

Document of
The World Bank

Report No: 25454-KH

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED CREDIT

IN THE AMOUNT OF SDR 16.1 MILLION(US\$22.0 MILLION EQUIVALENT)

TO THE

KINGDOM OF CAMBODIA

FOR A

RURAL INVESTMENT AND LOCAL GOVERNANCE PROJECT

March 27, 2003

**Rural Development and Natural Resources Sector Unit
East Asia and Pacific Region**

CURRENCY EQUIVALENTS

(Exchange Rate Effective February 28, 2003)

Currency Unit = Cambodian Riels

KHR 1 = US\$.0002607

US\$1.00 = KHR 3,835

FISCAL YEAR

01 January -- 31 December

ABBREVIATIONS AND ACRONYMS

| | |
|--------|---|
| ADESS | Agriculture Development Support to Seila |
| CAO | Contract Administration Office |
| CAS | Country Assistance Strategy |
| CDP | Commune Development Plan |
| CIP | Commune Investment Programs |
| C/SF | Commune/Sangkat Fund |
| C/SC | Commune/Sangkat Councils |
| DCA | Development Credit Agreement |
| DfID | Department for International Development |
| DFT | District Facilitation Team |
| DOLA | Department of Local Administration |
| DOP | Department of Planning |
| FAO | Finance Administration Office |
| FMS | Financial Management System |
| HPDP | Highlands People Development Plan |
| IDA | International Development Association |
| IFAD | International Fund for Agricultural Development |
| IFAPER | Integrated Fiduciary Assessment and Public Expenditure Review |
| IPRO | Information and Public Relations Office |
| KAPB | Knowledge, Attitudes, Practices and Beliefs |
| M&E | Monitoring and Evaluation |
| MEO | Monitoring and Evaluation Office |
| MRD | Ministry of Rural Development |
| MOI | Ministry of Interior |
| NCSC | National Committee to Support the Communes |
| NGO | Non-Governmental Organization |
| NPRS | National Poverty Reduction Strategy |
| PBC | Planning and Budgeting Committee |
| PDEF | Provincial Department of Economy and Finance |
| PFT | Provincial Facilitation Team |
| PDRD | Provincial Department of Rural Development |
| PDOP | Provincial Department of Planning |
| PIF | Provincial Investment Fund |

| | |
|-------|--|
| PMEU | Policy Monitoring and Evaluation Unit |
| PLG | Partnership for Local Governance |
| POLA | Provincial Office of Local Administration |
| POU | Programs Operations Unit |
| PRDC | Provincial Rural Development Committee |
| PSO | Policy and System Office |
| PT | Provincial Treasury |
| QAG | Quality Assurance Group |
| RDS | Rural Development Strategy |
| RFD | Royal Forest Department |
| RGC | Royal Government of Cambodia |
| RILGP | Rural Investment and Local Governance Project |
| SA | Special Account |
| Sida | Swedish International Development Cooperation Agency |
| STF | Seila Task Force |
| STFS | Seila Task Force Secretariat |
| TSS | Technical Support Staff |
| UNDP | United Nations Development Program |
| VDC | Village Development Committee |
| WB | World Bank |
| WDR | World Development Report |

| | |
|--------------------------------|----------------------------|
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CAMBODIA
RURAL INVESTMENT AND LOCAL GOVERNANCE PROJECT

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CAMBODIA
RURAL INVESTMENT AND LOCAL GOVERNANCE PROJECT

Project Appraisal Document

East Asia and Pacific Region
EASRD

| | |
|---|---|
| Date: March 27, 2003 | Team Leader: Louise F. Scura |
| Sector Manager/Director: Mark D. Wilson | Sector(s): Sub-national government administration (30%), |
| Country Manager/Director: Ian C. Porter | General agriculture, fishing and forestry sector (20%), |
| Project ID: P071146 | Central government administration (20%), General water, |
| Lending Instrument: Specific Investment Loan (SIL) | sanitation and flood protection sector (15%), Roads and |
| | highways (15%) |
| | Theme(s): Other public sector governance (P), Other |
| | rural development (P), Gender (S), Other environment |
| | and natural resources management (S) |

Project Financing Data

☐ Loan ☒ Credit ☐ Grant ☐ Guarantee ☐ Other:

For Loans/Credits/Others:

Amount (US\$m): \$22.0

Proposed Terms (IDA): Standard Credit

| Financing Plan (US\$m): | Source | Local | Foreign | Total |
|---|---------------|--------------|----------------|--------------|
| BORROWER | | 15.32 | 9.07 | 24.39 |
| IDA | | 12.28 | 9.72 | 22.00 |
| PARTNERSHIP FOR LOCAL GOVERNANCE (UNDP, DFID, SIDA) | | 7.18 | 8.59 | 15.77 |
| Total: | | 34.78 | 27.38 | 62.16 |

Borrower: KINGDOM OF CAMBODIA

Responsible agency: SEILA TASK FORCE SECRETARIAT

Address: Council for Development of Cambodia, Government Palace, Sisowath Quay, Wat Phnom, Phnom Penh, CAMBODIA

Contact Person: H.E. Chhieng Yanara

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Estimated Disbursements (Bank FY/US\$m):

| FY | 2004 | 2005 | 2006 | 2007 | | | | |
|-------------------|-------------|-------------|-------------|-------------|--|--|--|--|
| Annual | 5.82 | 4.91 | 4.74 | 6.53 | | | | |
| Cumulative | 5.82 | 10.73 | 15.47 | 22.00 | | | | |

Project implementation period: 4 years

Expected effectiveness date: 06/30/2003 **Expected closing date:** 06/30/2007

A. Project Development Objective

1. Project development objective: (see Annex 1)

The development objective of the proposed Rural Investment and Local Governance Project is to contribute to rural development and poverty reduction through supporting provision of priority public goods and services at the commune level, as well as to promote good local governance through support of decentralized and deconcentrated participatory local governance systems at the commune and provincial levels.

2. Key performance indicators: (see Annex 1)

Achievement of the project development objective would be assessed by monitoring whether services and investments for local development are efficiently and effectively provided in the provinces to comprise the project area by the end of the project, and whether government, civil society and private sector adopt and support systems for decentralized, participatory local development.

B. Strategic Context

1. Sector-related Country Assistance Strategy (CAS) goal supported by the project: (see Annex 1)

Document number: 20077-KH **Date of latest CAS discussion:** February 29, 2000

The main objective of the Country Assistance Strategy (CAS) is to assist the Government of Cambodia to build the foundation for sustainable development and poverty reduction over the medium- to long-term. The four key thrusts of the CAS are: (a) supporting good governance, through measures articulated in the Governance Action Plan, including decentralization (of political authority) and deconcentration (of administrative responsibilities); (b) building physical infrastructure; (c) rebuilding human capital; and (d) facilitating private sector development. The CAS further recognizes that, since about 85% of the population and 90% poor reside in rural areas, IDA lending should give special focus to rural infrastructure and rural development. Donor coordination and partnerships are also given a high priority in the CAS.

The Rural Investment and Local Governance Project (RILGP) is consistent with the CAS objective to assist with the foundation for sustainable development and poverty reduction. RILGP will support, through Phase II of the National Seila Program, the newly decentralized planning process at the commune level, as well as the provision of grants for priority rural infrastructure and related public goods identified through this planning process. More specifically, RILGP will support the following key thrusts of the CAS:

- *rural development and poverty reduction*, directly, through investment in key rural infrastructure and services, identified as local priorities.
- *good governance* through (i) integration of the key features of decentralized systems piloted under the initial phase of the Seila Program into the new local government institutional structures and development planning, budgeting and implementation processes at the commune level established as part of the recent decentralization reforms; and (ii) strategic policy studies to inform the ongoing dialogue on deconcentration reforms.
- *building human and social capital* by enhancing capacity to implement these systems at the commune and village levels, and by rebuilding trust and cooperation with and within local communities.

- *private sector development* by stimulating the development of small-scale private contractors to implement the rural infrastructure sub-projects funded under the RILGP. The selection of contractors through an open and transparent competitive bidding process will help ensure that these benefits are widely and fairly distributed.
- *coordination and partnership with donors*, by IDA's co-financing through the RILGP of the multi-donor financed, government-led National Seila Program, ongoing participation in the Seila Donors' Forum, as well as coordination of Project supervision with the activities of the PLG Permanent Advisory Group.

2. Main sector issues and Government strategy:

Cambodia emerged in the late 1990's (December 1998 marked final reintegration of Khmer Rouge) from nearly 30 years of war as one of the world's poorest countries, with economic capacity and infrastructure severely damaged, social institutions in disarray, and human capacity extremely constrained. In 1997, 36 percent of the total population, about 4.3 million out of nearly 12 million, were judged to live below the poverty line. Also a legacy of war, a staggering 20% of households are female-headed, and these are disproportionately poor.

Poverty is predominantly a rural phenomenon in Cambodia-85 percent of the population and 90 percent of the poor are rural residents and most derive their livelihood principally from farming. Rural poverty results from a complex mix of factors, which together conspire to limit livelihood opportunities both on- and off-farm.

Up to now, the Royal Government of Cambodia's (RGC) approach to rural development and poverty reduction has been fragmented, with a large number of stand-alone donor- and NGO-driven projects. This approach was perhaps justified in the aftermath of the war, when the primary focus was reconciliation and reintegration, the level of suffering of the people was great and the needs for relief urgent, and Government capacity was virtually nonexistent. As reconciliation and reintegration have proceeded and the focus has shifted to development, however, a more coordinated and sustainable approach is needed.

The Seila Program piloted a working model for Government-Donor coordination and partnership, providing a framework for multi-donor financing of rural development and poverty reduction through technical and program support and direct investments in local services and infrastructure. Seila seeks to provide the foundation for rural poverty alleviation and good local governance using a two-pronged approach: (a) developing and strengthening local institutions in support of decentralized and deconcentrated rural development; and (b) providing efficient and effective grant financing for investments in locally managed infrastructure and public services, identified as priorities through a participatory process, at both the provincial and commune levels.

The Royal Government's Governance Action Plan states that "Government views decentralization, deconcentration and local governance as means to further democratize the country and improve service delivery in the regions". Moreover, the recently completed National Poverty Reduction Strategy (NPRS) recognizes the cross-cutting themes of decentralization and deconcentration as fundamental to rural development and poverty reduction in Cambodia. The stated objectives of the reforms are to: (a) promote democracy, good governance and quality of life; (b) give ordinary people greater opportunities to determine their future; and (c) ensure sustainable development, including the delivery of basic services. The RGC's strategy is to implement simultaneously both decentralization of political authority through the election of Commune/Sangkat Councils and deconcentration of state functions to provincial governors.

Under the first phase of implementation, 1996-2000, the Seila Program enabled the RGC to formulate and fully test in five provinces deconcentrated and decentralized systems focused on the province and commune as the two sub-national levels for budgeting, planning, financing and implementation of local development. Encouraged by the success of the first phase, a second phase of Seila, 2001-2005, was formulated by the inter-ministerial Seila Task Force in 2000 and approved by the Council of Ministers on 5 January 2001. During Phase II, the Seila Program is meant to provide technical and financial resources for: (a) refining decentralized planning, financing, and management systems for service delivery and local development; (b) providing discretionary budget support to province and commune authorities for investment in services and infrastructure; and (c) providing practically tested lessons for national level policy and regulations for decentralization, deconcentration and poverty alleviation.

To finance these expanded efforts, RGC requested broad-based donor support for Phase II of the National Seila Program. The main donors of the first phase of the Seila Program --United Nations Development Program (UNDP) and the Swedish International Development Cooperation Agency (Sida)-- are joined by the United Kingdom's Department for International Development (DfID) as the main funders of Seila Phase II through the Partnership for Local Governance (PLG), a UNDP-administered multi-donor trust fund which is the main source of technical assistance and capacity building to the Seila Program. Also, other donors support specific thematic areas through the Seila Program or use Seila piloted mechanisms at the provincial level. For example, Agriculture Development Support to Seila (ADESS), a national sector programs for agriculture and rural infrastructure development operated through Seila mechanisms in selected provinces is funded by IFAD. To complement these sources of funds, RGC requested support from the International Development Association (IDA), through the proposed RILGP (2003-2006), to Phase II of the National Seila Program.

3. Sector issues to be addressed by the project and strategic choices:

The RILGP will address issues of rural development and poverty reduction in Cambodia through provision of priority public goods and services at the commune level, as well as promote good local governance through support of decentralized and deconcentrated participatory governance systems at the commune and provincial/district levels.

Promoting opportunity for the poor is fundamental to poverty reduction. The key constraints to expanded livelihood opportunities are: (a) limited access to productive assets/resources and technologies; (b) remoteness due to weak communications and transport infrastructure; and (c) poor accessibility, non-affordability and inequity of public services, such as agricultural extension, education and health care. RILGP, within the Seila Program, addresses these constraints frontally and, therefore, will have an important impact on reducing poverty in rural Cambodia.

The proposed RILGP's linkages to poverty reduction, while indirect, are strong. As was argued persuasively by the World Development Report (WDR) on Poverty, insufficiency of assets is not just a symptom of poverty, but is also a cause of it. Access to assets is a critical factor determining whether an individual, household, or group remains in poverty or escapes it. Simply, those with access to key assets are better able to exploit market and social opportunities to generate income, obtain a better quality of life, and achieve a sense of psychological well-being. Thus, one of the keys to expanding economic opportunities for poor people is to help build their asset base.

However, the scope for the accumulation of assets by poor households is severely constrained by inadequacies in the markets they face and by weakness in public and private service delivery. This is particularly true for public goods such as infrastructure, especially in isolated rural areas. Thus, one of

the most powerful instruments for improving the material prospects of poor people is to provide them with access to infrastructure. Not only does improved infrastructure promote economic opportunities for the poor by increasing their access to markets, information, and public services, it also generates important complementariness across assets. For example, there is evidence from other developing countries that communities with better rural roads also have much higher girls' primary school enrollment rates, and twice the use of health care facilities.

Public action can enable poor people to expand their assets and reduce inequalities in three complementary ways: (a) engaging poor households and communities in decisions; (b) using the power of the state to redistribute resources, notably infrastructure; and (c) implementing policy and institutional reforms to ensure effective delivery of services. RILGP includes components to support all three of these actions. First, through support to a local planning process, it would stimulate the direct engagement and meaningful participation of local communities in local development efforts in the project area. Second, it would address rural poverty reduction through provision of both small-scale public infrastructure and related public goods delivered at the commune level. And, third, it would provide predictable and reliable funds to the commune level for provision of public infrastructure and related public goods, and will promote good governance at the commune and province levels by refining decentralized and deconcentrated systems for planning, financing and managing local development.

C. Project Description Summary

1. Project components (see Annex 2 for a detailed description and Annex 3 for a detailed cost breakdown):

The proposed Project will support, through Phase II of the National Seila Program, the newly decentralized planning process at the commune level, as well as the provision of grants for priority rural infrastructure and related public goods identified through that planning process. More specifically, the proposed Project will support: (i) integration of the National Seila Program into the new local government institutional structures and development planning, budgeting and implementation processes at the commune level established as part of the recent decentralization reforms; and (ii) technical assistance for strategic studies to inform the ongoing dialogue on deconcentration reforms, as well as to review and strengthen the regulatory framework for decentralization.

The proposed Project will provide support, over a four-year period (2003-2006), to the following two components:

- Component 1 – Local Planning and Investment; and
- Component 2 – Policy Support and Project Management.

The proposed IDA Credit, totaling US\$ 22 million, will finance principally sub-project investments at the commune level, as well as some strategic studies and program support cost. The associated planning activities, technical assistance and capacity building at the national, provincial and commune levels will, for the most part, be co-financed in parallel by the Partnership for Local Governance (PLG), a multi-donor trust fund administered by UNDP, as well as by Royal Government of Cambodia (RGC) domestic resources. The IDA Credit would cover technical assistance, capacity building and incremental operating costs in the final year of implementation.

A. Local Planning and Investment Component will support in 15 provinces, through the Commune/Sangkat Fund (C/SF): (i) the newly established decentralized planning process at the commune level, including development of five-year Commune Development Plans (CDP), three-year

rolling commune investment programs (CIP) and annual commune budgets; and (ii) grants for commune-level sub-project investments in infrastructure and public goods identified and prioritized through the participatory local planning process.

B. Policy Support and Project Management Component will support the capacity building, technical assistance, buildings and equipment, and incremental operating costs at national, provincial and commune levels of implementing Component 1. More specifically, the component will finance the provision to national and provincial institutions the works, goods (such as vehicles, and office, communications and other equipment) and consulting services necessary to implement their respective project responsibilities. At the provincial level, the IDA Credit will be utilized primarily to procure goods and works for PRDC ExCom units and Provincial Treasury to strengthen their capacity to support C/SC development planning and implementation of commune-level sub-projects. At the national level, the IDA Credit will finance office equipment and vehicles, as well as fund workshops focused on reviews of the Seila systems and proposed updates. In addition, consulting services will be financed for the purposes of conducting strategic studies related to decentralization and deconcentration reforms, socio-economic follow-up studies, mid-term and final project evaluations, monitoring quality of procurement support by TSS to C/SC, and an annual independent audit of project accounts.

| Component | Indicative Costs (US\$M) | % of Total | Bank-financing (US\$M) | % of Bank-financing |
|--|--------------------------|--------------|------------------------|---------------------|
| A. Commune Local Development Fund | 37.33 | 60.1 | 18.95 | 86.2 |
| B. Policy Support and Project Management | 24.83 | 39.9 | 3.04 | 13.8 |
| Total Project Costs | 62.16 | 100.0 | 21.99 | 100.0 |
| Total Financing Required | 62.16 | 100.0 | 21.99 | 100.0 |

2. Key policy and institutional reforms supported by the project:

Decentralization and deconcentration reforms are critical elements of the RGC's overall public sector reform agenda, but the decentralization part of this reform agenda has progressed more rapidly than has deconcentration. The decentralization and deconcentration reforms which have been undertaken, or are under consideration by the RGC, are focused on the commune (including the village) and the province (including the district) as the two sub-national levels for budgeting, planning, finance and administration of development. The RILGP will support initial implementation and fine tuning of the recent decentralization reforms, as well as inform the ongoing dialogue on deconcentration reforms. Care has been taken during preparation of RILGP to ensure consistency with the Bank's ongoing policy dialogue with the RGC on decentralization and deconcentration, as well as related areas of sub-national financial management and procurement, under the Integrated Fiduciary Assessment and Public Expenditure Review (IFAPER).

Decentralization. The key elements of the decentralization reforms have focused thus far on devolving political authority to a new semi-autonomous elected local government, the Commune/Sangkat Council (C/SC), establishing an initial set of C/SC responsibilities for local development and administration within the current capabilities of the C/SC, as well as transfer of resources from the national-level, through the Commune/Sangkat Fund (C/SF), to support the implementation of these responsibilities.

The *Law on Administration of Communes/Sangkats* and the *Law on Commune/Sangkat Elections*, the basic legal framework for the decentralization reforms, were both adopted in 2001. These laws define the basic structure of the system –the overall structure and responsibilities of the C/SC, the criteria for eligibility to stand for election to the C/SC and the procedures for electing the C/SC– but do not provide

sufficient details for implementation of the system. As mandated under the *Law on Administration and Management of Communes/Sangkats*, the responsibility for overseeing the completion of the regulatory framework for and initial implementation of the decentralization reforms rests with the National Committee to Support the Communes (NCSC), an inter-ministerial committee chaired by Ministry of Interior (MOI) which provides the NCSC Secretariat in its Department of Local Administration (DOLA). Since its creation in mid-2001, NCSC, and the various thematic working groups under its auspices (Planning and Development; Financial Affairs; Commune Boundaries; Commune Powers, Functions and Structures; and Education, Training and Capacity Building), have made significant progress in developing and refining the sub-decrees (anukret), administrative proclamations (prakas) and detailed guidelines which provide operational details for the C/SC and the C/SF.

While MOI, through DOLA, is the principal agency charged with oversight of implementation of the decentralization reforms and refinement of the regulatory framework, the Seila Program has a key role in providing support with external funds mobilization and accountability, and external technical assistance. Indeed, the Seila Program has contributed significantly to the decentralization reforms by providing detailed lessons of the Seila Phase I experience, as well as, through PLG, providing direct technical assistance to the various working groups drafting the governing sub-decrees, prakas and supporting guidelines. In addition, the preparation studies funded under the PHRD preparation grant for RILGP provided to STFS through the Bank have further informed the reforms. Moreover, as part of RILGP preparation, the basic actions necessary to comply with Bank policy requirements, particularly on financial management, procurement, environment, land acquisition and indigenous ethnic minority issues, have been integrated to the extent feasible and appropriate in the general regulations and guidelines for local development funded through the C/SF.

Nonetheless, some pieces of this framework for decentralization, and supporting regulations and operational guidelines, are still incomplete or will require review and adjustment after lessons of initial implementation experience are available. Lessons from the implementation of the RILGP will contribute to this process.

Institutionally, the role of the village still requires some clarification. Specifically, how the village representatives required for the participatory C/S development planning process will be selected remains unclear. The *Inter-Ministerial Prakas on Commune/Sangkat Development Planning* calls for two "village authority" representatives from each village to be selected by the C/SC to serve on the Commune Planning and Budgeting Committee (PBC). As an interim measure for the first mandate (first five-year term) of the C/SC, villages which already have Village Development Committees (VDCs--currently about 7,896 out of 13,629 villages or 58% of villages countrywide according to Ministry of Rural Development (MRD) statistics) will be represented on the PBC by one representative from the village authority and one representative from the VDC, a man and woman. The potential role for VDCs in other villages and whether VDC representatives will form part of the PBC membership beyond the first mandate is to be clarified by forthcoming instructions from MOI. Prior to issuing the instruction, however, MOI is seeking to reconcile with MRD the selection process for Village Chiefs (who, under an upcoming prakas, are intended to be selected in future through simple election process at the village level) with the selection process for VDCs, which is done through a simple open election process at the village level supervised by MRD. The discussions between MOI and MRD are ongoing, but the relationship between VDCs and the village authority has not yet been clarified. Given the importance of village representation on the PBC, it is critical to adopt an appropriate permanent mechanism for selecting village representatives as soon as possible.

Deconcentration. Transfer of administrative powers and functions to the Governor and the provincial and district administration is the intended focus of deconcentration reforms in Cambodia. There are two distinct, but related, aspects to the deconcentration of administrative powers and functions. As there are obvious complementarities between decentralization and deconcentration, the first involves the role of the Governor and the provincial and district administration in providing support to the Commune/Sangkat Councils. There has been good progress in this, as the role of the Governor has been defined by the NCSC within the decentralization regulatory framework through the *Prakas on Delegation of Powers to Provincial /Municipal Governors in Support of Commune/Sangkat Councils (No 1884, MOI, 24 April 2002)*. Also, an recent instruction by the Seila Task Force, *Prakas on Establishment of Structure, Roles and Responsibilities of the Provincial/Municipal Rural Development Committee of the Seila Program (No. 292 STF, 8 November 2002)* provides interim arrangements for the structure of provincial level support through the PRDC to the C/SC.

The second aspect involves the role of the Governor and the provincial and district administration in regard to provision of sectoral services at the provincial level, through provincial departments of line ministries. Currently, provincial departments of central line ministries do not have authority to design and implement development initiatives within their provinces, except in the special cases of pilot activities, such as the Provincial Investment Fund under the Seila Program. Initial discussions on this aspect of deconcentration are ongoing.

The *Organic Law on Deconcentration*, which would provide the legal foundation for the latter aspects of the deconcentration reforms, is still in early stages of discussion, and there is not yet agreement on its underlying principles. The mandate for leading the deconcentration reforms rests with the Council for Administrative Reform (CAR), under the Supreme Council of Ministers. Also, because decentralization and deconcentration are closely related and need to be coordinated, the NCSC needs to be substantively engaged in the conceptualization and formulation of the deconcentration reforms. The deconcentration legislation will supersede sub-decrees and prakas that allowed provincial bodies, such as PRDC and its ExCom under the Seila Program, to operate. The new legislation should recognize and take advantage of the significant capacity in the PRDC, and this would be encouraged in IDA's policy dialogue with the RGC.

As with decentralization, it is envisaged that the Seila Program Phase I and initial Phase II experience with provincial planning and investment will contribute to the ongoing dialogue on the deconcentration reforms. The lessons of other experiences with deconcentrated services at the provincial level and below, such as those piloted under the Health and Education sectors, also need to be drawn upon to inform the ongoing dialogue.

The STFS, through RILGP, will provide assistance to relevant RGC authorities to develop the procedures and systems accompanying the *Organic Law on Deconcentration* and other appropriate legislation for deconcentration, and review experiences of sector programs, within a deconcentrated governance structure.

3. Benefits and target population:

The proposed Project area would include 15 provinces participating in the Seila Program Phase II -- Battambang, Banteay Meanchey, Siem Reap, Otdar Meanchey, Pailin, Pursat and Ratanakiri of the Seila Program Phase I provinces; Kompong Cham, Prey Veng, and Takeo, which started operating under the Seila Program Phase II in 2001; as well as Kompong Speu, Kompong Chhnang, Svay Rieng, Kratie and Preah Vihear, which started operating under Seila Program Phase II during 2002. IDA-funded activities in the 15 provinces would be phased-in over the first 3 years of implementation, starting with up to 698 communes in 7 provinces in year 1 (Banteay Meanchey, Battambang, Kampong Cham, Prey Veng, Pursat, Siem Reap, Takeo), expanding to up to 980 communes in 11 provinces in year 2 (additionally Kampong Chhnang, Kampong Speu, Kratie, Svay Rieng) and up to 1110 communes in 15 provinces in years 3 and 4 (additionally Otdar Meanchey, Pailin, Preah Vihear, Ratanakiri).

There is a total population of over 7.8 million people in 127 districts of the 15 provinces comprising the RILG project area, equivalent to 68.5% of the total national population and 81% of the rural population. At full implementation, Component 1 will cover 1110 communes, or 68% of the total communes in Cambodia, including about 1.5 million households.

The benefits of the project can be categorized under three main areas.

- *Rural development and poverty reduction:* RILGP will contribute to rural development and poverty reduction by enhancing the living conditions of the rural community members through improved public infrastructure — accessibility and sustainability. Through Component 1, investment grants will fund local development initiatives prioritized by communities through a participatory planning process. A range of infrastructure and related goods will be eligible for funding. It is expected that the community physical asset base will be improved as a result of sustainable infrastructure being constructed and maintained, and livelihood opportunities will be enhanced due to better access to information and markets. The maintenance of a commune database by provincial departments of planning (DOP) (and at national level by the Ministry of Planning (MOP)) will provide a useful monitoring tool for poverty reduction.
- *Good governance:* RILGP will support the implementation of the RGC's decentralization and deconcentration efforts at both practical and policy levels. At the local level the Project will contribute to the building of the credibility of local governments through improved accountability, transparency, efficiency and effectiveness of service delivery. At the policy level the Project will contribute through the Seila Forum lessons on good governance to the policy makers in CAR and NCSC. Through its support of the Seila Program, RILGP's benefits will be directly felt at the national level, in terms of policies and regulations, and at province and commune levels, through more capable and accountable institutions, and promoting dialogue and partnerships between government, private sector and civil society institutions.
- *Building human and social capital:* RILGP will contribute to building capacity at four levels:
 - *Communities:* empowering community members to take greater responsibility for determining investment priorities, monitoring the implementation process, demanding greater accountability and transparency from their local government representatives and from provincial sector departments, and for maintaining agreed levels of infrastructure;

- *Local governments*: enabling commune councilors and commune council staff, to plan and manage development in their communes in a transparent and accountable manner in accordance with laws and regulations;
- *Provincial sector departments*: enabling department staff to provide technical assistance to local government as prescribed in the conduct of their mandated functions; and
- *Private sector firms and NGOs*: through targeted training and the conduct of transparent procurement procedures, both private sector firms and NGOs will be able to contract to provide infrastructure and related goods to local government.

4. Institutional and implementation arrangements:

In the interest of government ownership and sustainability, the RILGP will work within existing government institutions and structures, and no project-specific entities will be created for RILGP implementation. Rather, the project will be implemented within the institutional arrangements of the National Seila Program, which at the provincial level employ the institutional structures mandated through the *Prakas on Establishment of Structure, Roles and Responsibilities of the Provincial/Municipal Rural Development Committee of the Seila Program*, and at the commune-level have been integrated into the institutional structures which have emerged from the recent decentralization reforms.

The institutional structures employed by the Seila Program comprise the following levels:

- Seila Task Force (STF) and the Seila Task Force Secretariat (STFS) – National Level
- Provincial Rural Development Committee (PRDC)
- Commune/Sangkat Council (C/SC)
- Planning and Budgeting Committee of the C/SC (PBC)

At the *national level*, the Seila Program is coordinated by the Seila Task Force (STF), an inter-ministerial task force which mandate is established through the *Sub-Decree on Establishment and Operations of Seila Task Force* (No. 57 ANKR.BK dated 28 June 2001). STF is chaired by the Senior Minister of Economy and Finance and comprises representatives of key ministries, including: Interior; Women's and Veteran's Affairs; Water Resources and Meteorology; Agriculture Fisheries and Forestry; Rural Development; Planning and the Council for Administration Reform. Member ministries of the Seila Task Force have Ministerial Focal Points within their Ministries to facilitate and assist the work of the STF Members. The STF is responsible for oversight of the Seila Program, including policy design, resource mobilization and monitoring. STF is supported by a Technical Secretariat (STFS) housed in the Council for Development of Cambodia, managed by a Secretary General and a Deputy and, because it is viewed as a transitional institution, staffed by secondments from other Ministries and institutions.

The STFS is responsible for execution of the Seila Program, and is charged with managing the implementation of both components of the RILGP. Through at least 2005, STFS will receive significant support to execute its functions from PLG in the form of six to seven expatriate advisors.

