poverty Reduction will provide TA not exceeding the equivalent of \$2 million, both to be administered by ADB.

19. The government also requested that taxes and duties associated with recurrent costs and training be financed by the loan to avoid excessive administration for small costs. Such taxes and duties will (i) not represent an excessive share of the project investment plan, and (ii) only apply to ADB-financed expenditures.

D. Implementation Arrangements

20. The implementation arrangements are summarized in Table 3 and described in detail in the project administration manual (PAM).¹⁷ MRD remains the executing agency. The current project coordination unit, within the Department of Rural Water Supply, will be maintained for project management and coordination. The provincial department of rural development in each province will continue to be responsible to the project coordination unit for implementation.

Table 3: Implementation Arrangements

Aspects	Arrangements
Implementation period	December 2016–December 2019 (additional financing)
Estimated completion date	31 December 2019 (loan closing date: 30 June 2020) 31 August 2018 (grant closing date: 31 August 2018)
Management	
(i) Oversight body	Project Steering Committee
(ii) Executing agency	Ministry of Rural Development
(iii) Key implementing agency	Department of Rural Water Supply (Project Coordination Unit)
(iv) Implementation units	Provincial departments of rural development for the provinces of Banteay Meanchey, Battambang, Kampong Chhnang, Kampong Thom, Pursat, and Siem Reap (provincial project teams)

¹⁶ Financing partner: Bill & Melinda Gates Foundation.

¹⁷ Project Administration Manual (accessible from the list of linked documents in Appendix 2).

Aspects	Arrangements		
Procurement ^a	National competitive bidding	42 contracts	\$5,900,000
	Shopping	84 contracts 18 contracts	\$2,850,000 (loan) \$900,000 (grant)
	Community procurement	550 contracts	\$2,950,000
Consulting services	Contract variation to the existing current project consultant contract	36 person-months (international) 146 person months (national)	\$2,100,000 (\$1,500,000 under the loan and \$600,000 under the grant with separate activities)
Retroactive financing and/or advance contracting	Advance actions to procure services, goods, and civil works will be conducted for selected subprojects for awarding of contracts immediately after loan effectiveness.		
Disbursement	The loan and grant proceeds will be disbursed in accordance with ADB's <i>Loan Disbursement Handbook</i> (2015, as amended from time to time) and detailed arrangements agreed upon between the government and ADB.		

^a Number of contracts estimated based on the current project experience.

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

21. **Project readiness.** Recruitment of new consultants will not be required. A contract variation will be prepared to extend the contract of the current project implementation consultants. Subproject feasibility studies, which have been developed for the first batch of 10 communes, identify infrastructure solutions based on standard detailed designs developed under the current project. Bidding documents for selected contracts have also been prepared for advance contracting using the latest standard bidding documents.¹⁸

III. TECHNICAL ASSISTANCE

22. The TA will be implemented over 24 months and will support the progressive mainstreaming of climate change adaptation and disaster risk management into RWSS. The TA is estimated to cost \$2,264,000, of which \$2,000,000 will be financed on a grant basis by the Japan Fund for Poverty Reduction. ADB will be the executing agency and administer the TA.¹⁹ The government will provide counterpart support in the form of staff, office accommodation, local land transport, and other in-kind contributions. The TA will integrate new concepts and initiatives linked directly to the loan, including (i) development of rural water safety plans for both rural water and sanitation; (ii) education and training in climate change resilience and adaptation for RWSS, particularly for floods, droughts, and impacts on groundwater; (iii) disaster risk management (planning, response, and recovery) to better prepare and react to impacts from climate variability and change; and (iv) mainstreaming of climate change activities directly into the RWSS program and resulting infrastructure, specifically targeting local government and village levels, where the climate change impacts are directly felt. These will be achieved through three primary outputs: (i) a new RWSS capacity development program to increase knowledge at national and provincial levels and enhance project sustainability; (ii) capacity development in RWSS to increase operational knowledge at commune and village levels; and (iii) new initiatives for enhanced project sustainability.