STFS has two units:

- Program Operations Unit (POU), responsible for overseeing program execution functions, is divided into three offices: (i) Contract Administration Office (CAO); (ii) Financial Administration Office (FAO); and (iii) Training and Extension Office. *The POU in STFS will serve as the implementation unit for the proposed RILGP.*
- Policy Monitoring and Evaluation Unit (PMEU), is divided into three offices; (i) the Policy and System Office (PSO), responsible for development and dissemination of policy lessons, decentralization and deconcentration policy analysis and systems development; (ii) Monitoring and Evaluation Office (MEO), responsible for overall monitoring and evaluation of the Seila Program; and (iii) Information and Public Relations Office (IPRO). *The PMEU in STFS will take the lead on key policy and M&E aspects of RILGP, as well as coordinate disclosure of key RILGP documents.*

For Component 1, Local Planning and Investment, the main implementing entity at the commune level will be the newly elected Commune/Sangkat Councils (C/SC), which under the *Law on the Administration of the Commune/Sangkat*, are empowered to maintain public order and security, manage public services, enhance public welfare, and promote development, as well as manage commune finances. The first C/SC were elected to a five-year mandate in February 2002, and are comprised of five to eleven members depending on the population of the commune. Candidates for the C/SC stand for election on a proportional representation and party list basis, such that more than one party can be represented. The commune/sangkat chief is the individual who receives the most votes on the majority-party list. If one party carried the entire council, the first and second deputies are those individuals from that party with the second and third highest number of votes. If candidates of more than one party receive sufficient votes, specific rules are followed to select deputies from the candidate list of the other party.

While territorial villages have no direct representation on the C/SC, Article 27 in the *Law on the Administration of Commune/Sangkat*, allows several avenues for village-level representation and participation in the commune development planning process. The most extensive of these is through the establishment of a Planning and Budgeting Committee (PBC), which is responsible to assist the commune chief to conduct the commune development planning process and to draft the Commune Development Plan, Commune Investment Plan and commune budget. The *Inter-Ministerial Prakas on Commune/Sangkat Development Planning* dated 7 February 2002, and the subsequent amendment to Article 29 of the same Prakas, define the composition of the PBC to include the commune chief as chair and the commune clerk as secretary, as well as members including: three representatives from the elected C/SC selected by the chair; 2-4 village residents including both genders selected by the chair; and two representatives, one of each gender, selected by the C/SC from the Village Authority or, for villages with Village Development Committees (VDC), one representative each from the Village Authority and the VDC consisting of a man and a woman. VDCs are formed through an informal electoral process at the village level conducted in accordance with the procedures outlined by the Ministry of Rural Development, which allows anyone in the village to stand for election, and guarantees that some of the elected VDC members must be women.

At the *provincial level*, under the recent decentralization reforms through the *Prakas on Delegation of Powers to Provincial/Municipal Governors in Support of Commune/Sangkat Councils*, the Provincial Governor is responsible for mobilizing and coordinating provincial departments of line ministries and provincial offices to support and supervise the C/SC. More specifically, the

Provincial Governor is responsible to establish a development planning and support system through provincial department and provincial office staff. This includes:

- Department of Planning (PDOP) which is responsible to conduct a technical review of CDPs; provide the C/SC with methodological guidance on the planning process; train planning trainers (who include provincial and district facilitation teams (PFT and DFT)) and councilors, commune clerks and NGOs; and provide technical oversight of training;
- Office of Local Administration (POLA), which under the decentralization regulatory framework is the single interface to the C/SC in all contacts with provincial administration, is responsible to instruct C/SC on compliance with planning (and other) regulations, and assist C/SC in preparation, implementation and monitoring of CDP. The PFT and DFT, under the Seila Program, will be managed by the POLA Director and will provide training and facilitation support to the commune planning and implementation process, as well as facilitate the communication between C/SC and Provincial/Municipal authorities.
- Department of Rural Development (PDRD) which is responsible to provide technical assistance to C/SC on formulation and implementation of sub-projects. The Technical Support Staff (TSS) under Seila are managed by the Director of PDRD and provide C/SC with technical advice on sub-project preparation, supervise bidding processes, and certify works carried out under contract to the C/SC.
- Department of Economy and Finance (PDEF) will be involved with the PT staff in providing training to C/SC in the Commune Fund financial management procedures.
- Provincial Treasury (PT) will be responsible for performing accounting functions as well as cashier functions for the C/SC in the management of the C/SF.

Under the earlier phase of the Seila Program, similar types of support to the commune level had been provided through the Provincial Rural Development Committee (PRDC) and its Executive Committee (ExCom), both chaired by the Provincial Governor. However, given the upcoming deconcentration reforms, the status and composition of the PRDC and its ExCom are not clear at present. In future, the new *Organic Law on Deconcentration* will define the structure and function of the provincial and district administration, including the PRDC. In the interim, a recent instruction from the Seila Task Force, *Prakas on Establishment of Structure, Roles and Responsibilities of the Provincial/Municipal Rural Development Committee of the Seila Program* (No. 292 STF dated 8 November 2002), provides sufficient clarity of the PRDC structure and function for implementation of the RILGP.

The PRDC Executive Committee, which is charged to conduct the day-to-day work of the PRDC, is chaired by the Provincial Governor, with the Deputy Governor as the 1st Deputy Chair and the Director of the Provincial Department of Rural Development as the 2nd Deputy Chair. The membership of the PRDC comprises: (i) the Directors of the Provincial Department of Planning, Economy and Finance, Agriculture, Forestry and Fisheries, Water Resources and Meteorology, Women's and Veterans' Affairs, and Treasury; and (ii) the Chief of the Unit of Local Administration.

Four management units are established under the PRDC Executive Committee as follows:

- Contracts Administration Unit, supervised by PDOP, including two key areas of responsibility: (i) contracts administration, and (ii) monitoring and evaluation, and information;

- Local Administration Unit, supervised by POLA, including three key areas of responsibility: (i) administration, (ii) local capacity building, and (iii) monitoring and evaluation, and information for the C/SC;
- Technical Support Unit, managed by the Director of PDRD, includes three main areas of responsibility: (i) assist the C/SC to carry out sub-project feasibility studies, prepare designs, estimate costs and prepare sub-project proposals for inclusion in C/SC Development Plans and Budgets, (ii) assist the C/SC to manage competitive bidding, award contracts, monitor and supervise implementation of sub-project activities and certify quantities and quality of works implemented by contractors, and (iii) provide technical advice to the Provincial/Municipal Governor and the PRDC Executive Committee on matters related to implementation of sub-projects by the C/SC; and
- Finance Unit, managed by the Director of PDEF as chief and the Chief of Provincial Treasury as deputy chief, including two key areas of responsibility: (i) provincial/municipal finance tasks, and (ii) C/S Fund tasks.

D. Project Rationale

1. Project alternatives considered and reasons for rejection:

The team considered the following alternative elements of project design:

Institutional Design: The project team considered and rejected the following approaches to institutional design:

- *Community-based.* The team considered pursuing a second phase of the Northeast Village Development Project, a LIL implemented through the Ministry of Rural Development that is piloting participatory planning and implementation of local development at the village level through the formal rural development structures.
- *Social fund.* The team also considered using a special mechanism, similar to the Social Fund for Cambodia, to fund small-scale public infrastructure and other rural development activities.

Cambodia has immense infrastructure needs, which can and should be met through a variety of short- and medium-term approaches, such as these. However, to scale-up the NVDP model would require significant time and effort to develop capacity (for technical and process facilitation) before development activities could be started in the field and significant impact achieved at the village/commune level, and there would be significant constraints to sustaining this capacity and scaling-up these efforts post-project. Also, working through fast disbursing special mechanisms such as a social fund may be more efficient for delivery of infrastructure in the short-run, but does not create sustainable governance systems or capacity at the local level over the longer term. Moreover, with the recent decentralization reforms which created a viable local government structure, the project team judged that it would be inappropriate at this juncture to employ an institutional design that disregarded this new local government structure and the new local planning processes for the provision of goods and services for which the newly created C/SC are responsible. Thus, the above approaches to institutional design were rejected in favor of an institutional structure working with the *decentralized local government* at the commune level and *deconcentrated provincial administration*, and focused on capacity building of related institutions at the national, provincial and commune levels with a view to improving local governance and responsiveness of these institutions to communities they serve.

Balance between Outputs and Process. The project team assessed carefully the appropriate balance between the focus on outputs (the “RP” in RILGP) and the focus on the process (the “LG” in RILGP). The provision of infrastructure and services which generate real economic benefits poor people need is an essential element of their empowerment. However, exclusively output-oriented rural development approaches, with insufficient engagement of the poor, may lack ownership and sustainability. To effect institutional engagement of the poor requires appropriate emphasis on relevant policies, institutional structures and roles, and processes. Thus, a balanced focus on outputs and process is needed. The good performance of the first phase of the Seila Program, particularly the participatory processes and decentralized institutional structures and systems for local development planning, financing and implementation that it piloted, provided valuable lessons of experience in the Cambodia context which have been mainstreamed into the recent decentralization reforms. The continuing work of the Seila Program during the second phase will help to refine these systems during the first five-year mandate of the C/SC, as well as provide practical experience to inform the ongoing discussions on deconcentration reforms at the provincial level. The RILGP will both use the earlier piloted structures and process for delivery of outputs, as well as contribute to their further testing and refinement.

Balance between Infrastructure and Service Delivery. The project team also assessed carefully, with the aide of a PHRD-funded study, the appropriate balance between infrastructure and service delivery. Under the Seila Program Phase I, funding from the local development funds could only be used for “public goods”, the most common of which included rural roads, bridges, culverts, wells, ponds, schools and health centers. In line with this, the technical support under the Seila Program Phase I was focused on provision of small-scale infrastructure. Nonetheless, the study found that community preferences for priority sub-projects included some types of public services, and recommended that a limited number of public services be eligible for funding. Through the RILGP, Component 1 will fund priority small-scale infrastructure and related goods at the commune level, and Component 2 will fund strategic studies on deconcentration of administrative responsibilities to the provincial level, including focus on appropriate roles for delivery of complementary public goods and services through the provincial departments.

Level of Donor Coordination and Partnership. The project team considered several options for engagement with other donors ranging from simple coordination to full collaboration and partnership. RGC has indicated that, over the longer-term, they wish to reduce the variability among the various donor-funded approaches to rural development and instead prefer to focus on a more unified, sustainable approach that consolidates donor inputs, encourages good local governance, and builds governance systems and capacity at the local level, as well as delivers goods and services. Through the RILGP, the Bank will be a full partner in the broader multi-donor funded National Seila Program, expanding the scope and leverage many times over the impacts that could be achieved with Bank financing alone.

2. Major related projects financed by the Bank and/or other development agencies (completed, ongoing and planned).

| Sector Issue | Project | Latest Supervision (PSR) Ratings (Bank-financed projects only) | |
|--|--|---|----------------------------|
| | | Implementation Progress (IP) | Development Objective (DO) |
| Bank-financed Participatory rural development | Northeast Village Development Project | S | S |
| Agriculture productivity | Agriculture Productivity Improvement Project | U | S |

| | | | |
|---|---|---------|---------|
| Small-scale infrastructure | Social Fund I and Social Fund II | HS S | HS S |
| Reintegration of refugees | Post Conflict Grant (implemented through Seila Program Phase I) | | |
| Demobilization and reintegration of soldiers | Demobilization and Reintegration Project | S | S |
| Rehabilitation of flood-damaged infrastructure | Flood Emergency Rehabilitation | S | S |
| Rehabilitation and maintenance of rural roads | Provincial and Rural Infrastructure Project | | |
| Other development agencies | | | |
| Small-scale infrastructure and public services at the provincial and commune levels; local governance; capacity building | Seila Program Phase I (1996-2000) | | |
| Infrastructure | EU-PRASAC 1(1995-1998) and 2 (2000-2003) | | |
| Women and children's health; village development | UNICEF/CASD | | |
| Village Food Security | GTZ/PDP (Kampong Thom); GTZ IFSP (Kampot) | | |
| Agricultural extension; capacity building | IFAD ADESS | | |
| Agricultural extension; rural development | IFAD CBRDP | | |
| Support to strengthening C/SC | ADB CCDP | | |

IP/DO Ratings: HS (Highly Satisfactory), S (Satisfactory), U (Unsatisfactory), HU (Highly Unsatisfactory)

3. Lessons learned and reflected in the project design:

Two recent reviews –an OED review of Community Driven Development Approaches in South East Asia, and a QAG Review of East Asia Rural Poverty Reduction Projects -- as well as the experience with related projects and programs in Cambodia offer the following lessons, which have been reflected in the project design:

- Past rural development efforts in Cambodia have been supported mainly through stand-alone projects, which have typically neglected the broader policy and institutional aspects of poverty reduction, and have been plagued by serious financial and institutional sustainability problems.
- Employing an approach which bypasses intermediate levels of the government, with funds going directly from the national level to the villages, outside the normal budgetary cycles, poses a limitation on replicability and scaling-up.
- Sustainability can only be achieved over the long term by gradually “mainstreaming” poverty reduction efforts within the regular operations and processes of the national and sub-national government institutional structures.
- Bank fiduciary and safeguard policies should be applied as simply and flexibly as possible, and integrated to the furthest extent possible into the regular government systems and processes.

- Participatory approaches, such as employed in the Seila Program, have been found to be important elements of effective rural poverty reduction efforts. Rather than treating poor people as targets of poverty reduction efforts, participatory approaches give communities an active participatory role in project selection, design and implementation of local development activities of a scope that is within the management and capacity of the communities. These approaches work best, and are most sustainable, when they link participation, with good governance and decentralization.
- Prospects for sustainable operation and maintenance of the infrastructure constructed under sub-projects are positively effected through sufficiently high rates of beneficiary contributions, as well as clearly articulated institutional roles and responsibilities and adequate financial arrangements.
- Thoughtful reliance on high quality (international and local) technical assistance is an effective way to develop sufficient institutional and technical capacity at the local level.
- Sufficient analytical focus is needed in monitoring the project's process (participation, poverty targeting, transparency), quality of outputs (both infrastructure "hardware" and policy and institutional "software") as well as long-term impact (poverty reduction).

4. Indications of borrower commitment and ownership:

The RILGP is part of a multi-donor financed, government-led program. In early November, 2000, Government presented to the donor community its Program Document for a second, expanded five-year phase of the Seila Program (2001 – 2005). The Program Document was approved by the Council of Ministers in early January, 2001. In a March, 2001 speech, Prime Minister, HE Hun Sen, called on donors to support the Seila Program. H.E. Keat Chhon, Senior Minister of Economy and Finance and the Chair of the Seila Task Force, and H.E. Chhieng Yanara, Deputy Secretary General of Council for Development of Cambodia and Secretary General of the Seila Task Force Secretariat requested Bank support in the form and magnitude of the proposed RILGP.

During the earlier Phase I, Seila had piloted a model for the decentralized planning, financing and management of development at province and commune levels outside the then mainstream Government systems. Following the local government elections in February 2002, implementation of the Seila Program was integrated with the new local government structures (Commune/Sangkat Councils) and funding mechanisms (Commune/Sangkat Fund) emerging from the ongoing decentralization reforms, indicating institutionalization and nationalization of the Seila Program.

Each year since its inception, the Government budget allocated to the Seila Program has increased. RGC's contribution to the newly established Commune/Sangkat Fund in 2002 was 1.2 percent of recurrent domestic revenue. For the years 2003 and 2004, the level of contribution from the State Budget to the Fund account shall be not less than 2.00 percent and 2.50 percent of recurrent domestic revenues, respectively, as established by the Sub-Decree on Establishment of the Commune/Sangkat Fund.

5. Value added of Bank support in this project:

The Bank had a modest, but fairly substantive involvement in the first phase of the Seila Program, through the provision of several grants, including a Post-Conflict Grant, as well as funding for commune-level investments through the Social Fund and the Northeast Village Development Project. Through this past involvement, the Bank was able to observe the workings of the Seila Program from the inside, and closely assess the Program's impressive accomplishments. The Seila Program was very successful, within the geographic area covered under Phase I, in both its rural development and poverty

reduction efforts through support to provision of priority public goods and services at the commune and provincial level, as well as in its promotion of good local governance through support of decentralized and deconcentrated participatory local governance systems at the commune, district and provincial levels.

The Bank's continued involvement in the Seila Program during Phase II, through the proposed RILGP, will provide the following contributions:

- help to bring together previously divergent donor-funded efforts and focus on scaling-up and making sustainable our collective rural development efforts in order to achieve results well beyond the sum of what we could achieve separately.
- help to support initial implementation of decentralization reforms and contribute to the refinement, drawing lessons from the initial implementation experience, of the institutional arrangements and processes for local development at the commune level.
- help to support the policy dialogue regarding the ongoing deconcentration reforms to ensure lessons from experience under Seila for adoption of institutional structures and processes, and their potential impact on rural development outcomes, are given appropriate consideration.

E. Summary Project Analysis (Detailed assessments are in the project file, see Annex 8)

1. Economic (see Annex 4):

- ☐ Cost benefit NPV=US\$ million; ERR = % (see Annex 4)
- ☐ Cost effectiveness
- ☒ Other (specify)

Rather than support specific investments to be implemented by central government agencies, the proposed RILGP would support a participatory process by which communes prioritize their needs and select investments that best respond to those needs. This demand-driven approach has obvious advantages, but creates some challenges for traditional economic and financial analysis techniques, which are based on the assumption that the investments to be undertaken are known in detail up-front so that the benefits and costs of those investments can be estimated and the appropriate measure of project worth calculated. In the case of a demand-driven project like RILGP, it is impossible to know *a priori* which activities will be selected by communities. Therefore, the economic analysis requires a slightly more creative and flexible approach.

The results of the social assessment financed through the PHRD preparation grant for the RILGP confirm that people's priorities for future infrastructure investments will likely be roads, domestic water supply, and small-scale irrigation infrastructure, just as in the Phase I of Seila. This suggests that the economic benefits of the project would result from: (a) the rehabilitation of rural transportation infrastructure and the subsequent time savings and reduced vehicle operating costs; (b) the rehabilitation and construction of communal irrigation schemes that will increase yields, irrigated area and cropping intensity; and (c) improvements in the supply of potable water, resulting in time savings from water collection and reduced incidence of water-borne illnesses. In addition, investments to support local government and other institutional capacity building, as well as to strengthen decentralized and community-based decision making, will facilitate better implementation of rural development programs, help foster the creation of social capital, and strengthen the staff skills of implementing agencies at the local level.

Given the programmatic nature of the project's design, and the fact that local C/SC will be driving the choice of investments, the analysis is based on a modular approach which separately examines the three main types of investments expected under the project. These results are then integrated into a model of the overall estimated project rate of return. Fortunately, the experience of the first phase of Seila can be used as a basis for predicting rates of return for RILGP. Much of the analysis here draws from the findings of the *Study Into the Socio-Economic Impact of the Local Development Fund/Local Planning Process 1996-2000* (the "LDF Impact Study"), sponsored by the UN in support of the Seila Program, and the survey data collected for that study.

For the analysis, economic models were prepared for typical commune-level investments –irrigation, roads and domestic water supply – and measures of worth were calculated for each type of investment. Next, the mix of options to be selected in the RILGP provinces was projected, based on the frequency of selection of menu options under Phase I of Seila, as well as the expressed priorities for investment options under the RILGP social assessment. An economic rate of return for the entire RILGP was then calculated by weighting the rate of return of each menu option by its likelihood of being selected. This rate of return provides a minimum bound on project worth because it does not include the many non-quantifiable benefits of the investments or the value of improved governance. Sensitivity analysis was then carried out to measure the robustness of these results to both changes in the measure of each menu item's worth and to possible variations in the activity mix, including the calculation of switching values for each project component and for the project in its entirety. Details of the analysis are provided in Annex 4.

2. Financial (see Annex 4 and Annex 5):

NPV=US\$ million; FRR = % (see Annex 4)

As sub-project investments will be for infrastructure and related public goods, it is not possible to calculate a financial rate of return for the project.

Fiscal Impact:

The *Sub-Decree on Establishment of the Commune/Sangkat Fund* was approved by the NCSC in February 2002 and the C/SF was initially capitalized from external sources, through the Seila Program, and domestic revenues. The contribution from the RGC budget in 2002 was US\$ 5 million (20 billion Cambodian Riels), or 1.2 percent of projected recurrent domestic revenue. For 2003, the RGC has allocated to the C/SF the equivalent of US\$ 10.256 million (47.8 billion Cambodian Riels) or 2.0 percent of recurrent domestic revenue. Another US\$ 2 million will be added to the C/SF by PLG in 2003. In line with the Medium-Term Expenditure Framework, the domestic contribution to the C/SF is expected to grow to 2.5 percent of projected recurrent domestic revenue, or US\$ 12 million by 2004. In addition, options for own-source revenue for C/SC will be explored and are expected to be put in place during the first five-year mandate of the C/SC.

3. Technical:

Poverty Targeting. Allocations to communes of the Local Development component of the C/SF are based on a formula that includes: i) an "equal share" — distributed as a fixed and equal amount to all qualified communes; ii) a "population share" — distributed in proportion to the population of the commune; and, iii) a "poverty share" — distributed in proportion to indicators of relative poverty of the communes. The level of commune poverty is assessed on the basis of ten poverty indicators from the Commune/Sangkat database maintained by MOP, which is responsible to provide the C/SF Board, by September 1st each year, updated information on total commune population and poverty indices, to

enable the Board to apply the formula in calculating the allocation. Under RILGP preparation, a study was undertaken to provide specific recommendations for enhancing the Commune/Sangkat database and its use as a basis for poverty targeting for C/SF, and MOP has incorporated these suggestions in its recent refinement of the Commune/Sangkat database.

Technical quality of infrastructure. The infrastructure sub-projects are very small in scale, and for the most part employ standard designs developed under the Seila Program Phase I. These standard designs and specifications are well documented and were reviewed during preparation of RILGP to assure their technical appropriateness. Previous technical reviews of the Seila Program have showed that the infrastructure built under the Programs first phase was of good quality, with unit costs on par with other similar programs. During sub-project implementation, Provincial TSS monitor technical standards of sub-projects under construction and perform certifying functions for the C/SC. In addition, a Technical Committee comprising the Senior TSS and other senior ExCom officials, and assisted by the PLG Infrastructure Adviser, will carry out technical audits of completed subprojects.

Operations and Maintenance. Sustainability of operations and maintenance of sub-projects is a difficult issue to address in general and in the context of rural Cambodia in particular. Given the participatory and demand-driven approach to local development planning employed in the RILGP, it is believed that participation of beneficiaries in the planning and selection of sub-projects will create ownership and a good foundation for effective operations and maintenance. While this sound foundation is necessary, it alone is not sufficient to ensure effective operation and maintenance of sub-projects. Thus, under RILGP, additional measures will be put in place, before the sub-project investments are chosen and undertaken, to increase the likelihood that the communities understand the operations and maintenance obligations inherent in different sub-project choices, and that the required funds, labor and other resources for operations and maintenance will be available when needed. To this end, simple tools will be made available to communities to help them to evaluate the maintenance requirements, and related financial liabilities, inherent in different investment choices. For example, guidelines with regard to the need for user group establishment, labor, cash or in-kind requirement for operations and maintenance for different types of infrastructure works have been established by relevant ministries for the standard infrastructure designs to be used under the RILGP. Those guidelines will be used to inform the discussions on sub-projects at the planning and decision making stage, so that there is clarity on the arrangements and obligations for operations and maintenance, which go along with the investments. Under the regulations governing the C/SF, the C/SC has a responsibility to ensure that all infrastructure built or rehabilitated through use of the C/SF is maintained properly. For this purpose, the C/SC may use up to a maximum of 20% of the Local Development component of the C/SF for recurrent expenditures, including the cost of maintaining and operating all local economic and social infrastructure owned and operated by the C/SC. Under RILGP, the quality of maintenance of sub-projects, as well as the cost to individual households of contributing to operations and maintenance, will be monitored through annual surveys of the sample communes (see section on Monitoring and Evaluation for details).

Monitoring and Evaluation. PLG and STFS are working with MOI/DOLA to develop a monitoring and evaluation plan for C/SC, which will include, inter alia, C/S monthly and annual reports, appointment and training of C/SC M&E focal persons, C/SC M&E handbook development and training, design and implementation of a C/S monitoring spreadsheet which will be used to track planning, finance and capacity building milestones.

Monitoring of Process. Monitoring of the Commune/Sangkat planning process, in line with the *Guidelines for Commune/Sangkat Development Planning Process*, is performed by the PFT/DFT in the ExCom with monthly reports provided to PRDC ExCom and, through the Governor/POLA, to the

MOI/DOLA and the STFS.

Monitoring of Outputs. All commune sub-projects are implemented under contract. A range of stakeholders are involved in the monitoring of contract implementation, and payments are made based on invoice and certification of technical quality of works. The contract specifies the monitoring procedure with respect to certification of works completed (Commune Chief assisted by TSS from PRDC ExCom and relevant line departments) and a payment schedule. In addition, community members are encouraged by the C/SC to monitor through representatives on the PBC who are domiciled in the village where the project is being implemented.

The key monitoring tool for commune/sangkat sub-projects is the database of commune contracts -- Commune/Sangkat Fund data base-- maintained by the PRDC ExCom and providing a province-wide monitoring tool of C/SF fund activities. This data base holds all relevant information on the contracts being implemented by C/SC including financial information updated monthly from Provincial Treasury monthly reports to C/SC on payments made. The Provincial Treasury is required to provide monthly reports to the National Treasury and through the Governor/POLA to the MOI/DOLA and the STFS. Consolidated annual reports are also prepared following the same system.

In addition, the C/SC monitors the progress of implementation of the CDP, and must ensure that swift action is taken to address problems or issues that arise during the implementation of CDP. At the end of each fiscal year, the commune chief, with the assistance of the PBC, prepares and submits to the C/SC, an annual report covering at least the following: the priorities for the delivery of services and commune/sangkat development activities in the past year; the results and outcomes of the delivery of services and the implementation of commune/sangkat development activities; a description of the problems encountered, and recommendations for improvement in the delivery of services or the implementation of development activities; the identified priorities for the delivery of services and commune/sangkat development activities in the next year; and, a summary of the financial revenues and expenditures of the commune/sangkat over the last year.

Evaluation of Impacts of Sub-projects. Systematic evaluation of the socio-economic impact of projects linked with improved planning, implementation and maintenance of project outputs is a key aspect of the evaluation activities of RILGP at the commune level. This includes the use of cost-benefit analysis tools for the common types of commune projects (i.e. water projects, sub-tertiary roads, school buildings and irrigation projects). The working assumption here is that the choices made through participatory planning at commune level are rational and reflect socio-economic benefits of the projects. Therefore, if the major project types are shown to produce an acceptable level of benefit, it can be assumed that the less common options are perceived as producing an equal or higher level of benefit. For the evaluation, an initial household survey in a representative cross-section of communes will be conducted to (1) collect any additional data needed to refine cost-benefit analysis models developed during preparation, and (2) to establish baseline data for impact evaluation. Follow-up annual surveys of the sample communes will be conducted, in order to evaluate the impact of C/SF sub-projects as they are implemented. The surveys will include the quality of maintenance of the project output, and the cost to individual households of contributing to the maintenance effort. This should allow both the immediate and the sustained impact of projects to be evaluated, and benefits derived to be compared with maintenance costs. As these surveys are household based it is proposed that the survey will include, where appropriate, an analysis of the degree to which the highland peoples development plan has been achieved.

Evaluation of Impact on Governance. The Knowledge, Attitudes, Practices and Beliefs survey, initially done during RILGP preparation, will be repeated as input to the mid-term and final project evaluations during implementation and funded by the IDA Credit.

4. Institutional:

Capacity Building. While the lessons of the Seila Program have been largely integrated into the ongoing decentralization reforms, the institutional roles and procedures emerging from the reforms represent a departure, in some key areas. The changes in institutional roles and responsibilities from those piloted under the earlier phase of the Seila Program, while they reflect institutionalization and nationalization of the program, also raise issues of capacity of the key institutions to assume their intended roles. To address these issues, a significant capacity building program is being coordinated by the NCSC and funded by numerous donors.

National training plans on decentralization are to be prepared each year by the NCSC Subcommittee on Capacity Building and Training and approved by the NCSC. These plans are developed in dialogue with core partners supporting decentralization, and are informed by internal and external evaluations. The national training plan for 2003 is still under development and is expected by end December 2002. The plan is to include specific priority topics, methodology, preparation/revision of training materials, identification of training resources and budget requirements. For the C/SC specifically, there is now a MOI framework for a capacity building for all C/SC. The overall plan will have a number of funding sources: Seila/PLG, the ADB (with SIDA and Netherlands providing grant co-financing for capacity building under the ADB loan), UNDP and GTZ.

STFS has provided a draft of the 2003 national training plan specifying key training topics, the staff to be trained and the anticipated duration of training based on the first national review carried out in August 2002. These topics include training on the World Bank safeguard policies. The final training plan for 2003 is expected to be available by the time of Negotiations, at which time they will be reviewed to confirm that these are sufficient to implement the project effectively. Since capacity building is proposed to be funded in parallel to, rather than through, the IDA Credit, actual progress against plans will be monitored closely during supervision and will be a key topic of the dialogue among the Seila donors.

In addition to formal training, capacity building includes on-the-job training at national level, under the coordination of the NCSC Ministries and the Seila Task Force, and at provincial level, under the coordination of the PRDC Executive Committees, both supported by the PLG Advisory Teams. These capacity building tasks are institutional functions specified in the terms of reference and job descriptions of both the concerned government staff and the PLG advisory staff.

4.1 Executing agencies:

Currently STFS has a significant level of donor-funded external technical assistance through PLG advisors. However, the core donors of PLG are evaluating appropriate options to reduce the level of external technical assistance and move progressively toward full national execution of the Seila Program. As a result, the oversight responsibilities currently assisted by technical advisors at the national level will be transferred from PLG to STFS in a gradual, phased manner over the period 2003-2005. STFS gained good experience in the management of Seila Phase I, and has successfully taken on increasingly complex roles during the initial stages of Phase II, and is being provided significant formal and on-the-job training to ensure that the STFS staff are competent to fulfill their respective roles.

4.2 Project management:

STFS has some experience with Bank procedures from having participated in the Northeast Village

Development Project, as well as having executed several grants provided through the Bank, including a Post-Conflict Grant. Under RILGP, a serious effort has been made to fully integrate any Bank-specific requirements into the regular procedures of the Seila Program, which are well documented in the Implementation Manual and on which the Seila staff receive extensive training.

4.3 Procurement issues:

During appraisal, an assessment was made by procurement accredited staff assigned to the project team of the legal, institutional and technical aspects of the procurement that will be carried out under the proposed project with a particular focus on ensuring that the project design incorporates steps to minimize leakage of project funds. The preliminary findings of the Country Procurement Assessment Report (CPAR), that is presently under preparation, were also taken into consideration in the design of the procurement procedures for the project. The full procurement assessment report is available in the project files and a summary is provided in Annex 6A.