IV. DUE DILIGENCE

A. Technical

23. Compliance with selection criteria will be required for new subprojects. This is based on factors such as the incidence of poverty and existing water supply and sanitation coverage. Feedback from project beneficiaries relating to equipment, facilities, and technologies used

¹⁸ Subproject feasibility studies and bidding documents are being reviewed by ADB.

¹⁹ Attached Technical Assistance (accessible from the list of linked documents in Appendix 2).

have led to the development of tried-and-tested standard designs, which are selected based on the prevailing conditions at each commune and village. These designs have proven to be robust, durable, technically viable, and well received by the communities. The project will scale up designs proven to be compatible with local conditions and community capacity for operation and maintenance (O&M). Location and design features of RWSS facilities will factor in disaster and climate risk considerations, specifically to provide improved protection from flood damage and potential contamination from latrines during flooding. Lessons identified in para. 10 will be considered to further improve project performance and sustainability. Additional refinements will be made as more emphasis is placed on sustainability, climate change adaptation, and disaster risk management.

B. Economic and Financial

24. Two sample subproject communes were selected for feasibility. The economic viability of two sample communes—Kouk Khathen in Banteay Meanchey and Ngom in Kampong Thom—was assessed. The analysis evaluated a range of technical options and confirmed that each subproject is the least-cost option for each commune.²⁰ Taking into account the cost of the water supply and the sanitation facilities, the economic internal rate of return is 16.2% for Kouk Khathen and 18.8% for Ngorn, and remained above 12% for all sensitivity scenarios. Both subprojects are economically viable. The economic benefits of the water supply components include (i) storage cost avoided, (ii) treatment cost avoided, and (iii) the value of time saved for not having to collect water. For sanitation, the economic benefits include (i) productivity savings because of reduced incidence of diseases, and (ii) health care costs avoided. Economic costs were derived from the financial estimates of capital investments and O&M costs after eliminating all duties and taxes, estimating the traded and nontraded components of costs, and multiplying the net results by appropriate conversion factors. Under the project, the government provided technical support to the beneficiary communities to ensure the sustainability of the largely granted water supply and sanitation facilities, including establishing appropriate institutional arrangements such as WSUGs for community-managed facilities. The financial analysis reviewed project achievements and found WSUGs exercised ownership over their facilities, with affordable user charges collected at least to cover O&M costs (e.g., piped water systems).²¹

C. Governance

25. Utilization of project funds was substantially in accordance with the original plan, but reallocation of funds was needed several times to align budgets with actual conditions and the increased budgetary requirement for new water supply facilities. Management of the imprest account versus disbursements initially caused some delays in implementation because of the large number of contracts under community procurement, but this was resolved with an increase in the imprest account ceiling. Procurement oversight and financial management of the project by the executing agency and Ministry of Economy and Finance was highly satisfactory especially given the 1,792 contracts procured, administered, and completed. Institutional capacity developed satisfactorily and implementation issues were addressed adequately to ensure that the project continuously met or exceeded performance targets throughout implementation. No complaints or incidences were recorded with respect to corruption and compliance with ADB's Anticorruption Policy (1998, as amended to date) was satisfactory. ADB's Anticorruption Policy was explained to and discussed with the government and the MRD.

²⁰ Economic Analysis (accessible from the list of linked documents in Appendix 2).

²¹ Financial Analysis (accessible from the list of linked documents in Appendix 2).

The specific policy requirements and supplementary measures are described in the PAM (footnote 17).

D. Poverty and Social

26. The project will directly benefit 253,000 rural residents with access to improved water, of which 190,000 people will also benefit from improved sanitation facilities in 28 communes. Based on the figures from the current project, 60% of the project beneficiaries are poor or vulnerable given (i) the higher-than-average rural population share, (ii) rural poverty being higher than urban poverty, (iii) the higher-than-average poverty incidence in project provinces, and (iv) the targeting methodology that reaches the poorest communes in the project area. Access to improved RWSS will improve the health status of households (especially children and the elderly) and reduce medical expenditure, through the supply of improved RWSS facilities, sanitation awareness, and training in water, sanitation, and health. It also increases the rate of child survival, which is a precursor to the demographic transition to lower fertility rates. The additional financing will not have any significant adverse impacts, as potential adverse impacts identified during project preparation were eliminated or mitigated by changes in design.²²