Under Component 1, all procurement is related to the implementation of sub-projects in Commune/Sangkats in line with para 3.15 of the Bank's Procurement Guidelines: Community Participation in Procurement. Each year communes in the project area will each undertake sub-projects with an average value of \$ 6,720, and no contract will exceed a value of \$15,000. These small sub-projects mostly comprise small infrastructure works such as access roads, water supply wells, education and public health buildings, community buildings and markets, and small irrigation works. The procurement procedures that will be used in the design and implementation of these sub-projects have been developed over a period of six years under the Seila Program Phase I, have proved to work well, and will be codified by a forthcoming *Prakas on Guidelines on Commune/Sangkat Procurement*.

For transparency and governance reasons, including minimizing the leakage of funds, the emphasis has been to develop procurement procedures that involve the Commune/Sangkat Councils to the maximum extent possible consistent with sound design and construction. The procurement procedures that have evolved are described in detail in Annex 6A, and some critical features are:

a) the bidding process is in the hands of the concerned commune with technical support from the province; b) bidding is carried out on the basis of transparent, competitive bidding procedures; and c) members of the communes have been well-trained in procurement procedures.

These training programs will continue during implementation of the proposed project. One of the findings during appraisal was that the technical support in some of the larger provinces may need to be expanded and agreement has been reached on how this support will be strengthened, if needed.

Procurement under Component 2 is relatively limited, comprising only one ICB for computers and a number of NCB and NS for small works and goods. All vehicles and motorcycles will be procured through United Nations IAPSO. The STFS's POU, with the assistance of a PLG-funded expatriate advisor, will be responsible for all procurement under this component. A procurement plan for Component 2 has been developed.

Procurement under Components 1 and 2 will be carried out under procedures specified in the Project's Implementation Manual (PIM). The existing PIM is being updated to reflect recent experience and expanded to be fully comprehensive of all aspects of the proposed project including the procurement guidelines for Commune/Sangkat sub-projects and the communities participation in procurement. The adoption of a revised PIM, acceptable to IDA, is a condition of Credit Effectiveness. As a result of the Procurement Assessment carried out during project preparation, specific training needs have been identified to solve some of the weaknesses in the existing institutional capacity for managing

procurement processes. These training needs are presented in Annex 6 (A).

4.4 Financial management issues:

For Component 1, an assessment was undertaken during appraisal by the financial management staff on the Bank task team of the financial management system under the Commune/Sangkat Fund (C/SF) and the capacity of the Provincial Treasury (PT) who provide accounting and cashiering services for the C/SC. Results of the assessment are summarized in Annex 6B and provided in full in the assessment report available in the project files.

The main findings of the assessment were: (a) the accounting system being introduced for the C/SF is very sophisticated when compared with the simple record keeping procedures typically used for budget execution at the government departments in Cambodia, and is beyond the current capacity of the staff who are expected to use it; (b) records are maintained on loose leaf forms rather than in bound ledgers and paper the filing system is not well organized, raising concerns about the safety of the records at the provincial treasury; (c) payment transactions are 100% cash-based introducing increased financial risks of misuse of funds; (d) there is no independent audit (guidelines are yet to be designed but unlikely to include an independent audit); (e) lack of segregation of duties in payment initiation and authorization, as well as the absence of a financial controllership function overseeing C/S expenditures are internal control weakness and potential financial risks but plans for mitigating these risks through internal audit are not in place; and (f) "Annual/Monthly Revenue and Expenditure Statement" of the province provides just one lump as "Local Development Investment", which is inadequate to properly document transactions or to support an analysis of countrywide expenditure by the relevant government authorities.

The main recommendations of the assessment to RGC with regard to improvements of financial management of the C/SF Local Development grants were: (a) establishment of appropriate internal and external audit arrangements for the C/SF; (b) establishment and maintenance of a contract register system for the C/SF at the PT; (c) increased training for commune accountants as well as commune chief and commune clerks; (d) forms simplification; (e) improvements in record keeping and filing systems at the PT; and (f) modification/extension of Chart of Accounts of the C/S accounting system to incorporate additional key information, and enable recording and identification of expenditures by commune, investment project and contracts per project. These recommendations have been discussed and agreed during preparation, and have been incorporated, as appropriate, into the action plan in Annex 6B.

Audit guidelines for the C/SF were to have been drafted prior to appraisal and to be finalized as a condition of Negotiations. However, though agreement in principle that the C/S Fund will be subject to internal and external audit was confirmed by the MEF Senior Minister at the Seila Forum in December 2002, the specific arrangements and standards for these audits of the C/S Fund are still to be worked out. At appraisal it was agreed that satisfactory arrangements to develop and adopt the audit procedures for the C/S Fund would be confirmed at Negotiations, and the requirement for the overall C/S Fund Audit procedures to be reviewed and found satisfactory to IDA is a condition of Effectiveness.

The STFS is currently providing TA for capacity building at provincial and commune level assisted by the PLG. STFS currently maintains an accounting system for PLG/UNDP administration funding disbursed through STFS but this Accounting system does not meet IDA minimum requirements on project financial management as per OP/BP 10.02. Therefore, a Financial Management System (FMS) meeting IDA minimum standards would need to be established for project purposes. STFS has agreed to establish a FMS acceptable to IDA by project effectiveness.

To facilitate credit disbursements for Component 2, STFS shall maintain a separate dollar special deposit account for the project at the National Bank of Cambodia or in a commercial bank on terms and

conditions satisfactory to IDA including appropriate protection against set off, seizure and attachments. The Special Account (SA), which would cover the IDA share of eligible expenditures in all disbursement categories other than for the category of sub-project grants. The SA will not be used to fund any sub-project grants. Rather, RGC will advance funds through the C/SF to finance these expenditures, and related disbursements from the IDA Credit will be on a reimbursement of eligible expenditures basis.

Once funds actually have been spent at the Commune level for eligible sub-project investments and duly recorded at the PT, the PT shall submit to STFS certified copies of: (a) Trail Balance for each commune; (b) Revenue and Expenditure Statement for each commune modified as agreed to enable recording and identification of expenditures under code 68 by Contract and Contractor Name; and (c) Contract Register by commune maintained at the Provincial Treasury. Based on a satisfactory review of these documents, STFS shall prepare a reimbursement application to seek reimbursement for the IDA portion of eligible expenditures. On acceptance and approval of the reimbursement application, IDA will transfer funds from the Credit Account to a bank account designated for this purpose by RGC.

A concern with regard to the reimbursement approach to flow of funds for Component 1 is that there is a risk that Government may have difficulty to manage sufficient cash flow for the timely release of agreed tranches to the C/SF, and that this may delay implementation of commune sub-projects and/or payments to contractors. To mitigate this cash management risk, IDA encourages MEF to take all such actions as necessary to ensure the timely allocation of funds to the Commune/Sangkat Fund. To this end, IDA supports MEF's suggestion that reimbursements from the IDA Credit Account may be directed to the Commune/Sangkat Fund account in NBC, and used for the exclusive purpose of the semi-annual tranche releases to the C/SF as called for by the *Sub-Decree on Establishment of the Commune/Sangkat Fund*.

All expenditure from the RILGP managed Special Account and the expenditures funded on a reimbursement basis shall be audited by an independent auditor under terms of reference satisfactory to IDA.

Retroactive Financing. The RGC has requested retroactive financing in the amount of US\$ 1 million (about 4.5% of the Credit) for commune sub-projects initiated after completion of Project Appraisal and prior to Credit Signing. The request for retroactive financing is justified as it will enable the timely start-up and completion of first-year sub-projects during the limited dry season construction period which typically ends in June with the onset of the rainy season. The retroactive financing would be made available from the Credit Account once the Credit is declared effective by IDA, to reimburse eligible expenditures actually incurred and paid by the Borrower in the implementation of eligible commune sub-projects under Component 1 between the April 1, 2003 and Credit Signing. For the expenditures to be eligible, the commune sub-projects would have to be selected and implemented in accordance with the procedures and requirements specified for the project in the Development Credit Agreement (DCA) and in the Project Implementation Manual (PIM), as well as in compliance with Bank's Procurement Guidelines.

5. Environmental:

Environmental Category: B (Partial Assessment)

5.1 Summarize the steps undertaken for environmental assessment and EMP preparation (including consultation and disclosure) and the significant issues and their treatment emerging from this analysis.

The proposed RILGP's focus is on commune-level small-scale infrastructure to be identified during project implementation through a participatory process at the commune level. Based on the experience under the first phase of the Seila Program, sub-project investments will be less than \$10,000 each and likely to include, *inter alia*, small-scale water supply (wells), small bridges, road improvements such as leveling or resurfacing of community tracks and roads, repair of irrigation infrastructure, and small

community buildings. The environmental issues arising from these sub-projects are expected to be minor and easily mitigated with known management and/or construction techniques. In most cases the most important environmental mitigation measure will be good siting decisions.

During preparation the Bank task team reviewed possible investments eligible under the project and identified specific environmental concerns associated with each investment type. Any adverse impacts are likely to be short-term in nature and highly localized. Possible impacts from small-scale infrastructure projects depend on the specific investment type and location but may include: dust and noise generation during construction; impacts on local drainage and water quality; localized land clearing resulting in soil erosion during construction; and solid waste disposal issues.

The overall project approach is to fully integrate environmental considerations into sub-project selection and review procedures. This approach is both practical and consistent with procedures adopted by Community Driven Development type projects recently financed by the Bank. The approaches used in other projects have been reviewed and have informed the development, during preparation, of simple guidelines for screening sub-projects and mitigating possible environmental impacts. A number of recent projects have developed similar guidelines which have been reviewed and adapted for the needs of this project. This approach is in line with the proposed scale of the sub-project investments, and is expected to generate a better understanding and local ownership of environmental management programs. Detailed sub-project environmental review procedures were drafted, reviewed at appraisal, and were found satisfactory.

The project is not expected to affect any critical natural habitats nor is it expected to trigger the Bank's policy on pesticides or forestry. The possibility that these policies would be triggered has been reviewed during preparation and it was confirmed that it is unlikely that these policies would be triggered. Nevertheless, specific review criteria to be used during implementation have been developed to ensure these issues are taken into consideration during sub-project planning and selection.

5.2 What are the main features of the EMP and are they adequate?

An overall assessment of the types of risks that could be associated with various sub-project types was prepared. These risks, and the procedure put in place to manage these risks are described in detail in Annex 13, and summarized briefly here.

The project addresses environmental concerns in four closely related ways. First, community facilitators will assist communities in identifying environmental and natural resource management priorities as part of the initial community planning discussions. Second, as communities begin to identify options for sub-projects they will be given access to information on potential adverse impacts and siting considerations for minimizing impacts. Third, once sub-projects are identified, design teams will use standard technical designs which take into consideration environmental concerns. Fourth, the contractors responsible for building sub-projects will be required to follow environmental clauses specified in construction contracts. Site-specific management or mitigation plans, as appropriate, will be formulated during the sub-project design process. The project as a whole would be guided by simple reference materials which identify common risks and possible mitigation measures suitable for small-scale rural infrastructure sub-projects. EAs will be prepared only for sub-project of specific types, which pose relatively higher risks, such as new roads or new irrigation systems.

5.3 For Category A and B projects, timeline and status of EA:

Date of receipt of final draft: November 2002

A draft of *Environmental Analysis and Sub-Project Review Procedures* was prepared and submitted to

IDA in November 2002. No comments were received during the period of public disclosure of the draft. The final version of this document was submitted formally to IDA at Negotiations, and has been adopted by RGC and included in the *Project Implementation Manual*.

5.4 How have stakeholders been consulted at the stage of (a) environmental screening and (b) draft EA report on the environmental impacts and proposed environment management plan? Describe mechanisms of consultation that were used and which groups were consulted?

Since the project will support the full integration of environmental considerations into the C/S development planning process, community-level stakeholders will be consulted on environmental issues throughout the planning process. Preliminary environmental criteria have been developed and are fully incorporated into the planning procedures. These procedures have been made available, reviewed and discussed with PRDC and other implementing bodies during preparation. Copies of the overall environmental analysis and procedures to be followed are available to the public through the PRDC offices in each participating province, and the STFS, as well as through the World Bank Office in Cambodia and at World Bank Headquarters. In the event that any sub-project triggers an environmental assessment, the results of these EAs will be made available through the PRDC offices in the province in question, as well as in the C/SC office. C/SC will be responsible for ensuring that these reports are posted in public meeting places prior to the final commune decision meetings on that particular sub-project. The C/SC will also ensure that at each decision meeting the EA and its recommendations will be included on the meeting agenda.

5.5 What mechanisms have been established to monitor and evaluate the impact of the project on the environment? Do the indicators reflect the objectives and results of the EMP?

As part of M&E system to be developed, the project will monitor the effectiveness of the environmental review criteria and screening mechanisms, including periodic stocktaking of the planning process. Each PRDC will monitor the overall effectiveness of the environmental aspects of the planning process. A Technical Committee comprising the Senior TSS and other senior ExCom officials, and assisted by the PLG Infrastructure Adviser, will carry out technical audits of completed subprojects. For sub-projects having an EMP, the audit will include assessing the effectiveness of the environmental mitigation measures undertaken. These reports will be available at the TSU in the province for review during IDA supervision missions.

6. Social:

6.1 Summarize key social issues relevant to the project objectives, and specify the project's social development outcomes.

Three decades of warfare and turmoil have severely diminished the efficacy of formal government organization as well as customary (or informal) social institutions. In addition to widespread individual or family hardships associated with loss of life, injury, and disrupted livelihoods, whole communities also were affected by loss (or continued lack) of public goods such as access to basic services, functioning local infrastructure, and collective involvement in decision-making processes. But such impacts have occurred unevenly across various regions of the country, and across various social groups within the population.

RILGP intends to improve the capacity of government to provide local-level infrastructure and services. It simultaneously promotes social development objectives, supporting processes that provide local communities with opportunities to identify their own local development priorities, and that are intended to make organs of government responsive to their expressed preferences. Given the low level of institutional capacity and lack of good governance throughout much of Cambodia, the most significant social issues in RILGP relate to institutional functioning. There is little likelihood that RILGP will

generate adverse social or environmental impacts of significance; the success of the project hinges on its ability to extend local-level participation throughout program areas, and to ensure that Seila Program organizations and processes are transparent, accessible, equitable, and responsive. Moreover, while the program is designed to empower local communities in determining priorities, it also must ensure that community-level leadership and participatory processes reasonably represent the interests and concerns of all segments of local society.

As part of RILGP preparation, a Survey of Knowledge, Attitudes, Practices and Beliefs (KAPB) on Standards in Good Governance in Seila was conducted. Using a comprehensive quantitative questionnaire seeking to ascertain official's knowledge, attitudes, practices and beliefs about governance in Cambodia, the survey covered 1493 Cambodian Government officials in two established Seila provinces, Pursat and Battambang, two new Seila Provinces, Takeo and Kompong Cham, and also in two non-Seila provinces, Kompong Speu and Kompong Chhnang, as a control. The Survey also interviewed officials in the national government including some Seila Task Force members and Seila focal points in Seila-related Ministries.

Concurrently, the information emerging from the quantitative questionnaires was cross-checked with qualitative responses, elicited through focus groups and semi-structured interviews, from 523 members of the community, including 253 women residing in the same area where the quantitative survey was undertaken. These data were then triangulated with key informant interviews with senior Cambodians such as Provincial Governors and Seila Task Force members, believed to have an informed overview of the governance situation.

The outcome of this triangulation forms the basis of the KAPB Baseline of Governance in Cambodia, covering areas including: (a) knowledge of the principles of governance and accountability, participation, predictability, transparency; (b) attitude on unofficial payments; and (c) communities perceptions of the actual practices in these areas. The Baseline was also measured against standards extracted from an international paradigm of governance.

6.2 Participatory Approach: How are key stakeholders participating in the project?

As described in Annex 12, RILGP promotes explicit participatory objectives. Project design promotes community-level identification of needs and decision-making, and includes measures to ensure that villagers and their proposals enjoy adequate representation in commune-level planning and budgeting arrangements. Special measures are included to ensure equitable gender representation, and to ensure that culturally distinct Highland Peoples are afforded adequate opportunities for direct participation and representation (see Section 7.2, below).

6.3 How does the project involve consultations or collaboration with NGOs or other civil society organizations?

The Seila Program engages in consultations at various levels. Collaboration with NGOs and other organizations also occurs at several levels, including opportunities for participation in commune-level and provincial-level review and planning processes. As part of project preparation, a study was undertaken to review the role and relations between local authorities, local communities and local NGOs and civil society organizations, and assess the potential for enhancing collaboration between these development actors in the Seila Program at the local level. This study was conducted by an NGO representative, and included the active participation of local government officials, representatives of local communities and NGOs, as well as religious leaders.

The Seila Program also has developed, in collaboration with the Ministry of Women's and Veteran's Affairs, a very progressive gender mainstreaming strategy. The strategy includes both a gender

integration approach, meant to incorporate gender perspectives in program development and management as well as the structures of power and authority in institutions involved in the program, and a women-specific approach, aimed at highlighting the special problems, needs and interests of women in development. The details of the Seila Gender Mainstreaming Strategy are provided in the *Project Implementation Plan*.

6.4 What institutional arrangements have been provided to ensure the project achieves its social development outcomes?

Review of the social development aspects of the institutional arrangement and procedures for C/S development planning and implementation has been a key part of RILGP preparation, and review of the lessons from implementation and refinement of procedures will be a key aspect of RILGP implementation, as described in Section C. Details of participation in the C/S development planning process are given in Annex 12.

A social assessment process was undertaken as part of RILGP preparation to confirm whether proposed institutional arrangements will be sufficient to ensure adequate representation of various social segments. In addition, an IDA-commissioned Indigenous Upland Minorities Screening Study, examined the RILGP design as it relates to culturally distinct Highland Peoples and to gender relationships.

The social assessment employed a combination of qualitative and quantitative research methods –a qualitative team conducted 65 interviews and group discussions with key Seila stakeholders, and a quantitative team conducted 1,104 household interviews and 138 village key informant surveys. The assessment focused on village level infrastructure and services, household demography, assets, sources of income, means of accessing food, domestic expenditure, shocks to livelihood systems, coping strategies, the prevalence of characteristics of poverty and vulnerability, access to services, preference rankings for infrastructure and services and knowledge, attitudes and practices related to local governance.

In addition, an Indigenous Upland Minorities Screening Study was undertaken in the provinces of Ratanakiri, Kratié, Preah Vihear and, to a limited extent, Kompong Speu. The researchers first conducted a literature review, and then undertook field research in upland minority villages using both qualitative and quantitative methods including, surveys, consultations, group discussion groups, and interviews with key informants. The Study focused on the geographical distribution and demography of different upland minority groups and qualitative research on the ethnic minority characteristics as defined under OD 4.20. The Study also examined the heterogeneity of ethnic composition of districts, communes and villages where upland minority communities were located. Results, in general, showed that upland minorities were concentrated in particular districts and communes within the 4 provinces and that they lived in distinct upland minority villages. Proportions of populations that were upland minorities at the commune level were more variable, but many communes were composed of mainly upland ethnic groups, while in some they formed a large minority and only in a few communes was it found that they were a small minority living alongside mainly Khmer non-upland ethnic groups. The Study also provides a socioeconomic profile of these communities. Overall, these socio-economic characteristics paint a picture of generalized poverty in these communities. They commonly live in remote areas with poor transport infrastructure and access to services. The Study also consulted the Indigenous Upland Minorities on the adequacy of the draft Highland Peoples Development Plan, and suggested indicators for monitoring and impact evaluations of such a plan.

Drawing on the results of these studies, special institutional arrangements have been established in the context of planning for involuntary resettlement, and for equitable treatment of Highland Peoples (refer to Annex 15 and 14, respectively for details).

6.5 How will the project monitor performance in terms of social development outcomes?

Socio-economic impacts of sub-projects will be assessed as part of project monitoring and evaluation. The KAPB baseline will form the basis against which to measure change in these areas of governance in future years, through two follow-up studies to be done as input to the RILGP mid-term and final project reviews.

7. Safeguard Policies:

7.1 Are any of the following safeguard policies triggered by the project?

| Policy | Triggered |
|--|---|
| Environmental Assessment (OP 4.01, BP 4.01, GP 4.01) | <input checked="" type="radio"/> Yes <input type="radio"/> No |
| Natural Habitats (OP 4.04, BP 4.04, GP 4.04) | <input type="radio"/> Yes <input checked="" type="radio"/> No |
| Forestry (OP 4.36, GP 4.36) | <input type="radio"/> Yes <input checked="" type="radio"/> No |
| Pest Management (OP 4.09) | <input type="radio"/> Yes <input checked="" type="radio"/> No |
| Cultural Property (OPN 11.03) | <input type="radio"/> Yes <input checked="" type="radio"/> No |
| Indigenous Peoples (OD 4.20) | <input checked="" type="radio"/> Yes <input type="radio"/> No |
| Involuntary Resettlement (OP/BP 4.12) | <input checked="" type="radio"/> Yes <input type="radio"/> No |
| Safety of Dams (OP 4.37, BP 4.37) | <input type="radio"/> Yes <input checked="" type="radio"/> No |
| Projects in International Waters (OP 7.50, BP 7.50, GP 7.50) | <input type="radio"/> Yes <input checked="" type="radio"/> No |
| Projects in Disputed Areas (OP 7.60, BP 7.60, GP 7.60)* | <input type="radio"/> Yes <input checked="" type="radio"/> No |

7.2 Describe provisions made by the project to ensure compliance with applicable safeguard policies.

Environmental Assessment, Natural Habitats and Cultural Property. Simple guidelines for Environmental Assessment, including screening for natural habitats and cultural property issues, of proposed investment activities managed by the commune have been developed and incorporated as part of the *RILGP Project Implementation Manual*.

Involuntary Resettlement

Under Component 1 (Local Planning and Investment) of RILGP, local communities propose improvements to small-scale infrastructure. In most cases, adverse impacts are likely to be nonexistent or slight. In some cases, however, these activities may require land acquisition. Because village-level proposals and commune-level funding decisions only occur during project implementation, it is impossible to prepare any detailed resettlement plans prior to appraisal. Instead, a *Framework for Land Acquisition Policy and Procedures* has been prepared, to ensure that any eventual land acquisition and subsequent mitigation measures comply with World Bank policy standards. A draft of *Framework for Land Acquisition Policy and Procedures* was submitted to IDA prior to project appraisal. No comments were received during the period of public disclosure of the draft. The final version of this document was submitted formally to IDA at Negotiations, and has been adopted by RGC and included in the *Project Implementation Manual*.

The framework will apply to all C/SF local development activities, including activities in provinces not supported by RILGP. The fundamental strategy in the framework is to avoid land acquisition. The framework establishes screening criteria to exclude from funding any proposals with significant impacts. Specifically, screening criteria exclude:

- Activities requiring any relocation of any permanent structures, including residences and commercial enterprises

- Activities adversely affecting more than 200 persons through land acquisition and associated impacts
- Activities for which sources of necessary compensation have not been established
- Activities requiring destruction of 10 or more crop trees or mature forest trees

Though the exclusions above ensure that RILGP activities will have only small-scale impacts, the prospect for land acquisition cannot be eliminated altogether. In many cases, reserved public land may also be available. If any privately owned or utilized land is required, the following procedure will be followed:

If the land constitutes 5% or less of family holdings, land acquisition can be achieved through voluntary contribution of land. In such cases, screening requires signed statements of voluntary contribution, to be validated through open discussion at the village level.

If more than 5% of a family's holding is required, or if land acquisition is involuntary, a Land Acquisition Report must be prepared as part of feasibility studies prior to provincial approval of commune development plans. This report conforms in outline to an abbreviated resettlement plan, including provision of opportunities for affected persons to obtain replacement agricultural land. Any Land Acquisition Reports will be reviewed and either accepted or rejected by POLA and will be subject to *ex post* review during Bank supervision. The capacity of POLA, as well as other government agencies responsible for land acquisition and delivery of resettlement-related measures under the project, has been assessed and found acceptable in accordance with the requirements of OP 4.12.

As is the case throughout the RILGP program, land acquisition and resettlement arrangements promote consultation and transparency. Procedures require full dissemination of relevant information to local communities, as well as formal local community acceptance of resettlement-related arrangements.

Indigenous Peoples

The IDA-commissioned Indigenous Upland Minorities Screening Study established that some groups in four of the RILGP provinces (Ratanakiri, Kratié, Preah Vihear and Kompong Speu) meet the definition of "indigenous peoples" provided in OD 4.20. Though migrant groups and lowland residents generally do not exhibit the indicative characteristics for indigenous peoples as listed in OD 4.20, groups commonly referred to in Cambodia as "Highland Peoples" do exhibit most or all of these characteristics:

- Close attachment to ancestral homeland or natural resources
- Self-identification or identification by others as members of culturally distinct groups
- Use of an indigenous language, different from the national language
- Reliance on subsistence modes of production
- Adherence to customary social or political institutions

Based on the above, it has been determined that OD 4.20 applies in the provinces of Ratanakiri, Kratié, Preah Vihear and Kompong Speu. As a consequence, a *Highland Peoples Development Plan* (HPDP) has been prepared for Component 1. A draft of *Highland Peoples Development Plan* was submitted to IDA prior to project appraisal. No comments were received during the period of public disclosure of the draft. The final version of this document was submitted formally to IDA at Negotiations, and has been adopted by RGC and included in the *Project Implementation Manual*.

OD 4.20 has three fundamental objectives: to ensure that any adverse impacts on indigenous communities are avoided or mitigated, to promote delivery of culturally appropriate benefits to indigenous people through the project, and to ensure that indigenous people are consulted and have opportunities to participate in project design and implementation. RILGP involves participatory selection of desired village-level improvements; no activities are to be funded under the program without the approval of the village involved. Accordingly, there is no scope for direct imposition of adverse impacts (the issue of potential induced effects is considered below). Similarly, because villagers themselves are identifying activities to be considered for RILGP funding, it follows that they believe such activities to be culturally appropriate. Given the above considerations, the HPDP focuses primarily on ensuring that Highland Peoples have sufficient opportunity to participate in RILGP, and that consultation and participation processes are structured to fairly represent their interests.

The results of the Screening Study indicate general widespread support for RILGP and widespread interest in program participation. Highland Peoples groups consulted during the Screening Study do, however, maintain that ethnic representation in RILGP processes is important to them. The HPDP relies to a great extent on general procedures applicable in all Seila Program activities. However, it also includes special measures to ensure inclusion of Highland Peoples, and to promote their fair representation. These include:

- In Highland Peoples villages (defined as those in which highland peoples constitute a third or more of the village population), information will be disseminated, and village-level facilitation activities will be conducted, in one or more languages accessible to local residents.
- A Commune Planning and Budgeting Committee (PBC) is to be created to advise the C/SC on local development activities. The C/SC will ensure that members of Highland Peoples are selected to represent their villages on the PBC.
- After each village proposes village-level improvements, the PBC reviews priority lists and assists in formulating commune-level plans and strategies. In communes with Highland Peoples villages, the C/S development planning process requires that village representatives have an opportunity to participate in formulating commune development plans and strategies, and that minutes of the process are taken and disseminated.
- The PBC is to assess whether activities proposed by any one village may create negative externalities on others, and is to assist villagers in considering potential induced effects of proposed activities. In communes with Highland Peoples villages, this assessment will establish whether mapping and land rights are sufficiently clear to protect Highland Peoples villages from undesired in-migration or loss of access to resources.
- In heterogeneous communes, the priorities identified by Highland Peoples villages may be in competition with those identified by Khmers or other population groups. Because RILGP promotes integrated commune planning, it is inappropriate to establish ethnically-based preferences or strictly proportionate criteria for investment. However it is important to ensure inclusion of Highland Peoples' priorities in commune planning. In cases where annual commune development plans do not provide funding for Highland Peoples village proposals, the C/SC will use its three-year financing plan and broader five-year planning horizon to make commitments for future funding.

Though early experience of the Seila Program is generally positive, it is impossible at present to determine how effective the program may be implemented in new provinces, and how effective the above measures will be in ensuring inclusion and representation of Highland Peoples. In RILGP, a mid-term review will be conducted, which will include explicit review of project performance as it relates to HPDP implementation and other issues of possible concern to Highland Peoples.

F. Sustainability and Risks

1. Sustainability:

RGC's Interim Poverty Reduction Strategy Paper pointed out that past development efforts in Cambodia have been supported mainly through stand-alone projects, which typically neglected the broader policy and institutional aspects of poverty reduction, and that these efforts have been plagued by serious financial and institutional sustainability problems. The IPRSP further suggested that these problems can only be addressed over the long term by gradually "mainstreaming" the poverty reduction efforts within the regular operations of the national and sub-national government institutional structures and processes.

One key impetus of the Seila Program from RGC's perspective is that it offers a cohesive framework, operating within regular government institutions and with standard government processes, through which donor funds can be channeled. This reduces the fragmentation and proliferation of numerous and competing donor-specific approaches which can be serious impediments to sustainability. Because it focuses on both delivery of public goods and services, and development of the endemic institutions, systems and processes for efficient and effective delivery of these public goods and services, prospects for sustainability of the Seila Program after donor funds diminish are good.

Indeed, at the commune level, the Seila systems and processes piloted under the first phase have already been incorporated, for the most part, into the recent decentralization reforms, and the Seila Program is supporting the initial implementation of the newly decentralized institutional structures and processes. Prospects for sustainability are good. In terms of sustainable financing, permanent arrangements for transfers from the national level to the communes is assured by the *Sub-decree on Establishment of the Commune/Sangkat Fund*. The C/SF was initially capitalized from external sources, through the Seila Program, and domestic revenues. The contribution from the RGC budget in 2002 was US\$5 million (20 billion Cambodia Riels), or 1.2 percent of projected recurrent domestic revenue. For 2003, the RGC has allocated the equivalent of US\$ 10.256 million (47.8 billion Cambodia Riels), or 2.0% of recurrent domestic revenue. In line with the Medium-Term Expenditure Framework, the domestic contribution to the C/SF is expected to grow to 2.5 percent of projected recurrent domestic revenue, or US\$ 12 million by 2004. In addition, options for own-source revenue for C/SC are being studied and are expected to be put in place during the first five-year mandate of the C/SC.

At the province level, the institutional arrangements, systems and processes being piloted under Seila are informing the ongoing discussions on deconcentration reforms. It is likely that these arrangements, systems and processes will be incorporated, to a large extent, as part of the upcoming reforms, and thus prospects for sustainability are good.

Government staff working in the Seila Program receive salary supplements (paid by other donors, not IDA) to top-up their civil service pay. In general, donor-financed salary supplementation is not sustainable. However, as civil service reform proceeds, and civil service salaries are rationalized, it is envisaged that these salary supplements will no longer be needed.