27. **Gender.** A gender action plan builds on the implementation experiences of that developed for the current project.²³ It ensures broad understanding of and attention to the different needs of women and men in the RWSS sector, and provides equal opportunities for women and men to access project benefits and participate in capacity development activities. Specific targets include the following: (i) at least 50% of the selected commune and village focal persons, including peer leaders, are women; (ii) at least 40% of RWSS committee and WSUG board members are women; and (iii) village project activities are implemented in cooperation with the commune council committees on women and children's affairs. The plan is in accordance with the Ministry of Women's Affairs national strategy for gender mainstreaming, MRD gender working group action plan, and ADB's Policy on Gender and Development (1998).

E. Safeguards

28. **Environment.** The current project was category B for environment. Compliance with environmental safeguard requirements was satisfactory and risks were adequately managed.²⁴ All subprojects supported under the current project were screened and categorized in accordance with the environmental assessment and review framework prepared in 2009, and classified category C.²⁵ Civil works financed under the overall project are limited to small-scale community-based RWSS equipment and facilities. The environmental impacts associated with the installation of facilities are minimal and temporary (including noise, dust, and community health and safety related to minor excavation and drilling works), highly localized and site-specific, and can be easily mitigated with good construction practices commonly known to contractors. All RWSS facilities to be supported under the additional financing will be installed within boundaries of existing villages and directly contribute to the Tonle Sap Biosphere Reserve's development function to foster sustainable development of ecology, environment, economy, society, and culture.²⁶ The overall project remains category B. The framework was

²² Summary Poverty Reduction and Social Strategy (accessible from the list of linked documents in Appendix 2).

²³ Gender Action Plan (accessible from the list of linked documents in Appendix 2).

²⁴ Review missions were conducted on 25–31 October 2015 and on 15–21 May 2016.

²⁵ The 2009 framework was prepared in accordance with ADB's Environment Policy (2002), Environmental Assessment Guidelines (2003), and the government's environmental requirements.

²⁶ The Tonle Sap Biosphere Reserve, which was established by a royal decree in 2001, has three functions: (i) conservation—protection of biological diversity, landscapes, and ecosystem; (ii) development—sustainable

updated to conform to ADB's Safeguard Policy Statement (2009) and to address some of the weaknesses in adhering to compliance procedures that were identified during due diligence activities.²⁷ The nine subprojects identified as the first batch of the additional financing have been confirmed as category C. The climate risk to the additional financing is considered medium. Siting of RWSS facilities will be identified in consultation with local communities to avoid flood-prone areas and facility design will be improved to provide greater resistance to flood damage. Neither will significantly increase costs. The attached TA will help increase climate resilience of RWSS.

29. **Land acquisition and resettlement.** The current project did not require any land acquisition as households within the target villages voluntarily donated land for water points (hand pumps) and larger parcels of land, such as community ponds, were situated on government land. No loss of livelihood or income occurred. Due diligence showed that households voluntarily provided their land with no evidence of coercion or pressure and the donation was conducted with full consultation of the landowners and households within the village. The overall project has been classified category C for involuntary resettlement. The additional financing will adhere to methods used for the current project; namely, land donations for water points where hand pumps will be placed. The lengthy process of land titling is ongoing and completion will be monitored during project implementation. To ensure that screening is conducted and procedures are followed, an involuntary resettlement, indigenous peoples, and social safeguards screening guidance note is provided.²⁸ Subprojects with involuntary resettlement impacts will not be eligible for financing. Due diligence will be exercised to ensure that poor households are not required to donate land. Due diligence shall be carried out on a random sample of each subproject.