2. Critical Risks (reflecting the failure of critical assumptions found in the fourth column of Annex 1):

| Risk | Risk Rating | Risk Mitigation Measure |
|---|---------------------------------|--|
| From Outputs to Objective Systems well defined and appropriate, and local capacities sufficient to efficiently and effectively implement the project. Policies and regulations for decentralization and deconcentration adopted and implemented nationwide. Commune/Sangkat Fund tranche releases done in a timely manner Goods, works and services procured in a timely manner. | N M N | Monitor closely the initial implementation of decentralization reforms; support workshops to distill lessons from initial implementation experience and provide feedback; monitor development and implementation of overall training strategy and program. Dialogue with Government and key donors. Procurement training for STF Secretariat and provincial staff. |
| From Components to Outputs Sufficient co-financing and counterpart funds are available; funds disbursed in a timely manner. | M | Dialogue with Government and key donors, DCA conditions. |
| Overall Risk Rating | M | |

Risk Rating - H (High Risk), S (Substantial Risk), M (Modest Risk), N (Negligible or Low Risk)

3. Possible Controversial Aspects:

The financial management and procurement risks, and the measures in place to address these risks, are discussed in detail in Annex 6. There are no other aspects of this project which pose significant risks or are likely to be controversial.

G. Main Credit Conditions

1. Effectiveness Condition

- Appointment of (i) a Project Manager, and (ii) a Financial Management Officer, two Assistant Accountants, and a Procurement Officer to the Programs Operations Unit (POU) of the Seila Task Force Secretariat (STFS), with responsibilities and qualifications acceptable to IDA. [DCA, Article VI, Section 6.01 (b)].

- Establishment at POU a computerized financial management system for the Project, including design of the chart of accounts and installation of specialized financial management software to, inter alia, produce financial monitoring reports, all in form and substance acceptable to IDA [DCA, Article VI, Section 6.01(c)].
- Provision of training to the staff of the STFS POU, PLG Provincial Financial Advisers and Provincial Treasury commune accounting staff trained on the Financial Management System and IDA disbursement procedures, all in a manner and substance satisfactory to IDA. [DCA, Article VI, Section 6.01(c)].
- Adoption of the RILGP Project Implementation Manual, including a financial management manual, in form and substance acceptable to IDA [DCA, Article VI, Section 6.01 (d)].
- Formally issue of Prakas on Commune/Sangkat Procurement Guidelines, in form and substance acceptable to IDA [DCA, Article VI, Section 6.01 (e)].
- Formally issue regulations on Commune/Sangkat external audit guidelines, in form and substance acceptable to IDA [DCA, Article VI, Section 6.01 (f)].

2. Other [classify according to covenant types used in the Legal Agreements.]

Financial:

- Adequate records and accounts shall be maintained by STFS for all Components, in accordance with sound accounting practices, for annual auditing by independent auditors acceptable to the Bank, and the consolidated project accounts together with the auditor's report would be submitted to IDA within six months of the close of each financial year, covering the period January 1 to December 31 of the year in question [DCA, Article IV, Section 4.01 (a) and (b); and Schedule 4, Paragraph 6].
- Quarterly *Financial Monitoring Reports* would be submitted to IDA for Review within 45 days of the end of each quarter (March 31, June 30, September 30 and December 31 each year, commencing September 30, 2003) in form and substance acceptable to IDA [DCA, Article IV, Section 4.02].

Cross-Default:

- If the proceeds of the parallel co-financing by the Partnership for Local Governance (UNDP, Sida, DFID) are suspended, terminated or canceled, in whole or in part, the Credit may be suspended [DCA, Article V, Section 5.01 (a) (i) and (ii)].

Implementation:

- All Project activities would be carried out in accordance with the policies and procedures outlined in the Project Implementation Manual, in form and substance acceptable to IDA [DCA, Schedule 4, Paragraph 3 (a) through (c)].
- The POU in STFS shall be maintained at all times during Project implementation with functions and responsibilities acceptable to IDA, with competent staff in adequate numbers, and with appropriate institutional arrangements for coordination with PRDC and its

EXCOM, Provincial Treasury, and Commune/Sangkat Councils in the Project provinces [DCA, Schedule 4, Paragraph 1 (a) through (e) and 2].

- Submit to IDA for review and approval, not later than December 7 of each year beginning December 7, 2003, work programs and budgets for the forthcoming calendar year, giving details of proposed procurement activities and anticipated disbursements according to formats specified in the Project Implementation Manual approved by IDA [DCA, Schedule 4, Paragraph 5].
- The Borrower shall ensure timely tranche releases by the National Treasury to the Commune/Sangkat Fund, in accordance with the requirements included in the Sub-Decree on Establishment of the Commune/Sangkat Fund [DCA, Schedule 4, Paragraph 9].
- The Borrower shall establish and maintain a financial management system, including records and accounts, of its Commune/Sangkat Fund in form and substance satisfactory to IDA, and have the records and accounts of such Fund audited for each fiscal year, in accordance with the Borrower's regulations on Commune/Sangkat external audit guidelines, in form and substance satisfactory to IDA [DCA, Schedule 4, Paragraph 10].
- Adequate records and accounts shall be maintained by STFS for all Components, in accordance with sound accounting practices, for annual auditing by independent auditors acceptable to the Bank, and the consolidated project accounts together with the auditor's report would be submitted to IDA within six months of the close of each financial year, covering the period January 1 to December 31 of the year in question [DCA, Article IV, Section 4.01 (a) and (b); and Schedule 4, Paragraph 6].
- PLG Provincial Financial Advisor shall, on a regular, periodic basis not less than once monthly, visit Provincial Treasuries to verify that a) C/S Trial Balance; b) C/S Revenue and Expenditure Statement; and c) C/S Contract Register are consistent with full documentation maintained at Provincial Treasuries, and that the internal controls and procedures involved in the preparation of these documents can be relied on to support applications for reimbursement [DCA, Schedule 4, Paragraph 11].

Reporting and Monitoring:

- Six months prior to mid-term and final evaluations carry out a socio-economic impact study according to TORs acceptable to IDA [DCA, Schedule 4, Paragraph 5].
- Adequate policies and procedures would be maintained to monitor and evaluate project implementation and achievement of objectives on an on-going basis in accordance with indicators satisfactory to the Bank, as specified in the Project Implementation Manual approved by IDA [DCA, Schedule 4, Paragraph 6 (a)].
- A mid-term review conducted by March 15, 2005 or a later date as established by IDA, and a final evaluation conducted by March 15, 2007 or a later date as established by IDA, according to Terms of Reference acceptable to IDA. The *Knowledge, Attitudes, Practices and Beliefs* survey, originally conducted as part of Project preparation, would be repeated as part of the mid-term and final evaluations. [DCA, Schedule 4, Paragraph 6 (b)].

- As part of the quarterly *Financial Monitoring Reports*: (i) describe physical progress in Project implementation, both cumulatively and for the period covered by said report, and explain any variance between the actual and planned project implementation; and (ii) provide a status report on procurement under the project [DCA, Article IV, Section 4.02 (a) (ii) and (iii)].

Environment and Social Safeguards:


- All sub-project activities would be carried out in accordance with the *Environmental Analysis and Sub-project Review Procedures* (dated March 11, 2003); *Framework for Land Acquisition Policy and Procedures* (dated March 11, 2003); and *Highland Peoples Development Plan* (dated March 11, 2003), all officially submitted by STFS and set forth in the Project Implementation Manual [DCA, Schedule 4, Paragraph 7 (c) (iii) through (v)].

H. Readiness for Implementation

- ☐ 1. a) The engineering design documents for the first year's activities are complete and ready for the start of project implementation.
- ☒ 1. b) Not applicable.
- ☒ 2. The procurement documents for the first year's activities are complete and ready for the start of project implementation.
- ☒ 3. The Project Implementation Plan has been appraised and found to be realistic and of satisfactory quality.
- ☐ 4. The following items are lacking and are discussed under loan conditions (Section G):

I. Compliance with Bank Policies

- ☒ 1. This project complies with all applicable Bank policies.
- ☐ 2. The following exceptions to Bank policies are recommended for approval. The project complies with all other applicable Bank policies.



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Annex 1: Project Design Summary
CAMBODIA: RURAL INVESTMENT AND LOCAL GOVERNANCE PROJECT

| Hierarchy of Objectives | Key Performance Indicators | Data Collection Strategy | Critical Assumptions |
|--|---|--|---|
| Sector-related CAS Goal: Rural poverty reduced through rural development based on nationwide adoption of decentralized and deconcentrated local governance systems | Sector Indicators: | Sector/ country reports: | (from Goal to Bank Mission) Direct correlation between good local governance and sustainable development and poverty reduction. |
| Project Development Objective: Contributing to rural development and poverty reduction efforts through: Provision of priority infrastructure and public goods at the commune level; and Strengthening of decentralized participatory local governance systems. | Outcome / Impact Indicators: ERR of sample of sub-projects is at least 12% Knowledge, attitudes, belief and practices regarding good local governance improved 10% increase by mid-term and 20% increase by end of project in demand responsiveness to priorities identified in Commune Development Plans (CDP) | Project reports: Socio-economic baseline and follow-up Mid-term and Final Evaluations KABP baseline and follow-up surveys DOP records of temporary agreements from District Integration Mid-term and Final Evaluations | (from Objective to Goal) Improved quality of life for rural people results from more accessible, equitable and affordable infrastructure and public goods Economically viable and demand driven sub-projects have measurably positive socio-economic impacts |
| Output from each Component: 1.1 Commune Development Plans (CDP) and Commune Investment Plans (CIP) prepared reflecting local priorities through participatory | Output Indicators: CDPs and/or CIPs and annual budgets prepared in 100% of participating communes by the last quarter of each year | Project reports: Copies of approved CDPs, CIPs, and annual budgets | (from Outputs to Objective) Systems well defined and appropriate, and local capacities sufficient to efficiently and effectively implement the project |

| | | | |
|---|---|--|---|
| planning process. | At least 50% by mid-term and at least 70% by end of project of CDPs and/or CIPs and annual budgets pass legality checks by provincial Governor on first round | Provincial Office of Local Administration (POLA) records | |
| 1.2 Priority investments in commune level infrastructure and other public goods funded through C/SF and implemented by the C/SC in accordance with agreed systems and procedures. | 1000 sub-projects by mid-term and 2,500 sub-projects by end of project implemented in participating communes in accordance with CDPs | Progress reports | |
| | At least 95% of final payments to contractors for sub-projects made within 12 months of budget approval | POLA records Provincial Treasury records | C/SF tranche releases done in a timely manner |
| | At least 90% of sub-projects of satisfactory technical quality standards | TSS audits M&E reports | |
| 2.1 National, provincial and commune institutions equipped for implementation of decentralized planning, financing, management and monitoring and evaluation of the project | 100% of participating communes and sub-national support staff (TSS, DFT/PFT, PT) to receive relevant training on planning, implementation, procurement and finance systems and procedures within first year of implementation | Progress reports | Goods, works and services procured in a timely manner; funds disbursed in a timely manner |
| | At least one visit per month by sub-national technical support staff to commune | C/SC annual reports | |
| | STFS equipped with: (i) vehicles; (ii) computer sets; and (iii) photocopy machine by end of year one | FMRs | |
| | PRDC ExCom units and Provincial Treasuries | FMRs | |

| | | | |
|---|--|------------------|--|
| | equipped with (i) computer sets ; (ii) motorcycles; (iii) vehicles; (iv) photocopy machines; (v) boats; (vi) furniture sets; and (vii) generators by end of year one | | |
| | PRDC ExCom buildings constructed/rehabilitated in 6 provinces by first half of 2004. | FMRs | |
| 2.2 National policies and regulations for decentralization and commune-level governance established and refined | 6 national-level workshops to be conducted over the course of the project, focused on periodic reviews of the Seila systems and updates of the reforms | Progress reports | Policies and regulations for decentralization and deconcentration adopted and implemented nationwide |
| | 3 strategic studies to inform the ongoing dialogue on decentralization and deconcentration conducted by end of project | Study reports | |
| | 2 follow-up studies to the socio-economic baseline for monitoring and evaluation of sub-project impacts conducted by mid-term and end of project | Study reports | |
| | 2 follow-up studies to the <i>Knowledge, Attitudes, Practices and Beliefs</i> survey conducted by mid-term and end of project | Study reports | |

| Hierarchy of Objectives | Key Performance Indicators | Data Collection Strategy | Critical Assumptions |
|---|---|---|---|
| Project Components / Sub-components: 1. Local Planning and Investment Component | Inputs: (budget for each component) US \$37.33 million of which IDA Credit US\$ 18.96 | Project reports: FMRs Annual reports Annual Workplan and Budget Annual audit | (from Components to Outputs) Sufficient co-financing and counterpart funds are available. |
| 2. Policy Support and Project Management Component | US\$ 24.83 million of which IDA Credit US\$ 3.04 million | | |

Annex 2: Detailed Project Description

CAMBODIA: RURAL INVESTMENT AND LOCAL GOVERNANCE PROJECT

The proposed Project would support, through Phase II of the National Seila Program, the newly decentralized planning process at the commune level, as well as the provision of grants for priority rural infrastructure and related public goods identified through that planning process. More specifically, the proposed Project would support: (i) integration of the Seila Program into the new local government institutional structures and development planning, budgeting and implementation processes at the commune level established as part of the recent decentralization reforms; and (ii) strategic studies to inform the ongoing dialogue on deconcentration reforms, as well as to review and strengthen the regulatory framework for decentralization.

The proposed Project would be implemented over a four-year period (2003-2006), and be comprised of two components:

- Component 1 – Local Planning and Investment; and
- Component 2 – Policy Support and Project Management.

The components would be funded through a combination of several sources: Royal Government of Cambodia (RGC) domestic resources, the proposed IDA Credit, and grant funds provided in parallel through the Partnership for Local Governance (PLG), a UNDP-administered trust fund. The proposed IDA Credit, totaling US\$ 22 million, would support principally sub-project investments at the commune level, as well as some strategic studies and program support cost. Supporting planning activities, technical assistance and capacity building at the national, provincial and commune levels would be, for the most part, co-financed in parallel by the PLG as well as by RGC domestic resources. The IDA Credit would cover technical assistance, capacity building and incremental operating costs in the final year of implementation.

By Component:

Project Component 1 - US\$37.33 million

The Local Planning and Investment Component would support, through the Commune/Sangkat Fund (C/SF): (i) the newly established decentralized planning process at the commune level, including development of five-year Commune Development Plans (CDP), three-year rolling commune investment programs (CIP) and annual commune budgets; and (ii) grants for commune-level investments in public goods and services identified and prioritized through the participatory local planning process. Sub-projects to be funded under this component could include small-scale rural infrastructure (such as roads, bridges, culverts, wells, latrines, irrigation structures, and public facilities for agricultural storage, marketing, education and health-care).

The participatory local planning process (see Annex 12 for details) to be followed under this component is defined in the *Inter-ministerial Prakas on Commune/Sangkat Planning* and elaborated in the *Commune/Sangkat Development Planning Guidelines*, and is led by the newly-elected local government authorities (Commune/Sangkat Councils (C/SC)), supported by a Planning and Budgeting Committee drawn from the membership of the C/SC with supplementary village-level representation.

The C/SF (see Annex 11 for additional details), the financing mechanism for C/SC established in 2001 by the *Sub-Decree on Establishment of the Commune/Sangkat Fund*, is comprised of two parts: (i) the

General Administration component, and (ii) the Local Development component. Within prescribed limits, both parts of the C/SF can be used for recurrent and capital expenditures.

The General Administration component of the C/SF (which can be used to fund facilities and equipment for C/SC, and for councilors salaries and other basic operating costs) as well as recurrent expenditures under the Local Development component of the C/SF (such as for the planning processes at the commune level used to identify and prioritize sub-project investments, and undertake maintenance of these investments) will be funded out of RGC domestic resources. The RGC, complimented by parallel grant financing from the PLG, will also resource salaries and operations of key provincial-level staff, under the Provincial Rural Development Committees (PRDC), who provide technical support to Commune Councils. In addition, PLG will fund Advisers to provide training and monitoring of procedures and systems to the PRDC staff.

Allocations to communes of the Local Development component of the C/SF are based on a formula that includes: i) an "equal share" - distributed as a fixed and equal amount to all qualified communes; ii) a "population share" - distributed in proportion to the population of the commune; and, iii) a "poverty share" - distributed in proportion to indicators of relative poverty of the communes, based on ten poverty indicators from the Commune/Sangkat database maintained by MOI.

The proposed IDA Credit would be used under this component exclusively for capital expenditures for sub-projects under the Local Development component of the C/SF. While RGC and PLG would fund the C/SF directly, IDA funds would not be advanced into the C/SF. Rather, disbursements from the proposed IDA Credit for this component would be on the basis of reimbursement of appropriately documented eligible expenditures from the C/SF. A positive list of eligible sub-projects for IDA financing, including small-scale works and related goods but no services, is available in the RILGP Project Implementation Manual (PIM). An indicative positive list of eligible sub-projects is provided in Attachment 1 to this annex.

Over the four-year duration of the proposed RILGP, proceeds from the proposed IDA Credit would fund eligible activities in up to 1,110 communes in fifteen provinces (Battambang, Banteay Meanchey, Siem Reap, Otdar Meanchey, Pailin, Pursat and Ratanakiri of the Seila Program Phase I provinces; Kompong Cham, Prey Veng, and Takeo, which started operating under the Seila Program Phase II in 2001; as well as Kompong Speu, Kompong Chhnang, Svay Rieng, Kratie and Preah Vihear, which started operating under Seila Program Phase II during 2002.) However, IDA-funded activities in the 15 provinces would be phased-in over the first 3 years of implementation starting with up to 698 communes in 7 province in year 1 (Banteay Meanchey, Battambang, Kampong Cham, Prey Veng, Pursat, Siem Reap, Takeo), expanding to up to 980 communes in 11 provinces in year 2 (additionally Kampong Chhnang, Kampong Speu, Kratie, Svay Rieng) and up to 1110 communes in 15 provinces in years 3 and 4 (additionally Otdar Meanchey, Pailin, Preah Vihear, Ratanakiri).

Project Component 2 - US\$24.83 million

The Policy Support and Project Management Component will finance the strengthening and backstopping of national, provincial and local institutions to implement their respective project responsibilities. More specifically, the component will finance technical assistance and capacity building, logistical and operational expenses, workshops, goods including vehicles and office and other equipment, and construction or repair of office facilities required at national, provincial and commune levels. The proposed Component will also support development and implementation of a system to monitor the efficiency and effectiveness of sub-projects under Components 1, and evaluate the impact of the Seila Program.

The IDA Credit will not finance government salaries or salary supplements, nor be the key source of technical assistance or operational costs. RGC and PLG staff will provide technical support, capacity building, supervision, monitoring and evaluation support at all levels. Parallel co-financing by PLG will complement the IDA Credit through the provision of key equipment to the STF Secretariat, technical advisory staff - both national and international - providing capacity building technical assistance to STFS staff and key Seila ministries in particular MOI/DOLA and MEF, as well as operational budgets. In addition, PLG will support staff salaries for PLG staff in each of provinces, who will provide technical support to support the implementation of the RILGP, as well as all provincial program support costs to the PRDC ExCom and its units and PLG. At the commune level, the RGC will support the administration budgets of Commune Councils through the General Administration Component of the Commune/Sangkat Fund. For the final year of implementation only, the IDA Credit will support technical assistance and incremental operating costs.

More generally, the IDA Credit will finance consulting services to: (i) undertake strategic studies to inform the ongoing dialogue on deconcentration; (ii) conduct two follow-up studies to the socio-economic baseline for monitoring and evaluation; (iii) conduct mid-term and final project evaluations, including two follow-up studies to the *Knowledge, Attitudes, Practices and Beliefs* survey; (iv) monitor quality of procurement support by TSS to C/SC; and (v) conduct an annual independent external audit.

Strategic studies on decentralization and deconcentration. Under Component 2, RILGP will contribute to the broader multi-donor support to ongoing study, formulation, evaluation and strengthening of the Royal Government's legal and regulatory framework for decentralization and deconcentration. While the exact focus of the RILGP support to these efforts will be determined during implementation, in consultation and coordination with STFS and other key donors, it is envisaged that consultant services will be financed out of the IDA Credit, under TOR acceptable to IDA, to assist relevant RGC authorities with strategic studies within/among the following broad areas.

- *Fiscal Decentralization:* (i) development of interim guidelines and eventually policy and laws regarding Commune own-source revenue including local fees and taxes; (ii) pilots and studies on the use of Commercial Bank accounts by the C/S Councils; (iii) further design and evaluation of the auditing arrangements for the C/S Fund; and (iv) computerization of the provincial treasury and eventually the national accounts for the C/S Fund.
- *Fiscal Reform at Provincial Level:* Subject to sufficient progress by the RGC on the formulation of a deconcentration policy framework and the Organic Law on the Province and District --studies and preparation of guidelines on: (i) the provincial budget; (ii) the potential use of commercial banks; (iii) the identification of local revenue and taxes to be retained by the province; and (iv) the design of effective supervision and auditing arrangements.
- *Provincial Planning System:* Subject to sufficient progress by the RGC on the deconcentration policy framework and the provision of increased budgets at provincial level - (i) reviews/studies of the current provincial planning system piloted by Seila, including the District Planning Integration process, and the revision/strengthening of guidelines to incorporate all sub-national financing through the province; (ii) reviews of current MIS systems utilized in provincial planning; studies on how to effectively link the provincial planning system within the national Public Investment Program (PIP); and (iii) formulation of a more transparent allocative process from National Ministries to Provinces.

- *Poverty Alleviation:* Within the context of the National Poverty Reduction Strategy: (i) studies/formulation of a strategic framework to strengthen the linkage between decentralization, deconcentration and poverty alleviation either generally or within a specific sector; and (ii) review of national MIS systems and surveys focused on monitoring poverty and monitoring socio-economic development and the formulation of a comprehensive framework that would establish more effective linkages between monitoring/analysis and planning/programming at all levels.

Socio-economic impact assessment. The STFS will, with PLG financing, establish a socio-economic baseline and, with funding from the IDA Credit, conduct two follow-up surveys on the socio-economic impact of sub-projects. To this end, six months prior to the mid-term and final evaluations, STFS would employ consultant services to carry out a socio-economic impact follow-up studies according to Terms of Reference (TOR) acceptable to IDA. The systematic impact evaluation of the socio-economic impacts of sub-projects would include:

- An initial household survey in a representative cross-section of communes to: (i) collect any additional data needed to refine cost-benefit analysis models, and (ii) establish baseline data for impact evaluation
- Follow-up household surveys of sample communes to evaluate sub-project impacts, including evaluation of quality of maintenance and cost to households

Ideally, “panel” type household surveys would be used to allow the same households to be revisited to evaluate the impact of the projects. However, as this may prove impractical, it is important to ensure that the sample of households in any commune is sufficiently representative to allow meaningful comparison with a similar, but different, sample at the impact evaluation stage. The follow-up surveys of the sample communes would include the quality of maintenance of the project output, and the cost to individual households of contributing to the maintenance effort. This should allow both the immediate and the sustained impact of projects to be evaluated, and benefits derived to be compared with maintenance costs.

Mid-term and Final Project Evaluations. STFS will employ consultant services of independent evaluation teams, financed by the IDA Credit, for a mid-term review and a final project evaluation according to TOR acceptable to IDA. The *Knowledge, Attitudes, Practices and Beliefs* survey, originally conducted as part of Project preparation, would be repeated as part of the mid-term and final evaluations.

Annual Audit. STFS will engage the services of an independent auditing firm, using funds from the IDA Credit, to conduct an annual independent audit of the RILGP following TOR acceptable to IDA.

National Workshops. The IDA Credit will also support a series of national-level workshops to be conducted over the course of the project, focused on periodic reviews of the Seila systems and updates of the reforms.

Under this Component at the national level, the IDA Credit also will be used to procure goods for the STFS, including: (i) vehicles (2); (ii) computer sets (5); and (iii) photocopy machine (1).

Under this Component at provincial level, the IDA Credit will be used by STFS to procure goods and works for PRDC, PRDC ExCom units and Provincial Treasuries in the 15 project provinces to strengthen their capacity to support C/SC development planning and implementation of sub-projects. Specifically,

this will include procurement of essential equipment, including (i) computer sets (80); (ii) motorcycles (344); (iii) vehicles (5); (iv) photocopy machines (23); (v) boats (12); (vi) furniture sets (5); and (vii) generators (3). Works will be contracted by STFS to repair PRDC ExCom buildings in five provinces, as well as to construct one new building in Preah Vihear province.

Attachment 1: List of Eligible Commune/Sangkat Sub-Projects under RILGP

| Project Type | Eligible Sub-Projects | In-Eligible Sub-Projects |
|------------------------------|---|---|
| Water Supply | (Includes civil works and complementary equipment) | |
| | Wells (ring or drilled) | Chemical water treatment systems |
| | Water catchment/harvesting structures | Motor pumps and electric pumps |
| | Ponds | |
| | Water supply systems | |
| | Water storage facilities | |
| | Spring improvement | |
| | Filtration systems | |
| | Water supply systems for public buildings (education, health, marketing, community buildings) | |
| Energy | (Includes civil works and goods) | |
| | Electricity distribution systems | Generators |
| Transportation | (Includes only civil works) | |
| | Earth roads | Improvement or rehabilitation of National/Provincial roads and structures |
| | Laterite surfaced roads | |
| | Gravel surface roads | |
| | Paved roads | |
| | Culverts (pipe or box) | |
| | Bridges (concrete or wood) | |
| | Suspension footbridges | |
| | Drifts | |
| | Vented causeways | |
| | Boat landings/docks | |
| | Cable ferries | |
| | Inland waterways improvements | |
| Education | (Includes civil works, equipment, furniture and essential supplies) | |
| | Education buildings: - Kindergarten - Elementary Schools - Adult education centers | |
| | Community libraries | |
| | Dormitories for students/teachers | |
| Health and Sanitation | (Includes civil works, equipment and essential supplies) | |
| | Health posts and clinics | Urban hospitals |
| | Latrines for public facilities (education, health, marketing, | |

| | | |
|---|---|--|
| | or other community buildings). | |
| | Waste collection facilities/activities | |
| Irrigation and Flood Protection | (Includes civil works only) | |
| | Earth dams and reservoirs | Motor pumps or electric pumps |
| | Spillways | |
| | Canals and distribution systems | |
| | Canal headwork and structures (regulator and offtake structures). | |
| | Diversion structures. | |
| | Pumping station structures | |
| | Drainage structures | |
| | Flood protection structures/facilities | |
| | Flood refuge platforms | |
| Natural Resources Management | (Includes civil works only) | |
| | Erosion protection structures and works | |
| Community Buildings | (Includes civil works and complementary equipment) | |
| | Communal meeting locations | Administration buildings |
| | Communal market areas, buildings and drainage systems | Civil registries (property, birth, marriage, deaths) |
| | Communal storage | Police or army buildings |
| | Communal stores | Buildings for religious activities (e.g. wats) |
| | Marketing facilities | Buildings for commercial financial activities |
| | Communal agricultural structures | |
| | Communal training centers | |
| | | |
| | | |
| | Proposed Negative List | |
| | | |
| Agricultural Goods/Inputs | | Fertilizers |
| | | Pesticides |
| | | Insecticides |
| | | Products for direct household consumption |
| | | Illegal crops |
| Industrial or Processed Products | | Drugs, narcotics, alcohol and tobacco |
| | | Arms, ammunition, explosives, public security/defense products or activities |

Annex 3: Estimated Project Costs
CAMBODIA: RURAL INVESTMENT AND LOCAL GOVERNANCE PROJECT

| Project Cost By Component | Local US \$million | Foreign US \$million | Total US \$million |
|--|-------------------------------|---------------------------------|-------------------------------|
| Local Planning and Investment | 22.40 | 14.93 | 37.33 |
| Policy Support and Project Management | 12.38 | 12.45 | 24.83 |
| Total Baseline Cost | 34.78 | 27.38 | 62.16 |
| Physical Contingencies | 0.00 | 0.00 | 0.00 |
| Price Contingencies | 0.00 | 0.00 | 0.00 |
| Total Project Costs¹ | 34.78 | 27.38 | 62.16 |
| Total Financing Required | 34.78 | 27.38 | 62.16 |

| Project Cost By Category | Local US \$million | Foreign US \$million | Total US \$million |
|--|-------------------------------|---------------------------------|-------------------------------|
| Goods | 0.12 | 0.78 | 0.90 |
| Civil Works | 0.11 | 0.12 | 0.23 |
| Consulting Services | 1.44 | 6.72 | 8.16 |
| Sub-Project Grants | 22.40 | 14.93 | 37.33 |
| Workshops | 0.02 | 0.01 | 0.03 |
| Operating Costs | 10.69 | 4.82 | 15.51 |
| Total Project Costs¹ | 34.78 | 27.38 | 62.16 |
| Total Financing Required | 34.78 | 27.38 | 62.16 |

¹ Identifiable taxes and duties are 0 (US\$m) and the total project cost, net of taxes, is 62.16 (US\$m). Therefore, the project cost sharing ratio is 35.39% of total project cost net of taxes.

Annex 4
Economic and Financial Analysis
CAMBODIA: RURAL INVESTMENT AND LOCAL GOVERNANCE PROJECT

Overview

The economic benefits of the project would result from (i) the rehabilitation of rural transportation infrastructure and the subsequent savings in vehicle operating costs and time; (ii) the rehabilitation and construction of communal irrigation schemes that will increase yields, irrigated area and cropping intensity; and (iii) improvements in the supply of potable water, resulting in time savings from water collection and reduced incidence of water-borne illnesses. In addition, investments to support local government and other institutional capacity building, as well as to strengthen decentralized and community-based decision making, will facilitate better implementation of rural development programs, help foster the creation of social capital, and strengthen the staff skills of implementing agencies at the local level.

Given the programmatic nature of the project's design, and the fact that local commune councils will be driving the choice of investments, the analysis is based on a modular approach which separately examines the three main types of investments expected under the project. These results are then integrated into a model of the overall estimated project rate of return. Fortunately, the experience of Seila can be used as a basis for predicting rates of return of RILGP. Much of the analysis here draws from the findings of the *Study Into the Socio-Economic Impact of the Local Development Fund/Local Planning Process 1996-2000* (the "LDF Impact Study"), sponsored by the UN in support of the Seila Program, and the survey data collected for that study.

While economic internal rates of return (EIRR) were calculated for all three types of investments, a financial internal rate of return (FIRR) was only calculated for possible irrigation sub-project investments because that is the only productive investment under the project that generates cash flow attributable to individual farms. The analysis is conducted in Cambodian Riel (KHR), assuming an exchange rate of US\$1 = KHR 3,900. The opportunity cost of capital is assumed to be 12 percent. Because Cambodia's economy is highly dollarized, no foreign exchange premium was applied in the calculation of economic prices.

Overall Economic Internal Rates of Return (EIRR)

At the investment level, it is estimated that the rural transportation infrastructure projects will yield an EIRR of 84 percent, the investments in communal irrigation projects will yield an EIRR of 98 percent, and the investments in communal potable water supply will yield an EIRR of 14 percent. To estimate an EIRR for the proposed RILGP as a whole, two approaches can be taken. First, the EIRR for each investment type can be weighted based on the actual expenditures under Seila found by the LDF Impact Study. This yields an overall EIRR of 74 percent. The other possibility is to weight each investment type by the expressions of investment preferences elicited during the household surveys for the Social Assessment of the proposed RILGP. This yields an overall EIRR of 64 percent. The results are presented in the table below.

| Investment type | Roads | Irrigation | Water | Total |
|--|-----------|------------|---------|-----------|
| EIRR weighted by Seila costs | | | | |
| Cost of component (KHR) | 3,687,745 | 833,472 | 957,595 | 5,478,812 |
| Weights: Cost as % of total cost | 67% | 15% | 17% | 100% |
| Sample projects' EIRR | 84% | 98% | 14% | 74% |
| | | | | |
| EIRR weighted by rank of project in Social Assessment | | | | |
| Female | 5.5 | 4.1 | 5.3 | |
| Male | 5.3 | 4.6 | 5.2 | |
| Average | 5.4 | 4.35 | 5.25 | 15.00 |
| Weights: Rank as % of total points | 36% | 29% | 35% | 100% |
| Sample projects' EIRR | 84% | 98% | 14% | 64% |

Both approaches indicate that the EIRR for the proposed RILGP is estimated to be well above the usual standard of 12 percent. The investment type with the lowest estimated return is water supply, but the 14 percent EIRR can be considered a lower bound, as is explained below. Analysis of the sensitivity of each investment type's EIRR to changes in key variables is also carried out below. The sections below provide a summary of the analysis done for each of the three investment types, including information concerning the models, calculations, assumptions, and results.

Transportation Infrastructure

Based on the results of the LDF Impact Study and the Social Assessment for the RILGP, it is predicted that rural transportation infrastructure will be the primary type of investment funded by the Commune/Sangkat Fund (C/SF). In most cases, these investments involve the rehabilitation or upgrading of existing rural roads and their accompanying infrastructure. In the majority of cases (62 percent) in the past under the Seila Project, road works involved laterite surfacing. Often times (38 percent), earth works were also financed. In addition, Seila frequently funded the construction of culverts and, to a lesser extent, bridges and causeways. Typically, LDF transport interventions are a composite of projects, possibly including earthworks, laterite surfacing, and bridges and culverts.

The economic analysis is based on, and builds upon, the analysis done for the LDF Impact Study. The team also drew upon the findings of other projects in the region and reports on rural infrastructure to develop a satisfactory model. The model is based on the consumer surplus approach to measuring benefits. This involves comparing the expected benefits to users of rural transportation infrastructure with the project to the expected benefits without the project. *Quantified and Non-Quantified Benefits and Costs*

The most common direct benefits of transportation projects are (i) savings in vehicle operating costs (VOC), and (ii) savings in time. Data on VOC savings were readily available from detailed studies done for Seila (the LDF Impact Study) and other rural transportation projects in Cambodia. Time savings were estimated using data collected from interviews with 139 users of 27 Seila-funded infrastructure investments as background for the LDF Impact Study. While the economic analysis measures the benefits from savings in VOC and time, it does not measure other possible direct benefits such as the reduction in the frequency and severity of accidents, or the increased comfort, convenience, and reliability of service. It also does not measure indirect benefits such as the stimulation of economic development along the transportation corridors or environmental improvements.

In terms of possible environmental costs, the model does take into account the opportunity cost of land take. However, as much as possible, the investments follow existing horizontal and vertical alignments, reducing earthworks and land take for right of way. Survey respondents were also interviewed about the possible negative impact of road improvements due to increased laterite dust. However, more respondents (44 percent) felt that there was less dust after the road improvements than those (33 percent) who felt there was more dust. In general, the LDF Impact Study found that the environmental impact of infrastructure investments was minimal.

Methodology

The measurement of the economic benefits from VOC savings is taken from the LDF Impact Study. Those calculations were made using the Cambodia Rural and Economic Appraisal Model (CREAM) for rural roads, originally developed for the RIIP project by Tracey-White and Vaidya. This model uses a consumer surplus approach to evaluate the benefits of road improvement through reductions in vehicle operating costs as well as generated traffic. It is based around a trip generation gravity model. In its simplest form, the model requires only three basic pieces of information: (i) population density in the area of influence of the road; (ii) length of the road in kilometers; and (iii) estimated construction costs per kilometer of road. Baseline VOCs were standardized in the model for different modes of transport. Data for VOCs on rural roads in Cambodia are available from studies undertaken by the ILO for the Ministry of Rural Development. Changes in VOCs were then estimated using as a proxy changes in fares reported in the LDF Impact Study survey. The model also incorporates the effects of additional traffic generated immediately by the road improvements, by season. In addition, traffic levels can be expected to grow over time as the economy grows and develops. These effects are incorporated in the model.

Basic assumptions of the model also include the following:

- The road catchment - in terms of users - is assumed to be 5 kilometers on each side.
- Market trips generated were assumed to be made weekly if the farm was within one kilometer of the market, and monthly if over 7 kilometers.

- Modal splits are assumed to be 14 percent for motorbikes; 0.3 percent for cars and motorbikes with trailers; 0.2 percent for pick-ups and trucks; 60 percent for bicycles; and 25 percent for animal carts. No change was assumed over time.
- The annual traffic growth is assumed to be 8 percent in the first five years, declining to 6 percent in the next five years and 4 percent thereafter (based on World Bank experience elsewhere).
- Cash investment costs were assumed to be KHR 6,943,209 per kilometer.
- The value of land take was assumed to be KHR 702,819 per kilometer per year.
- Seven percent was added to the financial cash costs to account for the communities' in-kind labor contribution. The economic value of this contribution was assumed to be 60 percent of the financial value due to the low opportunity cost of labor in rural areas (particularly during the dry season, when most construction work takes place).
- An additional 19 percent was added to the cost of investments to account for technical assistance and Seila supervision.
- The average population density was assumed to be 60 persons per km².
- Maintenance costs for both labor and cash were based on engineering estimates of maintenance requirements of LDF infrastructure, for a typical 1 km composite road consisting of 0.38 km of earth road, 0.62 km of laterite-surfaced road, 3.16 culverts, 0.16 wooden bridges, 0.04 concrete bridges and 0.02 causeways. Both annual and periodic maintenance requirements were included. The economic value of labor was assumed to be 60 percent the financial.
- The financial value of labor was assumed to be KHR 3,900 per day.

In addition to the benefit of decreased VOCs, the economic analysis includes an estimate of the value of the time saved by rural transportation users. While the opportunity cost of time in rural Cambodia is not as great as in developed countries, time savings is still an important benefit for users. It, along with trips generated, also acts as a proxy for improvements in access. The approach measures the average consumer surplus derived from (i) the decrease in the time cost of trips for trips made before the infrastructure improvements; and (ii) the time savings from the additional generated trips. Data on trip time and numbers of trips were collected during the survey of road users conducted for the LDF Impact Study. The survey specifically enquired about trips to four primary destinations: the market, pagoda, school, and health center.

Further assumptions for this aspect of the analysis are:

- The financial value of time was based on MoP Socio-Economic survey data for the four sample provinces. It was estimated at an hourly rate of KHR 390 for adults and KHR 117 for children.
- Following suggestions by Gwilliam in his 1997 note on the value of time in transport projects, the economic value of time was estimated at 30 percent the financial rate for adults, and 15 percent for children.
- The adult value of time was used for trips to the market, pagoda, and health center; the children's value of time was used for trips to school.
- Based on the LDF Impact Study estimates, it was assumed that on average there would be 487 beneficiaries per kilometer of road.

The estimated annual benefits from time savings were added to the estimated annual benefits from VOC savings to arrive at a total annual benefits figure.

Results of the Analysis

Based on the above assumptions, the economic internal rate of return for transportation investments is estimated at 84 percent.

Sensitivity Analysis

The table below presents switching values for the following key variables of the model: annual maintenance costs, periodic maintenance costs, total benefits, total investment costs, number of beneficiaries of time savings, and the value of time. The opportunity cost of capital is assumed to be 12 percent. The results show that the EIRR is very robust to changes in these variables. In particular, total investment costs could increase by 523 percent before the rate of return is reduced to 12 percent. The total benefits, incorporating both VOC and time savings, could decrease by 62 percent and the transport projects would still break even. The number of beneficiaries or the value of time could be reduced by 100%, and the investments would still have a rate of return of 19 percent. In other words, even without including the benefits from time savings, the benefits from VOC savings alone result in an EIRR of 19 percent.

| Variable | Discount Factor | Switching Value |
|-----------------------------|-----------------|-----------------|
| Annual Maintenance | 12% | 810% |
| Periodic Maintenance | 12% | 535% |
| Total benefits | 12% | -62% |
| Total investment costs | 12% | 523% |
| No. of time beneficiaries * | 12% | -100% |
| Value of time * | 12% | -100% |

* EIRR = 19% at -100% change

Cost Effectiveness

It is sometimes suggested that economic analysis based on VOC savings is not appropriate for the lowest level of rural roads (e.g., farm-to-market) because vehicular traffic is low. The economic analysis conducted here does include savings from bicycles, motorbikes, and animal carts, which are the most common means of transportation in rural Cambodia besides foot traffic. However, it can also be informative to examine the cost effectiveness of the transportation infrastructure investments. The LDF Impact Study compares the average costs of providing certain structures under Seila with the costs of providing similar structures under the ADB's RIIP project in Cambodia. It finds that Seila's costs of providing culverts are approximately 60 percent of those of RIIP, and the costs of providing RCC bridges

are 86 percent of those of RIIP. The LDF Impact study estimated that the typical cost per beneficiary of transportation investments under Seila was US\$4.92.

Communal Irrigation Improvements

Based on the results of the LDF Impact Study and the Social Assessment for the RILGP, one of the main types of investments expected to be funded by the Commune/Sangkat Fund (CSF) will be small-scale communal irrigation. Depending on the needs of the community, this could involve: (i) rehabilitating existing gravity schemes that are no longer functional or efficient; or (ii) selectively constructing new run-of-river communal irrigation infrastructure. The rehabilitation of existing schemes will result in more reliable and timely availability of water, which will have a positive impact on yields. It will also result in some increase in the irrigated area. The construction of new irrigation schemes will allow communities to bring formerly rain-fed areas into the irrigated service area. Both types of investment could also allow farmers to increase the number of times that they are able to grow a crop during the year, resulting in an increased cropping intensity.

The LDF Impact Study surveyed 15 irrigation projects funded under the Seila Project. It found substantial increases in cropped area of 40 percent in the dry season and 30 percent in the wet season under the project. The average cost per investment was \$3,159, and the average cost per beneficiary was just \$3.64. In addition to the increase in irrigated area, the LDF Impact Study also found an increase in yields, due in part to improved water management, increased use of inputs such as chemical fertilizers, and increased use of higher-yielding varieties. It should be noted, however, that other interventions in the agricultural sector have been taking place concurrently with the Seila Project. These interventions have resulted in positive changes in farming technology, including increased availability of improved seeds and other inputs. Since RILGP will operate in an environment affected by other projects, the impact of these interventions must be taken into account in the analysis.

Quantified and Non-Quantified Benefits

The impact of the expected irrigation improvement interventions is estimated using a simple model comparing “with” and “without” project scenarios. The model includes benefits to farmers that are expected to result from three broad types of improvements: (i) the rehabilitation of existing schemes will enable farmers to shift from unimproved irrigation to improved irrigation, thereby increasing yields; (ii) both the rehabilitation of existing schemes and the construction of new infrastructure will allow farmers to bring additional rain-fed areas into the irrigated service area, resulting in even greater improvements in yields in these areas; and (iii) the availability of irrigation water for greater portions of the year will allow for an increase in cropping intensity. The full incremental value of production is considered to be a benefit, including home consumption, and not simply the incremental marketable surplus.

It is possible that progressive farmers that benefit from the increased availability of irrigated land would diversify their crop portfolio and grow higher-value crops such as vegetables. These benefits are not taken into account in the analysis.

Methodology

The key assumptions of the model are:

- Investment cost for construction/rehabilitation: Based on the findings of the LDF Impact Study, the average financial cost was estimated at KHR 77,759 per hectare, including the local contribution.
- Cropping intensity: Based on the findings of the LDF impact study, the cropping intensity was assumed to be 101 percent without the project and 107 percent with the project
- Yields: Rice yields have been estimated based on the survey results of the LDF impact study, as well as information from other rice project studies and field interviews with farmers.
- Impact of other interventions: The Cambodia-IRRI-Australia Project (CIAP) began in 1987 with the goal of increasing Cambodian rice production by improving technology and promoting high yielding varieties. The Economic Impact Assessment of CIAP estimated an economic rate of return of 32% over the full life of the investments. This is taken into account when estimating the incremental benefits of irrigation investments here.
- Full development benefits: The analysis assumes that full development benefits for newly constructed communal irrigation systems where farmers are switching from rain-fed paddy to irrigated paddy occur in the third year. Full development benefits for rehabilitated systems are realized in the year immediately following rehabilitation works. A twenty-year period is used for the life of investments. These assumptions are based on a review of the operation of other irrigation interventions in the region.
- Prices: All values are in constant 2002 Cambodian Riel (KHR). The financial rate of return was calculated using financial prices based on various sources, including the LDF Impact Study, economic analyses done for other irrigation projects in Cambodia, fieldwork for the preparation of this project, and official statistics. Financial prices are assumed to equal market prices. For the economic rate of return, economic prices were calculated for key inputs and output, such as rice, fertilizer, and labor. Economic prices for tradables are based on border parity prices expressed as farm-gate prices, with adjustments made for domestic transport and marketing costs. Economic prices are net of duties and taxes. Interest payments are excluded from the economic calculations.
- Wages: The financial and economic wage rates are taken to be KHR 3,900 during the peak growing season. However, the economic value of labor is estimated to be only 60 percent of this figure during the dry season, when most of the construction work would be done. This reflects the relative lack of employment opportunities during the off season.

Results of the Analysis

Based on the above assumptions, the economic internal rate of return (EIRR) for irrigation investments is estimated at 98 percent. Because the community only contributes approximately 10 percent of the investment cost, the financial internal rate of return (FIRR) to the farmer's own resources is considerably higher. This suggests that individual farm households benefit more from the irrigation investments than society as a whole. However, with total cultivated area averaging 2.6 ha per household in the LDF Impact Study, the farmers targeted by Seila have tended to be smallholders, who also tend to be poor.

Sensitivity Analysis

The table below presents switching values for key variables of the economic model: the farm-gate price of rice, average rice yields, the area irrigated, and the total investment cost (including both local and external contributions). The opportunity cost of capital is assumed to be 12 percent. The table shows that the EIRR is fairly robust to changes in these variables. The estimated irrigated area resulting from the project would have to be reduced by 85 percent for the EIRR to drop to 12 percent. The price and yield of rice would have to drop by 30 and 10 percent, respectively, for the investments to be just at the break-even point. Finally, the total investment cost would have to increase by 719 percent to drive the EIRR to 12 percent, suggesting that returns are quite insensitive to investment costs.

| Variable | Discount Factor | Switching Value |
|-----------------------|-----------------|-----------------|
| Price of rice | 12% | -30% |
| Rice yield | 12% | -10% |
| Irrigated area | 12% | -85% |
| Total investment cost | 12% | 719% |

Communal Water Supply Systems

The project will support improvements in rural water supply for domestic use. Based on the results of the LDF Impact Study and the Social Assessment for the RILGP, it is predicted that communal water supply systems will be the third major type of investment funded by the Commune/Sangkat Fund (CSF). Thus far, most of these investments under Seila have been improved, lined ring wells. Some also include hand water pumps. The major use (approximately 90 percent) is for household water for drinking, washing and cooking. The LDF Impact study estimated that the typical cost per beneficiary of water supply investments under Seila was US\$4.86.

The economic analysis is based on, and builds upon, the analysis done for the LDF Impact Study. The team also drew upon the findings of other projects in the region and studies on Cambodia on to develop a satisfactory model. The model is based on the consumer surplus approach to measuring benefits. This involves comparing the expected benefits to users of communal water supply systems with the project to the expected benefits without the project.

Quantified and Non-Quantified Benefits and Costs

The primary direct benefits of water supply projects are (i) savings in time for transporting water, and (ii) avoidance of water-borne diseases. This analysis includes only the former. Time savings were estimated using data collected from interviews with 125 users of 11 Seila-funded water-supply investments as background for the LDF Impact Study. The LDF Impact Study did not analyze the health impacts of water supply investments. Some information on disease avoidance was available from UNICEF (*UNICEF Follow-up Survey of Households in CASD Villages: May-June 2000*, UNICEF Cambodia). Their study found a significant drop in the incidence of diarrhea among children in their project villages. However, their project included activities to improve child health and nutrition in addition to water

supply, and their study did not examine the impact on adults. Because adequate information on health benefits is unavailable, this analysis only includes the value of the benefits from time savings, so the results could be considered a lower bound on the economic returns.

The LDF Impact Study did ask users their opinions on the quality of the water from the improved sources. It found that 77 percent of users believed that the water quality had improved after the LDF interventions.

In terms of the environmental impact of the water supply projects, the LDF Impact Study found them generally to be positive. A concrete apron is constructed around the well to improve drainage, prevent erosion, and reduce the chances of contamination of the water supply.

Methodology

The measurement of the economic benefits from time savings is based on the survey data from the LDF Impact Study. The model uses a consumer surplus approach to evaluate the benefits of improved water supply through reductions in the time necessary to transport household water. Virtually all domestic water collection in Cambodia is done by women, who are already burdened by heavy domestic and farm responsibilities. Thus, female household members stand to gain the most from increased access to water, and the time savings is an important benefit for them. The model also accounts for the effects of additional water-fetching trips generated by the supply improvements. The calculations reflect the increased seasonal availability of water as well. While the opportunity cost of time in rural Cambodia is not as great as in developed countries, time savings is still an important benefit for users. The approach measures the average consumer surplus derived from (i) the decrease in the time cost of trips for trips made before the water-supply improvements; and (ii) the time savings from the additional generated trips. Data on trip time and numbers of trips were collected during the survey of water supply users conducted for the LDF Impact Study.

Further assumptions for this aspect of the analysis are:

- The analysis is conducted in the aggregate using the data provided by the LDF Impact Study for 17 water supply projects that were estimated to benefit 679 households.
- The financial value of time was based on MoP Socio-Economic survey data for the four sample provinces. It was estimated at an hourly rate of KHR 390 for adults and KHR 117 for children.
- The economic value of both adult and child labor was estimated to be 60 percent of the financial value due to the lack of employment alternatives in rural areas.
- Based on the findings of the *Household Travel and Transport Analysis* study by MRD and ILO, the percent of water transport time attributed to adults and children was 90.3 percent and 9.7 percent respectively.
- The cash investment cost of the 17 investments was KHR 67,696,200.
- Seven percent was added to the financial cash costs to account for the communities' in-kind labor contribution. The economic value of this contribution was assumed to be 60 percent of the financial value due to the low opportunity cost of labor in rural areas (particularly during the dry season, when most construction work takes place).
- An additional 19 percent was added to the cost of investments to account for technical assistance and Seila supervision.

- Based on the LDF Impact Study, annual maintenance costs were assumed to be 2 percent of the investment cost, while periodic maintenance costs were assumed to be 1.8 percent of the investment cost.
- The financial value of labor was assumed to be KHR 3,900 per day.

Results of the Analysis

Based on the above assumptions, the economic internal rate of return for water supply investments is estimated at 14 percent. This is substantially lower than the other two major types of investments—roads and irrigation—though still above the typical threshold of 12 percent. It should be reiterated, however, that this analysis does not include the health benefits of improved water supply, which would greatly increase the returns.

Sensitivity Analysis

The table below presents switching values for the following key variables of the model: annual maintenance costs, periodic maintenance costs, benefits, total investment costs, number of household beneficiaries of time savings, and the value of time. The opportunity cost of capital is assumed to be 12 percent. The results show that the EIRR is quite robust to changes in the costs of maintenance. Annual and periodic maintenance costs could increase by 76 and 541 percent, respectively, before the rate of return is reduced to 12 percent. The remaining variables are somewhat less robust to changes, although still acceptable. Either benefits, the number of household beneficiaries, or the value of time could be reduced by 11 percent and the water supply projects would still break even. Total investment costs could be increased by 14 percent.

| Variable | Discount Factor | Switching Value |
|--------------------------------|-----------------|-----------------|
| Annual Maintenance | 12% | 76% |
| Periodic Maintenance | 12% | 541% |
| Benefits | 12% | -11% |
| Total investment costs | 12% | 14% |
| No. of household beneficiaries | 12% | -11% |
| Value of time | 12% | -11% |

Annex 5: Financial Summary
CAMBODIA: RURAL INVESTMENT AND LOCAL GOVERNANCE PROJECT

Years Ending
June 30

| | Years Ending June 30 | | | | | | |
|---------------------------------|----------------------|-------------|-------------|-------------|------------|------------|------------|
| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 | Year 7 |
| Total Financing Required | | | | | | | |
| Project Costs | | | | | | | |
| Investment Costs | 13.1 | 11.9 | 11.4 | 10.2 | 0.0 | 0.0 | 0.0 |
| Recurrent Costs | 4.0 | 4.0 | 4.0 | 3.5 | 0.0 | 0.0 | 0.0 |
| Total Project Costs | 17.1 | 15.9 | 15.4 | 13.7 | 0.0 | 0.0 | 0.0 |
| Total Financing | 17.1 | 15.9 | 15.4 | 13.7 | 0.0 | 0.0 | 0.0 |
| Financing | | | | | | | |
| IBRD/IDA | 5.8 | 4.9 | 4.7 | 6.5 | 0.0 | 0.0 | 0.0 |
| Government | 5.8 | 5.7 | 5.7 | 7.2 | 0.0 | 0.0 | 0.0 |
| Central | 5.8 | 5.7 | 5.7 | 7.2 | 0.0 | 0.0 | 0.0 |
| Provincial | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Co-financiers/PLG | 5.5 | 5.3 | 5.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| User Fees/Beneficiaries | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total Project Financing | 17.1 | 15.9 | 15.4 | 13.7 | 0.0 | 0.0 | 0.0 |

Main assumptions:

Annex 6(A): Procurement Arrangements
CAMBODIA: RURAL INVESTMENT AND LOCAL GOVERNANCE PROJECT

Procurement

Procurement Guidelines

Procurement for commune-level sub-project investments under Component 1 will follow the procurement system outlined in the RILGP Project Implementation Manual, which has been reviewed and found acceptable to IDA. Procurement of all other works and goods to be financed under the Credit will follow the *Guidelines for Procurement under IBRD Loans and IDA Credits* dated January 1995 and revised in January and August 1996, September 1997, and January 1999 (Procurement Guidelines). The Bank's Standard Bidding Documents for Goods will be used for procurement of goods under International Competitive Bidding (ICB).

Consultant services financed under the Credit will be procured in accordance with the *Guidelines for Selection and Employment of Consultants by World Bank Borrowers* published by the Bank in January 1997 and revised in September 1997, January 1999 and May 2002 (Consultant Guidelines). The Bank's *Standard Request for Proposals* dated July 1997 and revised in April 1998 and July 1999, will be used when appropriate.

Project Components

The Rural Investment and Local Governance Project (RILGP) comprises two components:

Component 1 – Local Planning and Investment

This component will support local planning and commune-level investments in public goods, identified and prioritized through a participatory local planning process led by elected local government authorities – Commune/Sangkat Councils - covering all 1,110 communes in 15 provinces over the four-year period (2003-2006). This component will support small sub-projects proposed and implemented by communes on a demand driven basis, such as small-scale transport infrastructure (roads, bridges, culverts, drifts and causeways, docks, etc), small scale wells and water supply systems, education and public health facilities, small irrigation and flood protection schemes, as well as community buildings (for storage, marketing, etc.).

Component 2 – Policy Support and Project Management

This component includes the capacity building, institutional, operational and managerial inputs--at national, provincial and commune levels-- to implement Component 1, as well as additional technical assistance for strategic studies. More specifically, this component will provide national and provincial institutions with the equipment and services necessary to implement their respective responsibilities. The IDA credit is to be primarily utilized for (a) goods and works for STFS, Provincial Rural Development Committee Executive Committee (PRDC ExCom) units, and Provincial Treasury in all 15 Project provinces to strengthen their capacity to support C/SC implementation of sub-projects, (b) consulting services related to conducting an annual independent project audit, socio-economic impact monitoring, mid-term and final project evaluations, and strategic studies on decentralization and deconcentration; (c) workshop to the national level for reviews of the Seila systems and implementation of reforms; and (d) technical assistance, capacity building and incremental operating costs.

Project Implementing Unit

The Seila Task Force Secretariat (STFS), established at the Council for Development of Cambodia (CDC), is responsible for implementing the Government's Seila Program including procurement and management of funds. The Rural Investment and Local Governance Project (RILGP) is one of the donor-financed projects supporting the Seila Program. The Program Operations Unit (POU) within STFS will be responsible for overseeing execution of all components and procurement of all goods, works and services for national and provincial levels following procedures acceptable to IDA. A STFS procurement officer, with assistance of a PLG-funded expatriate advisor, will be responsible for all procurement functions. In addition, this procurement team within STFS-POU will be carrying out the procurement included in Component 2 of the project.

The responsibility for procurement of commune-level subprojects under Component 1 of the project will be with the Commune/Sangkat Council (C/SC). A procurement committee will be established consisting of the Commune Chief (CC) as the chairperson, two Councilors as regular members, the Technical Support Staff (TSS) appointed by the provincial Governor to assist the C/SC, and other representatives of the beneficiaries, invited by the Chair as observers. This Committee will evaluate bids and recommend the award of contracts to the CC for approval. Technical support for the implementation of the procurement process will be provided by the TSS and by sector line departments in the province. In addition, the C/SC may choose to select and hire a Technical Supervisor (a certified Engineer) to provide further technical support to the commune and help monitor the quantities and quality of the works and goods supplied.

Procurement Plan

The detailed procurement plan for year 2003-2004 has been prepared using Microsoft Project and is based on the proposed implementation schedule in the Project Implementation Plan. All procurement of goods and works under Component 2 will be completed in year 2003.

Summary of Procurement Capacity Assessment.

World Bank procurement accredited staff carried out an assessment of Seila Task Force Secretariat (the implementing unit) during preparation of the Project in October 2001, February 2002 and August 2002. This report was discussed and agreed with the implementing unit during appraisal in January 2003. These missions have concluded that the procurement risk under RILGP is "average" largely because of the intensive assistance, since 1996 and continuing, from UNDP/PLG (the Partnership for Local Governance (PLG) which is the UN-Donor Support to the Seila Program) and the experience in management and procurement of subprojects under the existing Seila Program. However, the following are a few areas that require strengthening:

- The Technical Support Staff (TSS) has an important role in assisting the Commune/Sangkat Councils in conducting bidding processes in Seila Program Phase I and Phase II (started 2001). The TSS has received procurement training from the PLG Advisor and the training course for TSS who will implement RILGP is already available. In addition the STFS has prepared an official training plan for the TSS in all 15 Project provinces, indicating several training courses related to procurement to be offered each year: (a) Basic Course for all TSS; (b) Advanced Course for TSS; and (c) Training Course for Contractors. The Basic Course covers contract supervision while the Advance Course covers the bidding process. It is recommended that the training should be conducted before the start of sub-project implementation in each of the RILGP provinces.

- A detailed assessment of TSS in Kampong Cham province suggests that, while staffing at one TSS per district would be adequate in most cases, this level of TSS staffing may result in an excessive workload in a few larger provinces (those with more than 11 communes per districts). As a result, the TSS in the larger districts may not be able to provide the assistance required. To address this issue, STFS will:

- keep the present number of TSS staff (1 per district) overall;
 - in larger districts provide more intensive capacity building for the TSS staff, and monitor closely the appropriateness of the workload;
 - allow for some flexibility (either by providing additional TSS staff or by re-distributing workloads among TSS in the province) in larger districts where the workload is high. As a baseline, STFS provided IDA the TSS staffing per province and district, indicating those larger districts which present potential concerns and indicating how these TSS workloads will be carefully monitored during implementation.
- Although there will be only one bidding under ICB and one under NCB procedures, the Administrative Assistant - Procurement in the Program Operations Unit (POU) still needs training to efficiently implement this procurement. The procurement staff in WB Bangkok Office and/or Procurement Analyst in Phnom Penh Office will provide training to the procurement officer in POU. In addition, to the extent required, the Finance and Administration Advisor of the PLG who will oversee the procurement under ICB. This training will be completed before end of June 2003.

The procurement rules and regulations of the Royal Government of Cambodia, i.e. the Sub-Decree Governing Public Procurement no. 60 dated July 31, 1995 and the Implementing Rules and Regulations Governing Public Procurement (IRRPP) dated August 31, 1995 and the Amendment in 1998, and Prakas no. 937 on Commune/Sangkat Procurement Guidelines dated February 2003, are generally consistent with the Bank's guidelines. The exceptions are :

(1) Domestic Competition Bidding (DCB), which is similar to the Bank's NCB, is mainly designed for local bidders although "foreign firms doing business in Cambodia may be permitted to submit bids (IRRPP 1998 – Article 6.1.3). *This provision limits the bidding to only foreign firms doing business in Cambodia. The Bank's procedures have no such limitation.*

(2) Pre-qualification Scoring System (PSS) is used for evaluation of Pre-qualification Applications (IRRPP 1998 – Annex 3). *The Bank requires pass/fail criteria.*

(3) The only available method for employment of consulting firm is similar to the Bank's Quality-Based Selection Method (QBS) (IRRPP 1998 – Annex 5). *Under the Bank's procedures, the preferred method for the selection of consultants is Quality and Cost Based Selection (QCBS) and other methods of selection such as Least-Cost Selection and Consultants Qualification are available.*

(4) Bids received must be opened publicly at the stipulated date, time, and place of opening as mentioned in the bidding documents. The bid opening time should not be more than one hour from the deadline for submission of bids. (IRRPP 1998 – Article 8.1.5). *For reason of transparency, the Bank's procedures do not permit any time gap between bid closing and bid opening.*

(5) If there is obvious lack of competition, (unexpectedly low turn-out of bidders) or if all the bid prices substantially exceed the cost estimates, or if none of the bids conform to the specifications, all the bid may be rejected. Thereafter, a re-bidding may be done but only after measures have been taken to remedy the causes of the failure of bidding. If all the bid prices exceed the cost estimates, negotiations with the lowest – priced evaluated responsive bidder to bring down the price may be resorted to instead of calling for new bids. A reduction in price may be based on reduction in scope of the contract or reduction of responsibilities or obligations. (IRRPP 1998 – Article 8.1.11). *The last sentence was added in the IRRPP 1998. With the 1998 addition, the only major difference with the Bank's procedures is that negotiation is still permitted when the lowest complying bid exceeds the government's cost.*

With the above exceptions, the procurement practices in the IRRPP 1998 are consistent with international practice and the Bank's procedures. However, the inconsistent procedures identified above for procurement under NCB and employment of consultants that are not covered in the IRRPP 1998 have been addressed in the procurement side letter. This side letter will be included as an attachment to the RILGP Development Credit Agreement.