30. **Indigenous peoples.** As with the current project, the overall project is classified category B for indigenous people safeguards, which are triggered because the Chams are a distinct group that will experience project impacts, albeit purely positive impacts. The project identified three Cham villages within Kampong Thom, Kampong Chhnang, and Pursat provinces, specifically within the Boeng, Khabt Trach, Svay, Svay Chhick, Cheab, and Phteas Rong communes. The said villages are predominantly, if not 100%, Cham. In this light, elements of an indigenous peoples plan are included in the project design in lieu of preparing a plan. Though no separate plan is required, monitoring reports will include a specific section on Cham villages and provide evidence of meaningful consultation and specific culturally sensitive and appropriate actions that were implemented.

F. Risks and Mitigating Measures

31. The overall risk assessment is medium, and the integrated benefits and impacts are expected to outweigh the costs. Major risks and mitigating measures are summarized in Table 4 and described in detail in the risk assessment and risk management plan.²⁹

development of ecology, environment, economy, society, and culture; and (iii) logistic—demonstration projects, environmental education and training, research, and monitoring.

²⁷ Environmental Assessment and Review Framework (accessible from the list of linked documents in Appendix 2).

²⁸ Involuntary Resettlement, Indigenous Peoples, and Social Safeguard Screening Guidance Note (accessible from the list of linked documents in Appendix 2).

²⁹ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

Table 4: Summary of Risks and Mitigating Measures

Risk	Mitigating Measures
Lack of beneficiary contributions for small piped water supply systems	The current project provides detailed and accurate estimate of costs and required beneficiary contributions. The government will provide a cap for maximum contribution if actual cost of final technical solution increased significantly.
Poor sustainability of WSUGs and tariff collection for community-managed small piped water supply systems	Training in operation and maintenance and financial management. Village agreement to support continued operation through tariff collection.
Inadequate water supply	For locations where neither surface nor groundwater sources can provide adequate quantities of safe water, appropriate and affordable solutions will be selected from the standard design options.
Poor water quality	For villages where poor water quality is present, because of high concentrations of arsenic, iron, or other pollutants, appropriate and affordable solutions will be selected from the standard design options. Water quality testing completed as part of the contractor's contract. National water quality testing procedures adopted for periodic testing and water safety plans developed at village level.
Poor sustainability of communal water supply facilities	Water and sanitation user groups (WSUG) established for each communal facility for ongoing operation and maintenance. All WSUG members given appropriate training in operation and minor repairs. Major repairs to be made by the relevant provincial department of rural development, following a request from the WSUG through the Village Development Committee.

Source: Asian Development Bank.

V. ASSURANCES

32. The government and the MRD have assured ADB that implementation of the project shall conform to all applicable ADB policies including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in detail in the PAM and loan documents.

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

VI. RECOMMENDATION

34. 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 SDR10,835,000 to the Kingdom of Cambodia for the additional financing of the Second Rural Water Supply and Sanitation Sector 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

31 August 2016

REVISED DESIGN AND MONITORING FRAMEWORK

Impacts the Project is Aligned With			
<p>Current project</p> <p>Access to improved RWSS nationwide and better health of rural households in project provinces enhanced (National Strategy for Rural Water Supply, Sanitation and Hygiene and the National Strategic Development Plan 2014–2018).^a</p> <p>Overall project</p> <p>Unchanged.</p>			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
<p>Outcome</p> <p>Current project Access to improved RWSS in selected communes of six provinces in the Tonle Sap Basin increased</p> <p>Overall project Unchanged</p>	<p>Current project By 2016: a. 100% of residents in 40 communes (400 rural villages), especially women, have access to improved water sources (2008 baseline: 13%) b. 80% of residents in 40 communes (400 rural villages), especially women, have access to improved sanitation (2008 baseline: 8%) c. Number of diarrhea cases for children under age 5 who are treated at health facilities associated with the 400 villages has decreased</p> <p>Overall project By 2020: a. 100% of households in 59 communes (639 rural villages) (2016 baseline: 32 communes [364 villages]) b. 80% of households in 59 communes (639 rural villages) (2016 baseline: 32 communes [364 villages]) c. Decreased by 40% below national average for rural areas (2014 baseline: 12.9%)</p>	<p>Overall project a–c. Commune council database; Ministry of Planning statistical book Baseline and follow-up surveys in the target project communes and villages Ministry of Health database and health coverage plan Health information system at the Ministry of Health provincial health department database (information disaggregated by sex)</p>	
<p>Outputs</p> <p>Output 1</p> <p>Current project Community health and hygiene practices improved</p> <p>Overall project Unchanged</p>	<p>By 2019: 1a. Current project 400 village water supply and sanitation plans prepared and consolidated into 40 commune plans 1a. Overall project 639 village water supply and sanitation plans prepared and consolidated into 59 commune plans (baseline 2016: 32 plans) 1b. Current project At least 50% women serve as village and commune focal persons 1b. Overall project (changed) At least 50% women serve as village and commune focal persons and are trained in O&M of water supply facilities 1c. Current project At least 3,200 WSUGs trained 1c. Overall project At least 5,400 WSUGs trained (baseline 2016: 2,920) 1d. Current project</p>	<p>Overall project 1a–1h. Approved village water supply and sanitation plans Meeting records Commune development and investment plans WSUG and VDC records MRD rural water supply database Commune and</p>	<p>Overall project Poor sustainability of WSUGs and tariff collection of community-managed small piped water supply systems</p>