Procurement Methods

Component 1 : Local Planning and Investment

1. Community Participation for Commune Sub-projects (US\$ 18,955,200)

The RILGP will provide support to Commune Councils to implement prioritized development sub-projects. The financial and procurement systems governing commune level investments are in place as described in the RILGP Project Implementation Manual, and include a sub-set of procurement methods allowed under the *Prakas on Commune/Sangkat Procurement Guidelines*. The investment funds provided from the IDA Credit will reimburse the grant financing provided by the Government through the Commune/Sangkat Fund to communes implementing sub-projects (according to agreed eligibility criteria). The method of procurement for commune sub-projects is community participation, which comprises the following methods:

(a) Local Bidding, as per paragraph 3.15 of the Bank's Guidelines and specifically the "Fiduciary Management for Community-Driven Development Projects - A Reference Guide, is required for all procurement of works and goods although each contract will be very small. The average allocation is USD 6,720 per commune per year for sub-projects after prioritization in the Commune Development Plan, and no single contract will exceed \$15,000. All works shall be contracted to independent contractors. The Commune/Sangkat Chief shall prepare the bidding documents with the assistance of the Technical Support Staff (TSS) and/or Engineer. The Invitation to Bid shall be advertised by posting on the Official Bulletin Boards of both the Commune Council and the Provincial Administration Offices. Bids will be opened in public immediately after bid closing. The Procurement Committee, consisting of the Commune Chief or his delegate (chairperson) with two Councilors as members and a TSS, shall evaluate the bid. To the maximum extent possible, a single annual bidding session will be held in each Commune/Sangkat (C/S).

(b) Local Shopping, as per paragraph 3.15 of the Bank's Guidelines and specifically, the "Fiduciary Management for Community-Driven Development Projects – A Reference Guide", is also an available method for procurement of goods estimated to cost less than 2 million Riel (equivalent to USD 500) per contract. This procurement method is based on comparing price quotations obtained from several suppliers, usually at least three. The C/S Chief or his delegate, with assistance from the TSS, shall prepare the Invitation for Quotation, specifying the nature and delivery conditions of the required goods.

Component 2 : Policy Support and Project Management

1. Procurement of Goods (US\$ 889,800)

1.1 International Competitive Bidding (ICB): Computers and peripherals package estimated to cost more than equivalent US\$100,000 per contract would be procured by the STFS in year 2003 following ICB procedures in accordance with the provision of Section II of the Bank's Procurement Guidelines. The Bank's Standard Bidding Document for Goods will be used for procurement under ICB method.

1.2 National Competitive Bidding (NCB) : With 15 provinces included in the project a relatively large amount of office equipment is needed. Grouped into one contract for efficiency, office equipment estimated to cost more than equivalent US\$ 50,000, but less than US\$ 100,000 per contract up to an aggregate amount of US\$ 100,000, would be procured by the STFS in mid 2003 following NCB procedures in accordance with the provisions of paragraph 3.3 and 3.4 of the Bank's Procurement Guidelines.

1.3 United Nations Inter- Agency Procurement Office (IAPSO): 7 Vehicles and 344 Motorcycles up to an aggregate amount of US\$ 600,000 will be procured for use in STFS and PRDC ExCom units through IAPSO in mid 2003.

1.4 National Shopping (NS) : Goods (Boats, Generators and Furniture) estimated to cost less than equivalent to US\$ 50,000 per contract up to an aggregate amount of US\$ 120,000 will be procured by STFS in mid 2003 using national shopping procedures in accordance with paragraph 3.5 of the Bank's Procurement Guidelines.

2. Procurement of Small Works (US\$ 225,000)

2.1 Procurement of Small Works will include the renovation of five existing provincial offices to establish a suitable office space for the PRDC ExCom units to assist in the implementation of the RILGP and a construction of one new office building. This renovation and construction of offices, estimated to cost less than US\$ 100,000 per contract, will be conducted by STFS through Procurement of Small Works method. The respective PRDC will conduct the process of comparing price quotations obtained from at least three contractors and recommend the award of contract to the lowest evaluated priced responsive bidder to the STFS who will enter into a contract with such contractor. PRDC TSU staff will perform technical advisory and certification functions on behalf of the STFS. The estimated cost for renovation of each provincial office is US\$ 30,000 and US\$ 75,000 for construction of a new building in Preah Vihear.

3 Consulting Services (US\$ 1,461,200)

3.1 Selection Based on Consultant's Qualifications (SBCQ). Consultancy services by firms for the mid-term and final evaluation studies, at an estimated total cost of US\$ 150,000 (two studies in year 2003 and 2006, each of US\$ 75,000) and annual financial audits by an independent auditing firm, at an estimated total cost of US\$ 100,000, will be procured following SBCQ procedures in accordance with paragraph 3.7 of the Bank's Consultant Guidelines.

3.2 Individual Consultants. Individual consultancy services for: (i) two follow-up studies of the socio economic base-line (as part of the M&E system) at an estimated total cost of about US\$ 80,000 for both

studies; (ii) specific studies on decentralization and deconcentration strategy and policy, each estimated to cost below \$100,000 per contract, for a total of about \$285,000; (iii) monitoring of quality of procurement support by TSS to C/SC, at an estimated total cost of about \$45,000; and (iv) technical assistance to national and 15 provincial offices in the year 2006 (when PLG financing may not be available) at an estimated cost of US\$ 801,200; will be procured in accordance with Section V: Selection of Individual Consultants of the Bank's Consultant Guidelines.

4. Workshops (US\$ 30,000)

The total six (6) workshops estimate to cost not exceeding US\$ 5,000 per workshop will be disbursed on the basis of Statement of Expenditures.

5. Incremental Operating Cost (US\$ 1,096,373)

Incremental operating costs in the fourth year of implementation (2006), with an estimated cost not exceeding US\$ 1,100,000, will be covered by the project. These incremental operating costs are related to project coordination, supervision, and monitoring and evaluation, and include: incremental operation and maintenance of vehicles and equipment, office and field supplies, project-related travel expenses for project staff (transportation and field subsistence allowances), as well as miscellaneous services and expenses (printing and media services) related to training events and procurement bidding processes. Procurement of these services and goods will utilize existing Government practices and regulations in accordance with principles and procedures satisfactory to IDA.

Prior Review Threshold

All ICB and NCB contracts for goods will be subject to the IDA's prior review. It is expected that there will be only one ICB and one NCB in Component 2 of the project. IDA will also carry out prior review of the first contract for NS for goods and the first two contracts for Procurement of Small Works (renovation of offices).

For the commune-level sub-project grants, the first subproject in each province (15 provinces) for each year of implementation in the province will be subject to prior review by IDA.

The first three consultant contracts for firms estimated to cost more than \$ 50,000 and using SBCQ method will be subject to prior review by IDA. The review will include terms of reference, shortlists, request for proposals, evaluation reports and draft contract. For individual consultants, all contracts over \$ 50,000 will be subject to prior review by IDA. The review will include terms of reference, comparison of CVs and draft contract.

Procurement Records

Detailed records of procurement activities for the sub-projects will be maintained at the Provincial Treasury of each province for the Bank's post review and audit. The STFS will keep record of all sub-projects in each provinces for monitoring and overseeing. All documents for procurement under Component 2 – Policy Support and Project Management will be kept at the POU in STFS.

Procurement methods (Table A)

Table A: Project Costs by Procurement Arrangements
(US\$ million equivalent)

| Expenditure Category | Procurement Method | | | | Total Cost |
|--------------------------------------|--------------------|------------------|-------------------|------------------|-------------------|
| | ICB | NCB | Other | N.B.F. | |
| 1. Works | 0.00 (0.00) | 0.00 (0.00) | 0.225 (0.202) | 0.00 (0.00) | 0.2253 (0.202) |
| 2. Goods | 0.136 (0.136) | 0.072 (0.072) | 0.682 (0.667) | 0.00 (0.00) | .889 (.875) |
| 3. Consulting Services | 0.00 (0.00) | 0.00 (0.00) | 1.461 (1.388) | 6.70 (0.00) | 8.162 (1.388) |
| 4. Commune Sub-projects | 0.00 (0.00) | 0.00 (0.00) | 18.96 (18.96) | 18.374 (0.00) | 37.33 (18.96) |
| 5. Workshops | 0.00 (0.00) | 0.00 (0.00) | 0.30 (0.30) | 0.00 (0.00) | 0.30 (0.30) |
| 7. Incremental Operating Cost | 0.00 (0.00) | 0.00 (0.00) | 1.0960 (0.548) | 14.437 (0.00) | 15.523 (0.548) |
| Total | 0.136 (0.136) | 0.072 (0.072) | 22.45 (21.792) | 39.501 (0.00) | 62.159 (22.0) |

^{1/} Figures in parenthesis are the amounts to be financed by the IDA Credit. All costs include contingencies.

^{2/} Includes: procurement of small works; goods procured through national shopping; vehicles procured through IAPSO; consulting services by firms selected based on consultants' qualifications; consultant and technical assistance services selected as individual consultants; workshops and incremental operating related to project management and supervision procured through commercial practices; as well as works for commune sub-projects procured through local bidding and goods for commune sub-projects procured through local shopping procedures, as allowed under community participation.

Table A1: Consultant Selection Arrangements (optional)
(US\$ million equivalent)

| Consultant Services Expenditure Category | Selection Method | | | | | | | Total Cost |
|---|------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | QCBS | QBS | SFB | LCS | CQ | Other | N.B.F. | |
| A. Firms | 0.00 (0.00) | 0.00 (0.00) | 0.00 (0.00) | 0.00 (0.00) | 0.25 (0.24) | 0.00 (0.00) | 0.00 (0.00) | 0.25 (0.24) |
| B. Individuals | 0.00 (0.00) | 0.00 (0.00) | 0.00 (0.00) | 0.00 (0.00) | 0.00 (0.00) | 1.21 (1.15) | 6.70 (0.00) | 7.91 (1.15) |
| Total | 0.00 (0.00) | 0.00 (0.00) | 0.00 (0.00) | 0.00 (0.00) | 0.25 (0.24) | 1.21 (1.15) | 6.70 (0.00) | 8.16 (1.39) |

¹⁾ Including contingencies

Note: QCBS = Quality- and Cost-Based Selection

QBS = Quality-based Selection

SFB = Selection under a Fixed Budget

LCS = Least-Cost Selection

CQ = Selection Based on Consultants' Qualifications

Other = Selection of individual consultants (per Section V of Consultants Guidelines).

N.B.F. = Not Bank-financed

Figures in parenthesis are the amounts to be financed by the Bank Credit.

Prior review thresholds (Table B)

Table B: Thresholds for Procurement Methods and Prior Review¹

| Expenditure Category | Contract Value Threshold (US\$ thousands) | Procurement Method | Contracts Subject to Prior Review (US\$) |
|--|--|------------------------------------|---|
| 1. Works | <100 | Procurement of Small Works | First two contracts (\$30,000x2) \$60,000 |
| 2. Goods | >100 >50 <50 - | ICB NCB NS IAPSO | All (\$136,000) All (\$72,000) First contract (\$45,000) - |
| 3. Services a. Firms b. Individuals | <100 - - | SBCQ Individual Consultants | All (\$250,000) All equal to or greater than \$50,000 per contract (\$410,000) |
| 4. Commune Sub-projects | - | Community Participation | First contract in each province each year (\$6,720x47) \$315.840 |
| 5. Workshops | - | Commercial Practice | - |
| 6. Incremental Operating Costs | - | Commercial Practice | - |

Total value of contracts subject to prior review: Works, Goods, Services: \$973,000 (37.8%)
Sub-project Grant: \$315,840 (1.7%)

Overall Procurement Risk Assessment: Average

Frequency of procurement supervision missions proposed: One every 4 months for the first two years and two thereafter in every 12 months (includes special procurement supervision for post-review/audits)

Proposed Post-Review ratio for commune sub-projects: Considering the high volume of sub-projects and the Average risk assessment of the project, it is proposed to review one out of ten contracts for commune sub-projects.

¹ Thresholds generally differ by country and project. Consult "Assessment of Agency's Capacity to Implement Procurement" and contact the Regional Procurement Adviser for guidance.

**Annex 6(B) Financial Management and Disbursement Arrangements
CAMBODIA: RURAL INVESTMENT AND LOCAL GOVERNANCE PROJECT**

Financial Management

1. Summary of the Financial Management Assessment

Overall Assessment of C/S Fund System

Assessment of the proposed financial management system was conducted over the course of three missions: October, 2001; February 2002; and August 2002. The August 2002 mission reviewed the available financial guidelines and traveled to Kampong Speu and Kampong Cham provinces to meet with PRDC Ex Com, Provincial Department of Finance, PLG offices and the Provincial Treasury of each province to review the proposed financial management arrangements, organizational and staffing capacity at the Province/Commune level for the implementation of the Local Planning and Investment Component of the proposed project. The mission has noted several oversights and deficiencies, has provided comments and recommended that these deficiencies be remedied expeditiously. Details of the financial management assessment are available in the project files.

Based on review of the draft guidelines and discussions with relevant government officials and advisors, the mission understands that Government intends to channel funds for commune activities (including sub-projects) up to one thousand six hundred communes through a Commune/Sangkat Fund (C/S Fund) with the Provincial Treasury Departments providing accounting and cashiering services. The mission expressed concern that capacity to establish financial management procedures at such a scale is not available in Cambodia in the short-term, and significant donor-assisted work in this area and capacity building will be needed. In addition since some of these guidelines were not yet agreed and finalized (e.g.: Audit guidelines) the mission was not able to confirm what is proposed for those aspects of the financial management system.

The main findings of the assessment were:

- a) the accounting system being introduced for the C/S Fund is very sophisticated when compared with the simple record keeping procedures typically used for budget execution at the government departments in Cambodia, and is beyond the current capacity of the staff who are expected to use it;
- b) records are maintained on loose leaf forms rather than in bound ledgers and paper filing system is not well organized, raising concerns about the safety of the records at the provincial treasury;
- c) payment transactions are 100% cash-based introducing increased financial risks of misuse of funds;
- d) arrangements are not in place for an independent audit (guidelines are yet to be designed);
- e) lack of segregation of duties in payment initiation and authorization, as well as the absence of a financial controllership function overseeing C/S expenditures are internal control weakness and potential financial risks but arrangements for mitigating these risks through internal audit are not in place; and
- f) "Annual/Monthly Revenue and Expenditure Statement" provides just one lump as "Local Development Investment", which is inadequate to properly document transactions or to support an analysis of countrywide expenditure by the relevant government authorities.

The main recommendations of the mission to RGC with regard to improvements of financial management of the C/S Fund were:

- a) establishment of appropriate internal and external audit arrangements for the C/S Fund;
- b) establishment and maintenance of a contract register system for the C/S Fund at the provincial treasuries;
- c) increased training for commune accountants as well as commune chief and commune clerks;
- d) forms simplification;
- e) improvements in record keeping and filing systems at the Provincial Treasuries; and
- f) modification/extension of Chart of Accounts of the C/S accounting system to incorporate additional key information, and enable recording and identification of expenditures by commune, investment project and contracts per project.

Overall Assessment of STFS

The STFS is currently providing TA for capacity building at provincial and commune level assisted by the Partnership for Local Governance (PLG). STFS currently maintains an accounting system for PLG/UNDP administration funding disbursed through STFS but this Accounting system does not meet IDA minimum requirements on project financial management as per OP/BP 10.02. Therefore a FMS meeting IDA minimum standards would need to be established for project purposes. STFS has agreed to establish a Financial Management System acceptable to IDA by project effectiveness.

The main recommendations with regard to STFS are to:

- a) establish a computerized accounting system at STFS;
- b) appoint financial management staffing at STFS;
- c) prepare and finalize a Financial Procedures Section of the PIM for the project; and
- d) train financial management staff on computerized accounting, IDA disbursement policies and reporting requirements.

2. Audit Arrangements

External Audit for the IDA Credit

Annual project financial statements will be produced by STFS POU and audited by an independent auditor appointed under terms of reference satisfactory to IDA. The records at the Provincial Treasury Offices and Commune Councils shall be included in this annual audit and audited by auditors acceptable to IDA as part of the annual financial audit. The auditor will also be required to express opinions on:

- a) the annual Financial Statements;
- b) whether the Special Account funds have been correctly accounted for and used in accordance with the Credit agreement;
- c) the adequacy of documents and controls surrounding the use of the Statements of Expenditures as a basis for disbursements from the Special Account; and
- d) the adequacy of documents and controls surrounding the use of the Statements of Expenditures as a basis for reimbursement of C/S Fund Grants.

The audited financial statements will be submitted to IDA within six months of the year-end.

Internal Audit for the IDA Credit

STFS has agreed to assign Provincial Financial Advisers hired by the PLG Provincial Offices in each project province to visit each Provincial Treasury to review the accounting system, records and documentation relating to the reimbursement of eligible expenditures under Component 1, to certify eligibility of such expenditures. These PLG Provincial Finance Advisers shall be assigned for this function by Project Negotiations to enable training to be completed by Project Effectiveness. For this purpose RGC (MEF/STFS) shall make available for review by IDA by February 15, 2003, the draft Prakas which defines the TOR of the PLG Provincial Finance Advisers to include internal audit/documentation verification functions of RILGP. The formal approval of the Prakas is a Condition of Negotiations.

Audit Arrangements for the Commune/Sangkat Fund

To mitigate the risks identified by the financial management assessment associated with the lack of segregation of duties in payment initiation and authorization, as well as the absence of financial controllership function overseeing C/S expenditures, an appropriate audit system including internal and external audits arrangements should be adopted for the C/S Fund. While agreement in principle that the C/S Fund will be subject to internal and external audit was confirmed by the MEF Senior Minister at the Seila Forum in December 2002, the specific arrangements and standards for these audits of the C/S Fund are still to be worked out. Sub-Decree 26, Article 56 assigns the responsibility for audit of the C/S Fund to the National Audit Authority (NAA), and NAA has confirmed its intentions to participate in the audit. *As a condition of Negotiations, Government will provide IDA with a time-bound action plan on steps being/to be taken by Government, including arrangements for technical assistance, to develop the C/S Fund external audit procedures prior to Effectiveness. As a Condition of Effectiveness the final version of the C/S Fund external audit procedures would need to be reviewed and found satisfactory to IDA.*

3. Disbursement Arrangements

Allocation of credit proceeds (Table C)

Disbursement of the proceeds of the Credit would be made against expenditure categories as shown in Table C.

Table C: Allocation of Credit Proceeds

| Expenditure Category | Amount in US\$ million | Financing Percentage (%) |
|-----------------------------|-------------------------------|---|
| Civil Works | 0.20 | 90% |
| Goods | 0.88 | 100% Foreign expenditures and 100% local (ex factory cost) and 85% of other items procured locally. |
| Consulting Services | 1.38 | 95% |
| Sub-Project Grants | 18.96 | 100% |
| Workshops and Training | 0.03 | 100% |
| Operating Costs | 0.55 | 50% |
| Total Project Costs | 22.00 | |
| Total | 22.00 | |

Use of statements of expenditures (SOEs):

For any civil works contracts estimated to cost the equivalent of US\$100,000 or less, goods contracts estimated to cost the equivalent of US\$50,000 or less, contracts for individual consultants estimated to cost the equivalent of US\$50,000 or less, as well as all expenditures for workshops and training, Sub-Project Grants, and incremental operating costs, withdrawal applications will be supported by Statement of Expenditures (SOEs). For civil works contracts estimated to cost more than US\$ 100,000 equivalent, goods contracts estimated to cost more than \$50,000 equivalent, all contracts for consulting firms and contracts for individual consultants estimated to cost more than \$50,000 equivalent, withdrawal applications would be supported by full documentation and signed contracts.

Special account:

To facilitate credit disbursement, STFS shall maintain a separate dollar special deposit account for the project at the National Bank of Cambodia or in a commercial bank on terms and conditions satisfactory to IDA including appropriate protection against set off, seizure and attachments. The Special Account (SA), which would cover the IDA share of eligible expenditures in all disbursement categories other than for the category of sub-project grants under Component 1. The SA would have an authorized allocation of US\$ 500,000 with an initial withdrawal of US\$ 250,000 equivalent to be withdrawn from the Credit Account and deposited in the SA. When the amounts withdrawn by the project total US\$ 1.0 million equivalent, the initial withdrawal will be increased to the authorized allocation. All expenditures from the SA shall be in bank transfers or checks. Cash disbursements shall not be allowed. Applications to replenish the SA should be submitted regularly, preferably monthly (but not less than quarterly) or when the amounts withdrawn equal 20 percent of the initial deposit, whichever comes first.

Reimbursement of C/S Fund Investment Expenditures

As the SA shall not be used to fund any sub-project grants under Component 1, IDA funds shall only be disbursed on a reimbursement basis for eligible expenditures pre-financed by RGC through the C/S Fund Local Development Component.

Once funds have been actually spent at the commune level for eligible sub-project investments and duly recorded at the PTs, the PTs shall submit to STFS certified copies of the following documents in the form specified in the *Prakas on Amendment of the C/S Accounting Forms, Budget Classification and Chart of Accounts* (No 137, February 27, 2003):

- a) Trial Balance for each commune;
- b) Monthly Revenue and Expenditure Statement for each commune modified as agreed to enable recording and identification of expenditures under code 68 by Contract and Contractor Name; and
- c) Contract Register for each commune maintained at the Provincial Treasury

Based on a satisfactory review, STFS POU shall prepare a reimbursement application to seek reimbursement for the IDA portion of eligible expenditure. On acceptance and approval of the reimbursement application, IDA will transfer funds from the Credit Account to a bank account designated for this purpose by RGC. As requested by STFS, these funds will not be deposited into the IDA SA to ensure ease of management of the SA advance. A Funds Flow Chart is provided in Attachment 2.

A concern with regard to the reimbursement approach to flow of funds for Component 1 is that there is a risk that RGC may have difficulty to manage sufficient cash flow for the timely release of agreed tranches to the C/SF, and that this may delay implementation of commune sub-projects and/or payments to contractors. To mitigate this cash management risk, IDA encourages MEF to take all such actions as necessary to ensure the timely allocation of funds to the Commune/Sangkat Fund. To this end, IDA supports MEF's suggestion that reimbursements from the IDA Credit Account may be directed to the Commune/Sangkat Fund account in NBC, and used for the exclusive purpose of the semi-annual tranche releases to the C/SF as called for by the *Sub-Decree on Establishment of the Commune/Sangkat Fund*.

All expenditure from the RILGP managed Special Account and the expenditures funded on a reimbursement basis shall be audited by an independent auditor under terms of reference satisfactory to IDA.

Retroactive Financing

The RGC has requested retroactive financing in the amount of \$ 1 million (about 4.5% of the Credit) for commune sub-projects initiated after completion of Project Appraisal and prior to Credit Signing. The request for retroactive financing is justified as it will enable the timely start-up and completion of first-year sub-projects during the limited dry season construction period, which typically ends in June with the onset of the rainy season. The retroactive financing would be made available from the Credit Account once the Credit is declared effective by IDA, to reimburse eligible expenditures incurred and paid by the Borrower in the implementation of eligible commune sub-projects under Component 1 between April 1, 2003 and Credit Signing. To be eligible, the commune sub-projects would have to be selected and implemented in accordance with the procedures and requirements specified for the project in the Development Credit Agreement (DCA) and in the Project Implementation Manual (PIM), as well as in compliance with Bank's Procurement Guidelines.

Accounting and Reporting Arrangements

Project Financial Management

The overall financial management and coordination of the IDA-financed activities under RILGP is the responsibility of STFS who with the technical assistance of PLG will ensure that guidelines and procedures acceptable to IDA are followed. STFS POU will be directly responsible for all aspects of financial management of Component 2 of the Project, including managing all centralized payments. For this purpose STFS POU will effect payments from the SA and the Project Bank Account (counterpart funds). STFS POU shall also coordinate the submission of Withdrawal Applications and supporting documentation to IDA for eligible expenditures under component 1 to be reimbursed to the C/S Fund.

STFS POU shall coordinate the preparation of annual project budget based on input received from the Commune Councils (CCs)/Ministry of Interior, review C/S expenditures for funding eligibility, prepare applications for reimbursement /replenishment of eligible project expenditures and submit to IDA, and prepare quarterly Financial Monitoring Reports (FMRs). STFS POU shall also prepare annual consolidated financial statements and have them audited by independent auditors acceptable to IDA.

An IDA mission has provided guidance to STFS on developing financial management arrangements for the Project including reimbursement of fund flows through the C/S Fund system and training of staff. These Financial Management arrangements are summarized below and will be detailed in the Financial Procedures Section of the RILGP Project Implementation Manual to be finalized by Effectiveness.

Project Accounting System

For the RILGP, it was agreed that an off-the-shelf computerized accounting system will be installed and made operational by Project Effectiveness. STFS POU together with the accounting consulting firm PriceWaterhouseCoopers has evaluated and chosen the Peachtree Accounting Software for this purpose. IDA has provided no objection to this selection. The proposed accounting system contains the following features:

- a) application of consistent principles of accounting for documenting, recording, and reporting financial transactions;
- b) use of the cash method of accounting;
- c) a double entry accounting system;
- d) a chart of accounts and a coding system that allows meaningful reporting to IDA and the government; and
- e) the production of quarterly financial statements acceptable to IDA.

It was agreed that the Chart of Accounts shall be designed by PWC to identify expenditures by Source of Fund, Project Component, IDA Disbursement Category, Province, Commune, Sector and Expense Item. The chart of accounts shall facilitate the automated preparation of IDA Financial Monitoring Reports (FMRs) through the accounting package and will facilitate financial management and consolidation of financial statements. It was agreed that this system shall be in operational condition with staff appointed and trained by Project Effectiveness. Staff at STFS POU will be trained by PWC in maintaining a computerized accounting system. An IDA mission has clarified IDA requirements and provided the terms of reference for this purpose.

The Financial Management Procedures Section of the PIM incorporating approval and disbursement procedures at both the Central and Provincial levels, reimbursement procedures for C/S sub-project investments and other financial management procedures has been prepared by STFS POU with the assistance of PLG. IDA has reviewed the above system and procedures and indicated acceptance of the system.

Commune/Sangkat Fund Accounting System

The accounting system being introduced in the PTs for C/S Fund accounting will be utilized to record expenditures at the Provincial/Commune level. IDA has reviewed this accounting system and procedures and has provided comments to RGC/PLG on improvements required for this system to mitigate some of the risks. Improvements which are yet to be satisfactorily incorporated into the system, such as revision of accounting forms, have been identified and noted as a condition of Negotiations. (further details are provided in Attachment 1 - FM Improvement Action Plan).

Financial Management Unit, Staffing and Training

Each PT will include a cashier/accounting section in its organizational setup under the Commune Financial Management Guidelines, which would be staffed at a minimum by several Commune Accountants. Each Commune Accountant will be in charge of maintaining accounts and making payments for a number of communes within the province. These staff will be supervised by the Director of the Provincial Treasury.

The overall responsibility for the FM function of the project shall be with the Project Financial Management Officer of STFS POU who shall possess qualification and experience to the satisfaction of IDA. The accountant shall report to the Secretary General of STFS. The Project Financial Management Officer will be assisted by at least two Finance Assistants of STFS POU in maintaining the accounting system and the Provincial Finance advisers of each PLG provincial office in the internal audit/document verification functions.

To ensure adequate staffing for project accounting functions it is recommended that STFS:

- Appoint a full time Project Financial Management Officer to be responsible for the project for management of the Special Account, reviewing of reimbursement requests from provinces, preparation of replenishment/reimbursement applications and financial management reports, effecting payments from the Special Account and RGC Project Bank Account at STFS, consolidation of quarterly budgets, monitoring overall project disbursements and training of finance staff at the provincial PLG offices. STFS has hired a local consultant accountant with qualifications and experience acceptable to IDA for this position as of January 1, 2003.
- Appoint at least two finance assistants for STFS. These assistants will be responsible for processing invoices initiated by STFS, coordination with provincial units on reimbursement requests, assisting in data maintenance and record keeping activities of maintaining the project's books of accounts including incorporating accounting information received from the provincial treasuries in the centralized accounting system, initiating payments from the Project Bank Account (RGC counterpart funds) and coordinating with MEF on annual counterpart fund requirements. It is proposed that during implementation STFS hire an additional assistant accountant to supplement the capacity of the existing staff if the volume of work necessitates such. STFS has re-assigned two staff who have qualifications and experience acceptable to IDA from within its existing staff for these positions.
- Appoint staff to visit each provincial treasury to review the accounting system, records and documentation relating to the reimbursement of local development fund grant and to certify eligibility on a sample basis. For this purpose STFS has agreed to assign the Provincial Financial Advisers of the relevant PLG Provincial Office to visit each provincial treasury to review the accounting system, records and documentation relating to the reimbursement of eligible expenditures under Component 1, to certify eligibility of such expenditures. The PLG Provincial Finance Advisers were assigned for this function prior to Negotiation to enable training to be completed by Credit Effectiveness. RGC (MEF/STFS) provided to IDA at Negotiations the approved Prakas which expands the TOR of the PLG Provincial Finance Advisers to include internal audit/documentation verification functions of RILGP.