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
	<p>One WSUG formed for each communal water facility rehabilitated or developed (average eight per village)</p> <p>1d. Overall project One WSUG formed for each communal water facility rehabilitated or developed and its members trained (average eight per village)</p> <p>1e. Current project Each village holds at least two meetings before preparing village water supply and sanitation plan to inform households about the project</p> <p>1e. Overall project Unchanged</p> <p>1f. Current project Each WSUG will have a five-member board, and at least two members are women (40%)</p> <p>1f. Overall project Unchanged</p> <p>1g. Current project Two representatives from each WSUG (one for water supply and one for sanitation) are on the RWSS committee, at least 40% are women</p> <p>1g. Overall project Unchanged</p> <p>1h. Current project At least 50% of all members trained in the maintenance of water supply and sanitation systems in each WSUG are women</p> <p>1h. Overall project Unchanged</p>	<p>provincial health data</p> <p>Cambodia Demographic and Health Survey report</p> <p>Quarterly progress reports</p> <p>M&E reports</p>	
<p>Output 2</p> <p>Current project Water supply facilities rehabilitated, upgraded, and developed</p> <p>Overall project Unchanged</p>	<p>By 2019:</p> <p>2a. Current project At least 2,400 (average six per village) communal water facilities rehabilitated or upgraded to improved water supply systems</p> <p>2a. Overall project (changed) At least 4,384 communal water facilities either (i) rehabilitated or upgraded, or (ii) new water supply points developed to provide universal safe water supply coverage for 275 villages (baseline 2016: 2,184)</p> <p>2b. Current project At least 25,000 household water filters supplied for ponds in accordance with village water supply and sanitation plans</p> <p>2b. Overall project (changed) All rehabilitated community ponds provided with water treatment using slow sand-filters and household water filters provided to all households in villages where water sources are not reliable (baseline 2016: 53)</p> <p>2c. Current project At least 25,000 rainwater collection systems supplied to households in accordance with village water supply and sanitation plans</p> <p>2c. Overall project Rainwater jars provided to all households in villages where reliable well water cannot be secured (baseline 2016: 25,110)</p> <p>2d. Current project At least 200 rainwater collection systems supplied to schools (average five per commune)</p> <p>2d. Overall project</p>	<p>Overall project</p> <p>2a–2e.</p> <p>Rehabilitation action plan in village water supply and sanitation plans</p> <p>Commune and VDC records</p> <p>MRD database</p> <p>Commune development plans</p> <p>Provincial development plans</p> <p>Feasibility studies</p> <p>Quarterly progress reports</p>	<p>Overall project</p> <p>Lack of beneficiary contributions for small piped water supply systems</p> <p>Inadequate water supply</p> <p>Poor water quality</p> <p>Poor sustainability of tariff collection of community-managed small piped water supply systems</p>