At the provincial level each Provincial Treasury would be responsible for maintaining records, initiating and effecting payments for the investments under the C/S Fund Local Development Component, coordinating with STFS on reporting provincial disbursements and reimbursement requests. Commune Councils will be responsible for initiating and approving contracts/invoices for the investments under the C/S fund Local Development Component. Staff presently employed at the Provincial Treasuries are being trained as Commune Accountants under the C/S Fund program by the government with assistance from PLG. Each Provincial Treasury is staffed with several Commune Accountants based on a reassignment of staff from within the Provincial Treasury and the DOF. Each Commune Accountant will be responsible for maintaining the records and making payments for several communes. These staff will be supervised by the Director of the Provincial Treasury.

The appointment of staff at STFS POU and the assignment of PLG Provincial Financial Advisors will be subjected to no objection clearance by IDA. IDA has agreed on detailed Terms of Reference for each function. The no objections to the appointments at STFS POU were provided during Appraisal, and no objections to the assignment of the PLG Provincial Financial Advisors were provided following approval by RGC of the Prakas on the TOR.

The staff of STFS POU will be given introductory training by the consulting firm on the software package, training on IDA disbursement procedures by MEF and training on STFS and C/S Fund financial management procedures by PLG.

The Commune Accounting staff shall receive extensive introductory training by the National Treasury, MEF and PLG on the C/S Fund financial system including invoice processing, record keeping and payment of funds. In addition the Commune Accountants will receive training on preparation of reimbursement requests for eligible expenditures from PLG staff in the provinces. The Commune Accountants will also be provided follow up on the job training by PLG during project implementation. IDA will review the capacity of staff at all units as the project progress and make recommendations if further training is needed. An action plan on the appointment and training of staff by project effectiveness was agreed with the project. (Attachment 1)

As a Condition of Effectiveness the design of the Financial Management System for the project shall be completed (design of the chart of accounts, installation of software, finalization of the Project Financial Management Procedures Section of the PIM and designing of Financial Management Reports) and the staff at STFS, PLG Provincial Offices and the Provincial Treasuries trained on the Financial Management System. When installation of the accounting system is complete IDA will review and approve the system.

IDA Replenishment Applications

Disbursements will be:

- based on Statements of Expenditures together with Withdrawal Applications and Direct Payment Applications for Component 2 and for all consulting payments and goods (replenishment applications).
- based on reimbursement of eligible expenditures for Component 1 (sub-project grants) pre-finance through the C/S Fund (reimbursement applications)

STFS shall prepare Replenishment/Reimbursement Applications to be submitted to IDA and through MEF deal with IDA on replenishments. The signatory on the IDA Replenishment Applications shall be the Minister of Finance or his designee and the Secretary General of the STFS.

Financial Monitoring Reports (FMRs)

FMRs to be submitted to IDA shall include at a minimum, the following documents:

- Project Uses and Sources of Funds by IDA Disbursement Category
- Project Uses of Funds by Project Activity
- Contract Expenditure Reports (Goods, Works, Consulting Services and Sub Projects)

These reports shall incorporate activities under all Project components. STFS POU shall prepare and submit these reports to IDA on a quarterly basis within 45 days of the quarter end starting the first quarter following project first disbursement. Additional output monitoring reports will be developed, if appropriate, during implementation.

Strengthening of Financial Management

It has been agreed that the STFS and the Provincial Treasuries shall carry out a time-bound action plan as stated below for strengthening of their financial management system (Attachment 1).

Attachments: Attachment 1: Financial Management Improvement Action Plan

Attachment 2: Funds Flow Chart

Financial Management Improvement Action Plan – RILGP

Attachment 1

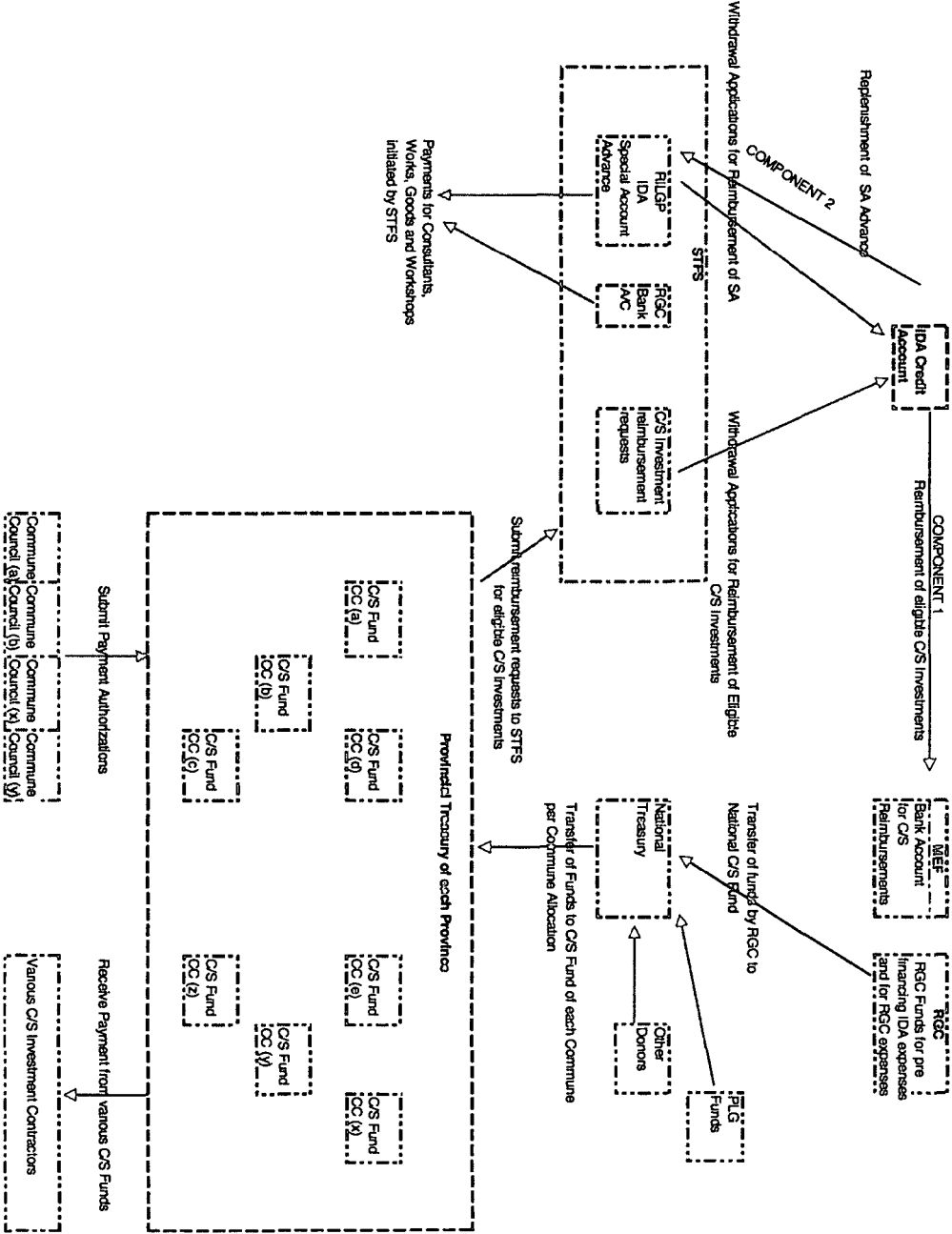
| Action Item | Responsibility | Action to be Completed by |
|---|---|---------------------------|
| 1. Commune Sangkat Financial Management System. | | |
| a) Issue External Audit Guidelines for the Commune /Sangkat Financial Management System Audit satisfactory to IDA. (to be reviewed by IDA prior to effectiveness). | a) MEF with assistance from PLG to draft guidelines | a) Effectiveness |
| b) Revise C/S Fund accounting system, procedures and forms for reimbursement purposes taking into account comments by IDA as per aide memoire of August 2002. (Line 68 of Revenue and Expenditure Statement, Design of Contract Register). | | |
| b.i.) Submit to IDA for review the draft Prakas on amending the C/S Accounting System to include revised forms for above. | b.i.) MEF with assistance from PLG | b.i) Completed |
| b.ii.) Formal approval of Prakas by RGC to amend C/S Accounting System to include revised forms. | b.ii.) MEF | b.ii.) Completed |
| 2. Draft Project Financial Management Section of the PIM taking into account IDA specific accounting and disbursement requirements. | STFS with assistance from PLG and IDA | Completed |
| 3. Hire consulting firm to install a computerized project accounting system, and choose an accounting package. | STFS with assistance from PLG. | Completed |
| 4. Design and install project chart of accounts and program Financial Monitoring Reports (FMRs) acceptable to IDA into computerized project accounting system. | | |
| a) IDA to design the Chart of Accounts for RILGP IDA portion and draft FMRs. | a) IDA | Completed |
| b) Develop and install a Chart of Accounts for the project to enable production of FMRs satisfactory to IDA. | b) PWC | Effectiveness |

| Action Item | Responsibility | Action to be Completed by |
|---|---|---|
| <p>5. Appoint staff at STFS with qualifications and experience acceptable to IDA.</p> <p>a) Project Financial Management Officer</p> <p>b) Two Finance Assistants.</p> <p>c) Revised Prakas on defining TOR of PLG Provincial Financial Adviser for review by IDA</p> <p>d) Formal approval of Prakas which defines the TOR of PLG Finance Assistants to include internal audit/documentation verification functions of RILGP.</p> | <p>a,b,c - STFS</p> <p>d) MEF</p> | <p>a) Completed</p> <p>b) Completed</p> <p>c) Completed</p> <p>d) Completed</p> |
| <p>6. Train staff at STFS/PLG</p> <p>a) STFS/PLG central level staff on the computerized accounting package, data verification and FMR generation, satisfactory to IDA.</p> <p>b) STFS central level staff on accounting procedures for reimbursement of C/S expenditure by IDA.</p> <p>c) PLG provincial staff on reimbursement process and documentation verification.</p> <p>d) STFS/PLG central level staff on IDA standard disbursement procedures (SOE and Summary sheet based replenishment applications, direct payment requests, Special Account management)</p> <p>e) Train staff at the Provincial Treasury offices on RILGP disbursements and reimbursement process.</p> <p>f) Conduct follow up training for staff at Provincial Treasury Offices.</p> | <p>a) PWC</p> <p>b) PLG Central Level staff in Phnom Penh/IDA</p> <p>c) PLG Central Level staff in Phnom Penh</p> <p>d) MEF</p> <p>e) PLG office of each province</p> <p>f) PLG office of each province</p> | <p>a-e) Effectiveness</p> <p>f) As needed</p> |
| <p>7. Prepare first set of Quarterly FMRs</p> | <p>STFS</p> | <p>Quarter ended three months after credit first disbursement from the SA or reimbursement from the Credit Account.</p> |

Attachment 2 - Fund Flow Chart

Rural Investment and Local Governance Project

Proposed Fund Flow



Annex 7: Project Processing Schedule
CAMBODIA: RURAL INVESTMENT AND LOCAL GOVERNANCE PROJECT

| Project Schedule | Planned | Actual |
|--|----------------|---------------|
| Time taken to prepare the project (months) | 14 | 24 |
| First Bank mission (identification) | 06/01/2000 | 12/01/2000 |
| Appraisal mission departure | 10/14/2002 | 01/12/2003 |
| Negotiations | 03/10/2003 | 03/12/2003 |
| Planned Date of Effectiveness | 06/30/2003 | |

Prepared by:

Seila Task Force Secretariat with technical assistance from UNOPS.

Preparation assistance:

PHRD Grant (TF026423-KH) 6 April 2001 to 30 April 2002 in the amount of \$460,131.55 (total disbursed)

Bank staff who worked on the project included:

| Name | Speciality |
|--------------------------|----------------------|
| Louise F. Scura | Team Leader |
| Guzman Garcia-Rivero | Rural Development |
| Steven N. Schonberger | Rural Development |
| Glenn Morgan | Environment |
| Susan Shen | Environment |
| Daniel Gibson | Social |
| Lars Lund | Social |
| Preethi Wijeratne | Financial Management |
| Wijaya Wickrema | Financial Managment |
| Xaiolan Wang | Financial Management |
| William Sutton | Economist |
| Oithip Mongkolsawat | Procurement |
| David Howarth | Procurement |
| Mei Wang | Lawyer |
| Evelyn Bautista-Laguidao | Program Assistant |
| Cecilia Tan | Team Assistant |

Annex 8: Documents in the Project File*
CAMBODIA: RURAL INVESTMENT AND LOCAL GOVERNANCE PROJECT

A. Project Implementation Plan

May 2002. Draft RILGP Project Implementation Plan with annexes
February 2003. RILGP Project Implementation Plan with annexes
March 2003. Draft RILGP Project Implementation Manual

B. Bank Staff Assessments

Bank Mission Reports/Aide Memoires/Responses from STFS:

- May 2000. Aide Memoire of Seila Evaluation/RILGP Formulation Mission, May 1-18, 2000 and management follow-up letter.
- December 2000. Aide Memoire Identification Mission and management follow-up letter
- October 2001. Aide Memoire Preparation Mission with annexes and management follow-up letter
- 30 November 2001. STFS response to October 2001 Aide Memoire
- February 2002. Aide Memoire Preparation Mission with annexes and management follow-up letter
- 4 April 2002. STFS Comments on February 2002 Aide Memoire
- 4 April 2002. Sida Comments to the World Bank Draft Aide Memoire
- August 2002. Aide Memoire Preparation Mission with annexes and management follow-up letter.
- Comment from the Seila Task Force to the World Bank on Requests Raised in the 1-9 August 2002 Aide Memoire
- Supplementary Comments from the Seila Task Force to the World Bank on Requests Raised in the 1-9 August 2002 Draft Aide Memoire
- Financial Management Assessment
- Procurement Assessment
- Indigenous Upland Minorities Screening Study – Literature Review
- Indigenous Upland Minorities Screening Study – Interim Report
- Indigenous Upland Minorities Screening Study – Final Report with annexes`

C. Other

- Integrated Fiduciary Assessment and Public Expenditure Review - background paper on Decentralization and Deconcentration
- Integrated Fiduciary Assessment and Public Expenditure Review - background paper on Financial Management

PHRD-funded RILGP Preparation Studies

- Development of Financing and Investment Options under the Local Development Fund (LDF) in Seila
- Survey of Knowledge, Attitudes, Practices and Beliefs on Standards in Good Governance in Seila, 1 August – 16 November 2001
- Final Report: Resourcing Secondary Data and Enhancing the Commune Database
- Small Contractor Survey Report
- Review of the Local Planning Process and Local Development Fund in Seila to support the transition from Commune Development Committees to Commune Councils

- Civil Society and Local Governance: Learning from Seila Experience
- Social Assessment and Poverty Targeting

Regulatory Framework/Guidelines for Decentralization

- Law on Administration and Management of the Commune/Sangkat –Adopted by National Assembly on 12/01/01 and by Senate on 01/02/02
- Interministerial Prakas on Commune/Sangkat Development Planning (Co-Minister of Interior and Minister of Planning)
- Interministerial Prakas on Amendment of Article 29 of the Interministerial Prakas on Commune/Sangkat Development Planning
- Guideline on Commune/Sangkat Development Planning Process
- Sub-Decree on Establishment of Commune/Sangkat Fund. Adopted by NCSC on 7 February 2002
- Sub-Decree on Commune/Sangkat Financial Management System. Adopted by NCSC 13-14 March 2002
- Commune/Sangkat Fund Implementation Guidelines (forthcoming)
- Prakas on Commune/Sangkat Budget Classification and Format (draft – March 2002)
- Budget Guidelines (draft – 21 March 2002)
- Payment and Accounting Guidelines. (Draft – 12 April 2002)
- Expenditure and Procurement Guidelines. (Draft – 12 April 2002)
- Payment and Accounting System Forms (forthcoming)
- Commune/Sangkat Chart of Accounts (Draft – 21 March 2002)
- Works Contract (Draft – 12 April 2002)
- Audit Guidelines (forthcoming)

Seila Program related documents:

- May 1999. Initial Environmental Examination Final Report. Report prepared by a joint UNDP/FAO/IFAD Mission for the IFAD and SIDA. CARERE.
- November 1999. Seila Local Planning Process: Guidelines for the 1999-2000 Planning and Implementation Cycle. CARERE.
- March 2000. Seila/CAREERE2 Report of the Joint Evaluation Mission. UNDP SIDA. Team: Hugh Evans, Lars Birgegaard, Peter Cox, Lim Siv Hong.
- March 2000. The Seila Program and Decentralized Planning in Cambodia. Draft. Leonardo Romeo.
- April 2000. Terms of Reference. Formulation of UN and Donor Support to the Royal Government of Cambodia for its Seila Programme in the Context of State Reform and the Decentralization Policy. UNDP.
- April 2000. Summary Speech by HE Keat Chhon, National Workshop on Formulation of Seila: 2001-2005, Siem Reap, 18-20 April 2000.
- April 2000. Seila Decentralisation Support Programme Formulation Mission Inception Note. Doug Porter, Leonardo Romeo, Shiv Saigal.
- May 2000. Designing the Seila Program: A Partnership Approach for Improved Local Governance. Report of the Seila Decentralization Support Program Formulation Mission. Draft 17 April – 16 May 2000. Team Members: Doug Porter (UNDP), Leonardo Romeo (UNCDF), Shiv Saigal (IFAD).
- May 2000. Seila Programme 2001-2005. Royal Government of Cambodia, Seila Task Force.
- June 2000. Local Governance in Transition: Villagers' Perceptions and Seila's Impact. Malin Hasselskog with Krong Chanthou and Chim Charya. CARERE.
- November 2000. Seila Program. A "partnership" approach to the Seila program management (A contribution to the identification of issues and a possible mechanism). Second draft. UNDP. Leonardo Romeo.

- December 2000. Seila Programme 2001-2005. Royal Government of Cambodia, Seila Task Force.
- January 2001. Seila Investment Plan 2001. Royal Government of Cambodia, Seila Task Force.
- February 2001. Seila Expansion in 2000. A Special Study of the SIDA Permanent Advisory Group on CARERE2. SPM Consultants.
- February 2001. A Framework for Donors Support to the Seila program (Towards RGC-Donors Partnership Arrangements and a Financing Strategy for the Seila Program). Seila Task Force Secretariat.
- March 2001. Address by Samdech Hun Sen at the Closing Ceremony of the National Workshop Orientation on the Royal Government's Seila Program for 2001-2005, Kompong Cham, 21 March 2001.
- May 2001. DFID-SIDA Appraisal of the Seila Programme 2001-2005. Final Report.
- May 2001. Damda Formulation of a Governance-focused Natural Resource Management and Environment (NRE) Mainstreaming Strategy for the Royal Government of Cambodia's Seila Programme, 2001-2005.
- June 2001. Sub-Decree on Establishment and Operations of Seila Task Force. Royal Government of Cambodia No 57 ANKR.BK.
- September 2001. Study into the Socio-Economic Impact of the Local Development Fund/Local Planning Process 1996-2000. UNCDF. Mission Aide Memoire – 11 September 2001.
- Study into the Socio-Economic Impact of the Local Development Fund/Local Planning Process 1996-2000. UNCDF.
- 18 May 2002. Seila Support to Deconcentration Framework. UNOPS. Hugh Evans.
- August 2002. Learning by Doing: An Analysis of the Seila Experience in Cambodia. Sida. Jan Rudengren and Joakim Ojendal.
- September 2002. Review of Provincial Investments in Seila 1997-2001. UNOPS/UNDP. John Tracey-White and The Center for Advanced Study.
- 08 November 2002. Prakas on Establishment of Structure, Roles and Responsibilities of the Provincial/Municipal Rural Development Committee of the Seila Program. Royal Government of Cambodia, Seila Task Force, No: 292 STF.

Background documents:

Decentralization

- April 2000. Memorandum: Outline of the Scope and Content of Decentralisation in Cambodia. Kingdom of Cambodia, Ministry of Interior.
- June 2000. Reaching up, reaching down: The role of the commune in participatory development. SPM Consultants (Marita Eastmond, Joakim Ojendal).
- August 2001. Decentralisation: A review of literature. Commune Council Support Project. David Ayres.

*Including electronic files

Annex 9: Statement of Loans and Credits
CAMBODIA: RURAL INVESTMENT AND LOCAL GOVERNANCE PROJECT
26-Mar-2003

| Project ID | FY | Purpose | Original Amount in US\$ Millions | | | Cancel | Undisb | Difference between expected and actual disbursements ¹ | |
|------------|------|--|----------------------------------|--------|------|--------|--------|---|-----------|
| | | | IBRD | IDA | GEF | | | Ong | Frm Rev'd |
| P070542 | 2003 | KH-Health Sector Support Project | 0 00 | 17 20 | 0 00 | 0 00 | 28 49 | 0 00 | 0 00 |
| P070875 | 2002 | KH-Land Management and Administration | 0 00 | 24 30 | 0 00 | 0 00 | 24 72 | 0 45 | 0 00 |
| P071247 | 2002 | KH - Eco & PS Capacity Building Project | 0 00 | 5 50 | 0 00 | 0 00 | 5 97 | 0 33 | 0 00 |
| P071445 | 2002 | KH - Demobilization and Reintegration | 0 00 | 18 40 | 0 00 | 0 00 | 15 46 | -3 95 | 0 00 |
| P073394 | 2001 | KH-Flood Emergency Rehabilitation Proj | 0 00 | 35 00 | 0 00 | 0 00 | 25 64 | 5 58 | 0 00 |
| P065798 | 2000 | KH-BIO & PROTEC AREAS M | 0 00 | 1 91 | 0 00 | 0 00 | 1 41 | 0 80 | 0 70 |
| P060003 | 2000 | KH-Forest Concession Mgt & Control Pilot | 0 00 | 4 82 | 0 00 | 0 00 | 3 66 | 3 46 | 0 00 |
| P052006 | 2000 | KH BIO & PROT AREA M | 0 00 | 0 00 | 2 75 | 0 00 | 2 03 | 3 56 | 1 18 |
| P058544 | 2000 | KH - Cambodia SAC | 0 00 | 30 00 | 0 00 | 0 00 | 15 10 | 26 89 | 0 00 |
| P059971 | 2000 | KH-EDUCATION QUALITY IMPROVEMENT | 0 00 | 5 00 | 0 00 | 0 00 | 0 62 | 0 13 | 0 00 |
| P004030 | 1999 | KH-Road Rehab | 0 00 | 45 31 | 0 00 | 0 00 | 30 96 | 31 46 | 0 00 |
| P050601 | 1999 | KH-SOCIAL FUND II | 0 00 | 25 00 | 0 00 | 0 00 | 3 72 | -5 19 | 0 00 |
| P058841 | 1999 | KH-NORTHEAST VILLAGE | 0 00 | 5 00 | 0 00 | 0 00 | 2 07 | 2 23 | 1 69 |
| P045629 | 1998 | KH-URBAN WATER SUPPLY | 0 00 | 30 98 | 0 00 | 0 00 | 6 28 | 7 32 | 1 30 |
| P004033 | 1997 | KH-AGRICULTURAL PRODUCTIVITY IMPROVE | 0 00 | 27 00 | 0 00 | 0 00 | 15 05 | 16 35 | 13 37 |
| Total | | | 0 00 | 275 40 | 2 75 | 0 00 | 181 18 | 89 45 | 18 24 |

CAMBODIA
STATEMENT OF IFC's
Held and Disbursed Portfolio
Jun 30 - 2002
In Millions US Dollars

| FY Approval | Company | Committed | | | | Disbursed | | | |
|------------------|-----------------|-----------|--------|-------|--------|-----------|--------|-------|--------|
| | | IFC | | | | IFC | | | |
| | | Loan | Equity | Quasi | Partic | Loan | Equity | Quasi | Partic |
| 2000 | SEF ACLEDA Bank | 0.00 | 0.49 | 0.00 | 0.00 | 0.00 | 0.49 | 0.00 | 0.00 |
| Total Portfolio: | | 0.00 | 0.49 | 0.00 | 0.00 | 0.00 | 0.49 | 0.00 | 0.00 |

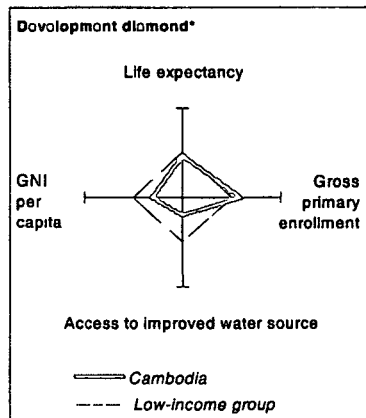
| FY Approval | Company | Approvals Pending Commitment | | | |
|---------------------------|------------------|------------------------------|--------|-------|--------|
| | | Loan | Equity | Quasi | Partic |
| 2002 | SEF LivingAngkor | 2.00 | 0.00 | 0.75 | 0.00 |
| 2000 | SEF ACLEDA Bank | 1.00 | 0.00 | 0.00 | 0.00 |
| Total Pending Commitment: | | 3.00 | 0.00 | 0.75 | 0.00 |

Annex 10: Country at a Glance

CAMBODIA: RURAL INVESTMENT AND LOCAL GOVERNANCE PROJECT

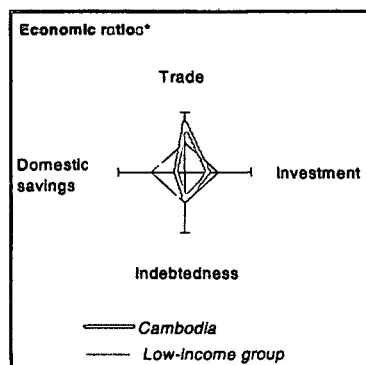
POVERTY and SOCIAL

| | Cambodia | East Asia & Pacific | Low-income |
|--|----------|---------------------|------------|
| 2000 | | | |
| Population, mid-year (millions) | 12.0 | 1,853 | 2,459 |
| GNI per capita (Atlas method, US\$) | 260 | 1,060 | 420 |
| GNI (Atlas method, US\$ billions) | 3.1 | 1,984 | 1,030 |
| Average annual growth, 1994-00 | | | |
| Population (%) | 2.5 | 1.1 | 1.9 |
| Labor force (%) | 2.7 | 1.4 | 2.4 |
| Most recent estimate (latest year available, 1994-00) | | | |
| Poverty (% of population below national poverty line) | 36 | .. | .. |
| Urban population (% of total population) | 16 | 35 | 32 |
| Life expectancy at birth (years) | 54 | 69 | 59 |
| Infant mortality (per 1,000 live births) | 100 | 35 | 77 |
| Child malnutrition (% of children under 5) | 47 | 13 | .. |
| Access to an improved water source (% of population) | 30 | 75 | 78 |
| Illiteracy (% of population age 15+) | 60 | 14 | 38 |
| Gross primary enrollment (% of school-age population) | 113 | 119 | 96 |
| Male | 123 | 121 | 102 |
| Female | 104 | 121 | 86 |



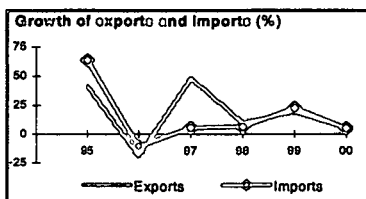
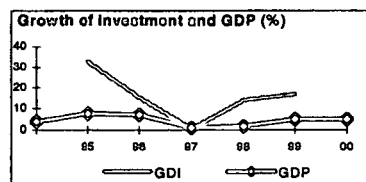
KEY ECONOMIC RATIOS and LONG-TERM TRENDS

| | 1980 | 1990 | 1999 | 2000 |
|-----------------------------------|----------------|----------------|-------------|-------------|
| GDP (US\$ billions) | .. | 1.1 | 3.0 | 3.2 |
| Gross domestic investment/GDP | .. | 8.2 | 15.8 | 15.0 |
| Exports of goods and services/GDP | .. | 6.1 | 37.2 | 40.1 |
| Gross domestic savings/GDP | .. | 1.6 | 3.9 | 5.3 |
| Gross national savings/GDP | .. | 5.6 | 3.7 | 5.0 |
| Current account balance/GDP | .. | -4.5 | -9.4 | -10.4 |
| Interest payments/GDP | .. | 2.6 | 0.4 | 0.5 |
| Total debt/GDP | .. | 186.4 | 75.1 | 74.0 |
| Total debt service/exports | .. | 34.1 | 2.9 | 1.0 |
| Present value of debt/GDP | .. | .. | 62.1 | .. |
| Present value of debt/exports | .. | .. | 163.0 | .. |
| (average annual growth) | 1980-90 | 1990-00 | 1999 | 2000 |
| GDP | 4.8 | 5.0 | 5.0 | 6.0 |
| GDP per capita | 2.0 | 2.7 | 2.7 | 4.0 |
| Exports of goods and services | 15.1 | 19.1 | 5.0 | 5.0 |



STRUCTURE of the ECONOMY

| | 1980 | 1990 | 1999 | 2000 |
|--------------------------------|----------------|----------------|-------------|-------------|
| (% of GDP) | | | | |
| Agriculture | .. | 55.6 | 39.6 | 37.1 |
| Industry | .. | 11.2 | 18.8 | 20.5 |
| Manufacturing | .. | 5.2 | .. | .. |
| Services | .. | 33.2 | 41.6 | 42.4 |
| Private consumption | .. | 91.2 | 89.8 | .. |
| General government consumption | .. | 7.2 | 6.3 | .. |
| Imports of goods and services | .. | 12.8 | 49.1 | 46.9 |
| (average annual growth) | 1980-90 | 1990-00 | 1999 | 2000 |
| Agriculture | .. | 1.9 | 1.1 | 1.0 |
| Industry | .. | 8.3 | 7.5 | 4.7 |
| Manufacturing | .. | 8.2 | .. | .. |
| Services | .. | 6.9 | 8.1 | 9.3 |
| Private consumption | .. | 1.5 | 1.7 | .. |
| General government consumption | .. | -0.8 | 9.9 | .. |
| Gross domestic investment | .. | 13.4 | 16.7 | .. |
| Imports of goods and services | .. | 10.3 | 22.6 | 5.0 |



Note: 2000 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Additional Annex 11: Overview of Decentralization Reforms
CAMBODIA: RURAL INVESTMENT AND LOCAL GOVERNANCE PROJECT

Background

The 1993 Constitution of the Kingdom of Cambodia establishes provinces (khet) and municipalities (krung) as the first-tier territorial sub-divisions of the country. Municipalities are the territorial equivalent of provinces in selected urbanized areas --currently Cambodia is comprised of 20 provinces and four municipalities (Phnom Penh, Kep, Pailin and Sihanoukville). Provinces are further divided into districts (srok) and communes (khum), and municipalities are further divided into sectors (khan) and urban communes (sangkat). There are 1,621 communes and sangkats, of which 1,510 are communes (rural) and 111 are sangkats (urban). Villages are found in both rural areas and urban areas.