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
	At least 300 collection systems (baseline 2016: 160) 2e. Current project Percentage of non-productive deep wells in the Tonle Sap Basin reduced from 16% to 12% 2e. Overall project Unchanged		
Output 3 Current project Public and household sanitation improved Overall project Unchanged	By 2019: 3a. Current project An average of five blocks of public latrines (separate for males and females) constructed or improved in each subproject commune (200 blocks total) 3a. Overall project 295 blocks (baseline 2016:160) 3b. Current project One management agreement per public facility is in place between PDRD and the public entity (total 200 O&M contract agreements) 3b. Overall project 295 agreements in total (baseline 2016: 160) 3c. Current project 75% of rural residents in villages receive a sanitation grant for improved latrines by 2015. 3c. Overall project 80,177 sanitation grants for pour-flush latrine provided to all identified poor and vulnerable households (baseline 2016: 45,677) 3d. Current project At least 40% of women and 40% of men trained on awareness and behavioral change 3d. Overall project Unchanged 3e. Current project At least 58,200 household latrines constructed by 2015 3e. Overall project Minimum total latrine coverage of 80% in all project villages (baseline 2016: 80% across 364 villages) 3e. Current project At least 80% of WSUGs are functional. 3f. Overall project Unchanged 3g. Overall project (new under the grant) New lake-based latrine solutions piloted in two communes (2016 baseline: 0) 3h. Overall project (new under the grant) New solutions for latrine emptying, treatment, and disposal piloted in 12 communes (2016 baseline: 0)	Overall project 3a–3h. Commune council database Commune and VDC records O&M contract agreements MRD database Feasibility studies Quarterly progress reports	Overall project Limited implementation of self-financed latrines
Output 4 Current project Sector planning and development strengthened Overall project Unchanged	By 2019: 4a. Current project Appropriate health indicators included in the RWSS and M&E database (and disaggregated by sex) 4a. Overall project Unchanged 4b. Current project Small groups (at least 60% female representation) given priority for private sector capacity development 4b. Overall project Unchanged 4c. Current project At least 40% of those that attend training on M&E from the commune and village levels are female 4c. Overall project Unchanged 4d. Current project RWSS, including rehabilitation and upgrading of existing water facilities, prioritized in MRD's 3-year	Overall project 4a–4f. Appointment notification Records of meetings Commune council Database MRD budget and strategy plan Quarterly progress reports	

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
	budget and strategy plan and its annual updates 4d. Overall project Unchanged 4e. Overall project (added) Training for climate change adaption and mitigation developed and included in all water, sanitation, and health trainings 4f. Overall project (added) National, provincial, and local disaster risk management plans prepared for RWSS		
Output 5 Current project Capacity for project implementation and sustainability improved Overall project Unchanged	By 2019: 5a. Current project At least 50% of project coordination unit and PDRD community development and sanitation staff members are women 5b. Overall project At least 40% of project coordination unit (baseline 2016: 33%) and 20% PDRD/PPT staff are women (baseline 2016: 12.5%) by 2017 5c. Current project At least three provincial and three subprovincial administrators participate in workshops 5c. Overall project Unchanged 5d. Current project At least one of three nongovernment organization persons placed in each PDRD project team is a woman 5d. Overall project Unchanged	Overall project 5a–5d. Workshop records Project capacity development plan Training database Quarterly progress reports	

Key Activities with Milestones

1. Improved community health and hygiene practices

- 1.1 Expressions of interest submitted to the district integration workshop or PDRD by the commune chief for inclusion under the project: Q1 2010–Q1 2013 (completed)
- 1.2 Village water supply and sanitation plans prepared and approved. Each plan includes subproject information, rapid appraisal of RWSS needs, water facilities rehabilitation action plan, village mapping, selection of the poor, socioeconomic baseline survey, and proposed RWSS technology: Q2 2010–Q2 2017 (changed)
- 1.3 WSUGs formed and trained: Q2 2010–Q2 2018 (changed)
- 1.4 Small groups and individuals trained for delivering better health outcomes in better RWSS household management: Q2 2010–Q2 2019 (changed)
- 1.5 Village- or commune-level campaigns implemented: Q1 2010–Q4 2018 (changed)
- 1.6 Refresher training for communes and villages: Q1 2017–Q1 2018 (added)

2. Rehabilitated, upgraded, and developed new water facilities

- 2.1 Rehabilitation assessments received from each province: Q1 2017 (changed)
- 2.2 Subproject feasibility reports submitted for each commune in batches for ease of review and procurement. Each is appraised using the criteria outlined for the project: Q1 2011–Q2 2017 (changed)
- 2.3 Existing water supply points rehabilitated: Q2 2010–Q2 2019 (changed)
- 2.4 New, improved water supply points developed: Q3 2010–Q2 2019 (changed)
- 2.5 Rural water safety plans and national water quality testing plan developed: Q1 2017–Q1 2018 (added)
- 2.6 Water quality tests done at all water supply facilities: Q2 2011–Q2 2019 (changed)

3. Improved public and household sanitation

- 3.1 Public latrines constructed at schools or health facilities: Q2 2011–Q2 2019 (changed)
- 3.2 Household latrines constructed: Q2 2011–Q2 2019 (changed)
- 3.3 Develop new latrine solutions for lake-based communities and pilot these Q1 2017–Q3 2019 (new)
- 3.4 Develop new solutions for latrine emptying, treatment and disposal and pilot these Q1 2017–Q3 2019 (new)

4. Strengthened sector planning and development

- 4.1 Sector planning enhanced: Q1 2010–Q4 2014 (completed)
- 4.2 Private-sector involvement in RWSS development strengthened through training in technical and management fields: Q2 2010–Q2 2019 (changed)
- 4.3 RWSS monitoring and evaluation for health outcomes improved: Q1 2010–Q2 2019 (changed)
- 4.4 Develop and conduct training in climate change adaption and mitigation for RWSS at national, provincial, and

Key Activities with Milestones

local levels: Q1 2017–Q2 2018 (added)

4.5 Conduct training in and prepare disaster risk management plans for RWSS at national, provincial, and local levels: Q1 2017–Q2 2018 (added)

5. Improved capacity for project implementation and sustainability

5.1 Project orientation workshops delivered at the national level and in each province for provincial and subprovincial administrators and implementers: Q1 2010 (completed)

5.2 Capacity development plan created for MRD, PDRDs, and district offices of rural development: Q2 2010–Q3 2014 (completed)

Inputs**Asian Development Bank: Loan**

\$0 (current)

\$15,000,000 (additional, ADF)

\$15,000,000 (overall)

Government

\$1,800,000 (current)

\$2,100,000 (additional)

\$3,900,000 (overall)

Beneficiaries

\$3,000,000 (current)

\$1,330,000 (additional)

\$4,330,000 (overall)

Grant

\$21,000,000 (current, ADF)

\$1,500,000 (additional, Sanitation Financing Partnership Trust Fund under the Water Financing Partnership Facility)^b

\$22,500,000 (overall)

Technical Assistance

\$0 (current)

\$2,000,000 (additional, Japan Fund for Poverty Reduction)

\$2,000,000 (overall)

Assumptions for Partner Financing

Not applicable.

ADF = Asian Development Fund, M&E = monitoring and evaluation, MRD = Ministry of Rural Development, O&M = operation and maintenance, PDRD = provincial department of rural development, Q = quarter, RWSS = rural water supply and sanitation, VDC = village development committee, WSUG = water and sanitation user group.

^a MRD. 2014. *National Action Plan: Rural Water Supply, Sanitation, and Hygiene 2014–2018*. Phnom Penh.

^b Financing partner: Bill & Melinda Gates Foundation.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=38560-024-3>

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

Supplementary Documents

16. Involuntary Resettlement and Indigenous People Safeguards Guidance Note
17. Participation Plan
18. Stakeholder Communications Strategy
19. Proposed Scope for Additional Financing
20. Summary of Progress Against Grant Covenants
21. Summary of Lessons Learned
22. Supplementary Appendix for Economic Analysis