There is a wide range in the number, population and area of the second- and third-tier administrative sub-divisions across provinces/municipalities. The number of districts ranges from 16 in Kompong Cham to 5 in Mondolkiri. Similarly, the number of communes ranges from 173 in Kompong Cham to 21 in Mondolkiri. The average population of communes/sangkats is about 8,000, but ranges considerably. Moreover, in the more remote and sparsely populated provinces, such as Rattanakiri, the geographic area of communes can be quite expansive. As a result of this wide variation, the boundaries of the communes will be reviewed and may be readjusted before the second local government election slated for 2007.

A summary of the administrative sub-divisions, and related demographic data is given in table A.

Table A. Administrative and Demographic Information by Province/Municipality in Cambodia

| First-Tier: Provinces/ Municipalities | Second-Tier: Districts/ Sectors | Third-Tier : Communes/ Sangkats | Villages | Households | Total Population |
|---|---------------------------------------|---------------------------------------|----------|------------|---------------------|
| Bantey Meanchey* | 8 | 64 | 623 | 110,994 | 577,772 |
| Battambang* | 13 | 96 | 733 | 146,661 | 793,129 |
| Kompong Cham* | 16 | 173 | 1758 | 311,151 | 1,608,914 |
| Kompong Chhnang* | 8 | 69 | 553 | 81,201 | 417,673 |
| Kompong Speu* | 8 | 87 | 1308 | 114,959 | 598,882 |
| Kratie* | 5 | 46 | 250 | 48,761 | 263,175 |
| Otdor Meanchey* | 5 | 24 | 231 | 12,208 | 68,279 |
| Pailin** | 2 | 8 | 79 | 4,000 | 22,906 |
| Preah Vihear* | 7 | 49 | 208 | 21,007 | 119,261 |
| Prey Veng* | 12 | 116 | 1137 | 192,735 | 946,042 |
| Pursat* | 6 | 49 | 501 | 67,022 | 360,445 |
| Rattanakiri* | 9 | 49 | 240 | 16,646 | 92,243 |
| Siem Reap* | 12 | 100 | 875 | 125,387 | 696,164 |
| Svay Rieng* | 7 | 80 | 690 | 97,796 | 478,252 |
| Takeo* | 10 | 100 | 1116 | 153,863 | 790,168 |
| Kompong Thom | 8 | 81 | 732 | | |
| Kampot | 8 | 92 | 478 | | |
| Kandal | 11 | 147 | 1087 | | |

| | | | | | |
|------------------|-----|------|-------|--|--|
| Kok Kong | 8 | 33 | 130 | | |
| Mondulkiri | 5 | 21 | 90 | | |
| Phnom Penh# | 7 | 76 | 637 | | |
| Sihaknoug Ville# | 3 | 22 | 94 | | |
| Stung Treng | 5 | 34 | 128 | | |
| Kep# | 2 | 5 | 16 | | |
| Total | 185 | 1621 | 13694 | | |

#Municipality, sectors, sangkats, and villages.

*Provinces/Municipalities included in RILGP

Sources: Ministry of Interior Prakas No 493 PRK, Number, Name and Boundaries of the Communes and Sangkats of the Kingdom of Cambodia, 30 April 2001.
General Population Census of Cambodia, 1998.

Royal Government of Cambodia Decision No. 136 dated December 1994 established a rural development and management structure for the country consisting of a structure at each of the territorial sub-division levels: Provincial Rural Development Committees (PRDC); District Development Committees (DDC); Commune Development Committees (CDC); and the Village Development Committees (VDCs). The decree assigned responsibility to the Ministry of Rural Development (MRD) to formulate and establish these rural development structures. Royal Government Decision No. 02 dated January 11, 1999 confirmed these arrangements.

Since the establishment of the rural development and management structure, many donor- and NGO-supported rural development projects and programs have worked within the rural development structures. MRD's focus has been primarily at the village level, where VDCs have been established in some 7,896 villages by open elections. The planning and development activities of these VDCs have been supported by numerous NGO- and donor-funded projects in cooperation with MRD and the Provincial Departments of Rural Development (PDRD).

At the commune and province levels, the most extensive donor-funded activity within the rural development and management structure has been the Seila Program. Phase I of Seila (1996-2001) worked with PRDC and CDC (made up of representatives of VDCs) in a small but gradually increasing number of provinces, including Banteay Meanchey, Battambang, Pursat, Siem Reap, Oudart Meanchey, Ratanakiri, and the Municipality of Pailin, and piloted a model for the decentralized planning, financing and management of development activities at province and commune levels, the lessons from which have largely shaped the decentralization reforms.

Legal and Regulatory Framework for Decentralization

The *Law on Administration of Communes/Sangkats* and the *Law on Commune/Sangkat Elections*, the basic legal framework for the decentralization reforms, were both adopted in 2001. These laws define the basic structure of the system –the overall structure and responsibilities of the Commune/Sangkat Councils (C/SC), the criteria for eligibility to stand for election to the C/SC and the procedures for electing the C/SC. Under the *Law on the Administration and Management of the Commune/Sangkat* and further elaborated in the *Sub-Decree on Decentralization of Powers, Roles and Duties to Commune/Sangkat Councils*, C/SC are empowered to maintain public order and security, manage public services, enhance public welfare, and promote development, as well as manage commune finances.

Thus, the CDC under the Cambodia's rural development structure have been disempowered officially, and C/SC legally have assumed responsibility for planning and budgeting for local development.

According to the *Law on Commune/Sangkat Elections*, five to eleven candidates to the C/SC, depending on the population of the commune, stand for election to a five-year term on a proportional representation and party list basis. The commune/sangkat chief is the individual who receives the most votes. If all the top voted candidates to the council are from the list of one party, then the first and second deputies are those individuals from the majority party with the second and third highest number of votes. However, more than one party can be represented on the C/SC if the top voted candidates to the council are from more than one party. In such cases special rules are followed to select deputies from the candidate list of the other party. The first 11,261 C/S Councilors were elected in February 2002 in the country's 1,621 communes. Each council has one member of staff, the council clerk, who is a Ministry of Interior (MOI) employee. Also, the Provincial Governor, who is appointed by MOI, is responsible for providing a support system through provincial department staff for the C/S development planning process.

The two laws which form the basic legal framework for the decentralization reforms do not provide sufficient details for implementation of the system. As mandated under the *Law on Administration of Communes/Sangkats*, the responsibility for overseeing the completion of the regulatory framework for and initial implementation of the decentralization reforms rests with the National Committee to Support the Communes (NCSC), an inter-ministerial committee chaired by MOI which provides the NCSC Secretariat in its Department of Local Administration (DOLA). Since its creation in mid-2001, NCSC, and the working groups under its auspices (Planning and Development; Financial Affairs; Commune Boundaries; Commune Powers, Functions and Structures; and Capacity Building), have made significant progress in developing and refining the sub-decrees (anukret), administrative proclamations (prakas) and detailed guidelines which provide operational details for the C/SC and the C/SF.

While MOI, through DOLA, is the principal agency charged with oversight of implementation of the decentralization reforms and refinement of the regulatory framework, the Seila Program has a key role in providing support with external funds mobilization and accountability, and external technical assistance. Indeed, the Seila Program has contributed significantly to the decentralization reforms by providing detailed lessons of the Seila Phase I experience, as well as, through PLG, providing direct technical assistance to the various working groups drafting the governing sub-decrees, prakas and supporting guidelines. Nonetheless, some pieces of this framework, and supporting regulations and operational guidelines, are still incomplete or will require review and adjustment after lessons are initial implementation experience are available.

Commune/Sangkat Development Planning Process

Various sub-decrees, prakas and guidelines, based on the *Law on Administration of Communes/Sangkats* and approved by the National Committee for Support to Communes/Sangkats (NCSC), outline the official rules and regulations for C/SC to plan, finance and manage development. The *Inter-Ministerial Prakas on Commune/Sangkat Development Planning*, which is the regulation governing the preparation and implementation of a Commune Development Plan (CDP), has incorporated lessons from the Seila Program. In line with the *Prakas*, within its first year the C/SC must prepare a CDP, Commune Investment Plan (CIP) and an annual budget. Thereafter, the CDP is reviewed annually, updating the CIP as part of the preparation of a new commune budget. The Commune Chief is responsible to coordinate the development planning process (see Annex 12 for details) and submitting the documents to the C/SC for approval. The C/SC approves the plans and budget, and amendments, and monitors and evaluates the results and impact of the CDP implementation.

After approval, the C/SC must submit its draft CDP and amendments for assessment to the Provincial Governor, through the Provincial Office of Local Administration (POLA). The Provincial Governor, in turn, requests relevant provincial/municipal administration departments to assist the POLA to review the commune development plan, and its amendments, and to give feedback to the C/SC with respect to:

- The compliance of the commune development plan with national policies and with the legal requirements of the *Law on the Administration of Commune/Sangkat*, the *Inter-Ministerial Prakas on Commune/Sangkat Development Planning* and other national legislation and regulations.
- Methodological aspects of the commune development plan document.
- Feasibility and viability of the proposed projects and programmes.
- Decisions made with respect to the incorporation of commune development plan proposals in provincial and national sector programmes and budgets.

If, within 45 days from the submission of the draft commune development plan, the POLA does not deliver to the council a written notice of objection, the plan shall be deemed as meeting all technical and legal requirements. Copies of the approved commune development plan are filed with the POLA and the provincial DoP, and one copy of the plan is kept in the commune office and made available to the public.

Each year the C/SC must review its CDP and CIP, and update and amend these as appropriate, not later than 31 August. Amendments to the CDP and CIP must be approved by an absolute majority of the C/SC. Each newly elected council shall have the option to adopt the CDP of its predecessor or develop new one, taking into consideration the existing planning documents and resources commitments. Six months before the expiration of the council's mandate, a comprehensive evaluation of the results and impact of the implementation of the commune development plan shall be carried out.

Commune/Sangkat Fund

The Commune/Sangkat Fund (C/SF) is the financing mechanism through which C/SC access resources, provided from the national budget, for local administration and development. Pursuant to Articles 77 and 78 of the *Law on Administration of Communes/Sangkats* and further elaborated in the *Sub-Decree on Establishment of the Commune/Sangkat Fund*, the C/SF is governed by a Commune/Sangkat Fund Board comprised of the ministers of MEF (chair), MOI, MOP, and Council for Development of Cambodia, and three representatives of C/SC selected from among the Chiefs of Communes/Sangkats. A secretariat established within the MEF in the newly created Department of Local Finance supports the Fund Board. The operations of the Commune/Sangkat Fund are governed by the *Prakas on Commune/Sangkat Fund Rules*, with the *Sub-Decree on the Commune/Sangkat Financial Management System* outlining the system for commune budgeting, accounting, expenditure management, asset control and financial reporting and audit.

The C/SF is comprised of two parts: (i) the General Administration component, and (ii) the Local Development component. The General Administration component shall not be more than 1/3 (one third), and the Local Development component shall be not less than 2/3 (two thirds) of the total distributable resources of the Fund, in any given fiscal year. Within prescribed limits, both parts of the C/SF can be used for recurrent and capital expenditures. For example, the General Administration component of the C/SF can be used to fund the recurrent costs of councilors salaries and other basic operating costs, as well as capital costs of facilities and equipment. Moreover, in addition to the capital costs of local

development sub-project, the C/SC may use up to 20% of the Local Development component of the C/SF for recurrent expenditures, such as for the planning processes at the commune level used to identify and prioritize sub-project investments, and for operation and maintenance of these investments.

The Commune/Sangkat Fund Board annually allocates resources in accordance with an agreed formula to communes for two budgetary components of the C/SF. C/SC are informed of the allocation by October 1st of the fiscal year preceding the one in which the transfers will be effected.

Allocations to communes of the Local Development component of the C/SF are based on a formula that includes: i) an “equal share” — distributed as a fixed and equal amount to all qualified communes; ii) a “population share” — distributed in proportion to the population of the commune; and, iii) a “poverty share” — distributed in proportion to indicators of relative poverty of the communes. The level of commune poverty is assessed on the basis of ten poverty indicators from the Commune/Sangkat database maintained by MOP, which is responsible to provide the C/SF Board, by September 1st each year, updated information on total commune population and poverty indices, to enable the Board to apply the formula in calculating the allocation.

The National Treasury is responsible to manage the C/SF, make transfers to commune accounts at Provincial Treasury (or a commercial bank if authorized by MEF) and keep records accordingly. The Minister of Interior is responsible to authorize transfers to individual commune accounts, monitor the performance of communes in utilizing C/SF resources and to report to the C/SF Board.

In order to have access to the C/SF, the C/SC must demonstrate that they have followed a participatory planning, budgeting and implementation process; completed all financial reports on execution of their budget and development plan; and, mobilized beneficiaries contributions and other local resources to complement the Local Development component transfers. C/SC applications for transfers from the C/SF are made to the Minister of Interior through the Provincial Governor, who verifies compliance with conditions of access and recommends to the Minister of Interior authorization for transfer.

In recognition of the diversity of capacity among newly elected C/SC, specifically those benefiting from participation in, and receiving technical support from, the Seila program, the *Sub-Decree on the Establishment of the Commune/Sangkat Fund* classifies two categories of communes: Category 1 – including those communes that the Board deems capable of making effective and efficient use of the Fund transfers earmarked for development expenditure; and, Category 2 – including all other communes. The Board is charged with preparing a multi-year plan for the inclusion of all communes in Category 1.

The *Sub-Decree on the Commune/Sangkat Financial Management System* and accompanying guidelines define the detailed budgeting, accounting and reporting procedures for C/SC to follow once transfers from the Commune Fund have been deposited in their accounts. (Refer to Annex 6B for details.)

Additional Annex 12: Participation under Commune/Sangkat Planning Process CAMBODIA: RURAL INVESTMENT AND LOCAL GOVERNANCE PROJECT

In accordance with Chapter 6 of the *Law on the Administration of Commune/Sangkat*, C/SC are required “to prepare, adopt and implement a five-year Commune Development Plan (CDP) for the purpose of determining vision, program and development for its commune”. As outlined in Articles 12-18 of the *Inter-Ministerial Prakas on Commune/Sangkat Development Planning*, the process of preparing and approving the CDP has eleven steps divided into five phases. The five phases are: i) data and needs analysis; ii) strategy identification; iii) projects formulation; iv) program formulation; and, v) approval (see Box A for details).

While, as a consequence of the *Law on Commune/Sangkat Elections*, territorial villages have no direct representation on the C/SC, Article 27 of the *Law on the Administration of Commune/Sangkat*, allows an important avenue for village-level representation and participation in the commune development planning process through the establishment of Committee(s) as necessary, to give advice and assist in the works. It is this Article which enables the establishment of C/S Council Planning and Budgeting Committees (PBC).

The PBC is responsible to assist the commune chief to conduct the commune development planning process and to draft the CDP, Commune Investment Program (CIP) and commune budget.

The *Inter-Ministerial Prakas on Commune/Sangkat Development Planning* and the subsequent Amendment on Article 29 of the same Prakas, define the composition of the PBC to include the commune chief as chair and the commune clerk as secretary. Members include: three representatives from the elected C/SC selected through an election process based on their capacities; two representatives of the village authorities, one of whom can be a VDC representative. The village representatives must consist of a man and a woman and are selected by the C/SC; as well as 2-4 citizens, both men and women depending on the C/S size and selected by the C/S Chief. VDCs have been formed through an informal electoral process at the village level conducted in accordance with the procedures outlined by the Ministry of Rural Development, which allows anyone in the village to stand for election, and guarantees that some of the elected VDC members must be women.

In terms of arrangements for broader village-level participation in the commune development planning process, the *Inter-ministerial Prakas on Commune/Sangkat Development Planning* allows for village workshops and planning forums, intended as meetings of the PBC that are open to the public. Explicit reference is made to encourage the C/SC to set up appropriate mechanisms to facilitate the involvement of the direct beneficiaries in the detailed design and supervision of the implementation of all projects included in the CDP. The *Guideline on Commune/Sangkat Development Planning Process*, which outline the details of and participation in each of the steps in the planning process, provides for a village workshop in each village in step 2 of the process, where priority issues and needs for the village are identified, as well as a public meeting in step 11, the last step, to seek public input on the draft C/S development plan and the C/S investment plan.

| |
|---|
| Box A. Commune/Sangkat Development Planning Process |
| i) Analysis phase: |
| Step 1 Assess the current level of development and access to basic public services, to identify the most pressing economic, environmental, institutional and social development issues for the entire commune/sangkat. |
| Step 2 Verify and complete the above assessment, by reviewing the situation of each village of the commune. Produce a list of the prioritized needs of each village and identify how villages and civil society organizations are using, or may use, their own resources to address these needs. |
| Step 3 Select the priorities at the commune and village level on which to focus the council's attention and efforts. Workshops shall be organized to implement the steps (1) and (3). Forstep (2), workshops will take place in all villages to ensure participation. |
| ii) Strategy phase: |
| Step 4 Formulate a long term development vision for the commune, define immediate objectives to be reached within its 5 year mandate for the identified priority issues, and define strategies and projects to achieve those objectives. Workshops shall be organized to implement step (4). |
| Step 5 Prepare project studies to determine further information, such as location, size, type of project, beneficiaries, approximate cost, its feasibility and who will undertake any technical assessment. |
| Step 6 Make an estimate of the resources, which will be available to it over a three year period from own source revenue, national transfers and contractual arrangements with national/provincial/municipal agencies. |
| Step 7 Make a preliminary allocation of available resources to priority projects and finalize this allocation after negotiations with provincial administration and other agencies, at the district/khan integration workshop. Workshops of the planning forum shall be organized to implement step (7). |
| Step 8 Participate in an annual district integration workshop, and enter into provisional agreements with provincial/municipal departments, non- governmental organizations and other national and international agencies on the financial and technical support of the above agencies on the formulation and implementation of the commune development. |
| iii) Program phase: |
| Step 9 Consolidate the selected projects and other routine management and administration activities into integrated sectoral and multi sectoral programmes of activities of the council. |
| Step 10 Prepare a draft CDP and a draft CIP, for submission to the council. |
| iv) Approval phase: |
| Step 11 C/SC request comments from the provincial administration and from the public on the draft CDP and the CIP, and based on these comments discuss, amend and approve the CDP and the CIP. |

**Additional Annex 13: Environmental Analysis and Commune Sub-Project Review
Procedures
CAMBODIA: RURAL INVESTMENT AND LOCAL GOVERNANCE PROJECT**

Background

The RILGP will finance small-scale village and commune level infrastructure throughout Cambodia. RILGP will actively work in about 1,110 communes in 15 provinces nation-wide. Using nationally standardized planning approaches developed for the Seila program, commune-level decision-makers will determine local priorities for investment, selecting from proposals prepared by village-level committees. Use of commune funds for investments will be limited to community infrastructure needs such as construction or improvement of tertiary roads, access tracks, bridges or culverts; improvement or repair of small irrigation works; construction or improvement of public buildings such as schools, clinics, and community centers; and provision of or improvements to community water supply systems.

An Environmental Analysis and Commune Sub-project Review Procedures were developed during RILGP preparation. The report described potential sub-project investments eligible for financing under the Rural Investment and Local Governance Project (RILGP) and identified specific environmental concerns and possible mitigation measures associated with each investment type. The report also described procedures for environmental planning, screening and sub-project EA expected to be used for sub-project proposals.

Environmental Issues

Potential environmental issues associated with the vast majority of sub-project investments are not expected to be significant. Most investments will be of less than \$10,000 each and are likely to involve rehabilitation of existing infrastructure that is in a dilapidated state or construction of new facilities that are very small in scope. To the extent that there would be any adverse effects, they will primarily be related to construction phase activities. Most adverse impacts will be highly localized (i.e., effects rarely more than 10-20 m. from the construction works), temporary in nature (i.e., experienced during construction phase only) and easily mitigated through the application of sensible site selection criteria, good construction practices and diligent management practices in the operational phase.

Based on Bank field evaluation of Seila sites and discussions with Seila implementation teams, similar sub-projects financed under the Seila program in the past seemed to have experienced few environmental problems. Still, some adverse impacts from small-scale infrastructure sub-projects could occur. The potential for adverse impacts from any sub-project investment will ultimately depend on the magnitude of the specific investment type, the characteristics of the specific location, and in some cases the long-term operations of the sub-project. Anticipated effects include dust and noise generated during construction; modifications to local drainage patterns; small-scale habitat loss from vegetation clearing or drainage of wetland areas; erosion and increased sedimentation resulting in reduced water quality; and pollution resulting from inappropriate disposal of construction waste materials. While most activities will have limited effects, those that involve new physical works or changes in the sites of existing infrastructure could have some adverse environmental implications. Notable examples are new road construction and the construction of new irrigation facilities. In these cases, local problems have been identified with respect to poor site selection decisions resulting in drainage problems, restricted flows in natural watercourse, conversion of local habitat, and erosion problems during the operational phase following road construction. Based on the small-scale nature of the sub-projects and the unlikely prospects of cumulative effects of these small investments, the Project has been rated as a B category environmental risk according to World Bank policy OP 4.01 Environmental Assessment.

Environmental Review Procedures

The Project's basic approach to environmental review will be to fully integrate consideration of adverse impacts into the commune level program planning, design, construction procurement and operations. Based on a review of the proposed nationally approved commune planning guidelines, several key points in the overall decision process lend themselves to including environmental review. These are summarized below

Key Steps in Commune Planning and Sub-Project Implementation

Planning Steps 1-3 Commune / Sangkat Data Assessment

- Basic data gathering to support and verify Commune Needs Assessments
- Outputs at this step include the production of lists of commune issues plus commune maps identifying environmentally sensitive areas and other development constraints

Planning Step 4

- Identify priority goals environmental and NRM priorities
- Identify alternative solutions and strategies

Planning Step 5

- Outline list of projects. Potential environmental impacts and land acquisition issues identified and discussed.

Planning Steps 7

- Draft 3-year Commune Investment Plan is prepared . Based on this plan, a work plan for project preparation activities is agreed with the TSS. Selection of specific sub-projects

Planning Steps 8 to 11

- Finalization and approval of Commune Development Plan and Commune Investment Programme
- Project Preparation activities can proceed contemporaneously with these steps.

Sub-Project Preparation Phase

- Use of environmental site selection criteria in design
- Environmental Screening for projects requiring environmental analysis (EA)

Technical Clearance Phase

- EA prepared for sub-projects identified through screening.

The Project will work closely within the commune councils during the planning phase to identify potential environmental problems. At the planning stage, emphasis will be placed on integrating environmental and natural resource education and awareness raising at the village level. During

commune planning, emphasis will be placed on careful site selection for infrastructure to ensure that problems are avoided or minimized right from the start. Provincial and District Facilitation teams (PFT, DFT) will be required to introduce and discuss environmental issues during consideration of alternative investments with Commune Councils and with individual villages as appropriate. DFT will be given training and standard reference materials to assist them in helping communes to identify environmental problems at the commune level and to set environmental goals within their commune development plans.

The Project will also adopt the use of sound and consistent application of technical design standards that address possible adverse effects of each sub-project type. The Project will expect the provincial technical support staff (TSS) responsible for individual sub-project designs to take into account environmental problems commonly encountered in specific infrastructure Projects. As a key step, the Seila Technical Manual will be adopted as the principal technical guideline. This manual has proven useful and relevant under Cambodian field conditions and standardized technical designs are being developed and revised to take into account environmental concerns.

The Project will also require the inclusion of environmental management clauses in all construction contracts. Contractors responsible for construction of proposed works will be required to adhere to contract clauses with specific expected performance standards relating to environment protection. For most sub-projects this will simply mean that contractors have to adopt “good-housekeeping” measures to ensure erosion is controlled on-site and that waste materials are disposed of in appropriate manner. Seila has included contractual clauses into recent contracts and this practice will be expected to be continued and expanded under the Project.

Finally, communes will be expected to adhere to good management practices during sub-project operations. These measures are expected to be simple, low cost and feasible under Cambodia field conditions. For example, communities would be expected to adopt community rules to prevent contamination of water wells and to undertake periodic monitoring to ensure that water quality is maintained in wells. The Project as a whole will develop and refine guidance and reference materials that identify common risks and possible mitigation measures suitable for these small-scale sub-project s.

Environmental Screening

For the majority of sub-projects, formal environmental analysis will not be required. Environmental analysis will be required in the following cases:

- Construction of the sub-project may cause damage to any place that is important for environmental or cultural reasons (for example, forest, a National Park or wildlife park, or a temple);
- Construction of the sub-project may cause damage to water supplies used by people;
- Construction of a new road alignment;
- Construction of a new irrigation scheme.

For all sub-projects, the Commune Chief will carry out sub-project studies with the assistance of the TSS. These studies will include screening to identify those sub-project s requiring environmental analysis. The TSS will be trained to conduct this initial screening. The screening will lead to one of two recommendations: no EA required, or EA required. The results of the sub-project screening will be submitted to the Provincial Office of Local Administration (POLA) on the (sub)Project Information Form.

Sub-Project Environmental Review Criteria

For the majority of sub-projects, in place of a formal EA, simple site selection criteria and technical design standards are adopted through the planning process. The Project will prepare a manual that will provide specific guidance on the types of investments to be supported under the Project; environmental implications of such sub-projects; technical design considerations; sample construction contract clauses; and suggested management measures during operations. The PFT and DFT will use Khmer translations of these guidelines as a technical resource during the planning phase

Environmental Analysis

In each Province, one or more Provincial Officials will be trained in environmental analysis procedures required for the Project. These officials will be required to sign an agreement to be available to carry out this work when required.

For sub-projects requiring EA, POLA will commission either an official, who has received appropriate training, or an independent consultant with the appropriate skills, to carry out the EA. The official assigned to the task will carry out the EA with the participation of local people who will be affected by the sub-project. The EA will consist of the following parts:

1. Participatory environmental mapping: preparation of an environmental map of the project. The map will identify:
 - a. Topography: Steep slope, slight slope or flat land, with direction of slope;
 - b. Soil types: highly erodible, slightly erodible and not erodible;
 - c. Vegetation and land use
 - d. Important cultural sites;
 - e. Access routes to the site;
 - f. Water courses
 - g. Extents of seasonal inundation.
 - h. Areas of human habitation and type of domestic water supply.
2. Completion of a checklist common types of environmental impact, to be classified as "High risk," Medium Risk," or "Low risk." For medium / high risks mitigation measures should be proposed.
3. An Environmental Management Plan (EMP) showing proposed changes to the project design, measures to be included in the Contractor Work plan during construction, and proposed measures to mitigate environmental impacts of operation. Responsibilities for implementation will be defined.
4. A Monitoring Plan showing monitoring activities to be carried out.

The Commune Chief will be responsible for making results of the EA public and for ensuring that issues raised in the EA are discussed in a public forum before a final decision is made on whether to proceed with the sub-project or not.

The EMP and monitoring plan will be agreed with the Commune Council. The report of the EA, including these plans, will then be submitted to POLA. POLA will be responsible for technical clearance of the EMP in collaboration with the Provincial Department of the Environment. and will be regarded as part of sub-project documentation that is subject to the Technical Clearance process. For all sub-projects of the Commune Councils, Technical Clearance is required before procurement

for sub-project implementation can begin.

Monitoring

A Technical Committee comprising the Senior TSS and other senior ExCom officials, and assisted by the PLG Infrastructure Adviser, will carry out technical audits of completed subprojects. For sub-projects having an EMP, the audit will include assessing the effectiveness of the environmental mitigation measures undertaken.

The Project will develop mechanisms for monitoring effectiveness of the environmental review criteria and screening mechanisms. At a minimum, the Project will require periodic stocktaking of the planning process and in addition efforts will be made to compare Project results with other Projects undertaking similar approaches. Monitoring of field implementation will be undertaken during supervision missions.

Disclosure And Consultation

Disclosure of Project safeguards documents and procedures will occur on several different levels. On the national level, significant consultation and debate over the Commune planning guidelines has taken place over the last several years. The environmental review criteria and requirements for environmental assessment, while recently added, are an integral part of the national planning procedures and will be subject to continuous review and refinement throughout the evolution of the Seila program. Community leaders and other stakeholders will be given several opportunities to identify environmental issues in the commune, to influence the type, scale and location of sub-projects and to review EA reports in cases where these may be required.

For sub-projects requiring an EA, consultation and disclosure of EA reports will take place at the commune level. It will be the responsibility of the Commune Chief to post the EA reports in a public place prior to a final decision meeting on whether to proceed with a particular sub-project. In addition, the EA report will be a required agenda item during the final decision meeting for any sub-project.

Financing Of Environmental Mitigation Actions

For sub-projects requiring an EA or EMP, the costs of preparing these studies or implementing the required management measures will be borne by the Provincial Project Support budget and by the Commune Council. If mitigation measures result in an increase in sub-project implementation costs, these costs would also be borne by the commune. will be incorporated into the sub-project costs.

World Bank Supervision Arrangements

The World Bank will undertake periodic Project supervision of all RILGP provinces to assess compliance with these requirements and to recommend any corrective measures that may be necessary to resolve implementation problems or inadequacies. To facilitate Bank supervision, any approved EMPs will be made available for Bank review at each PRDC. Reports of technical inspections of completed schemes, by a technical committee including the Senior TSS, will record compliance with environmental protection measures, and these reports will be held at TSU for review by Bank during supervision missions.

**Additional Annex 14: Highland Peoples Development Plan
CAMBODIA: RURAL INVESTMENT AND LOCAL GOVERNANCE PROJECT**

Introduction

1. The World Bank is preparing a Rural Investment and Local Governance Project (RILGP) to support expansion of the Royal Government of Cambodia's Seila Program. This program fits within a broader official campaign promoting decentralization of, and heightened local-level participation in, development planning. The key program component supported by RILGP promotes participatory village-level identification and prioritization of needs. The project provides financial assistance to commune-level elected councils, which select and fund small-scale infrastructure improvements or public service improvements to meet the expressed needs of villages within the commune. As the project title indicates, then, the project has two fundamental objectives: to support local infrastructure or service improvements through investment, and to increase local participation (at both village and commune levels) in decision-making.
2. At present, Seila objectives and procedures do not explicitly consider program impacts on the various ethnic minorities residing within program provinces. As a prerequisite to World Bank support, however, RILGP must meet the requirements of Operational Directive 4.20 (Indigenous Peoples). This policy directive requires that special planning measures be established to protect the interests of ethnic minorities with distinctive characteristics that may make them vulnerable to disadvantage in the development process. The primary objectives of OD 4.20 are:
 - a) to ensure that such groups are afforded meaningful opportunities to participate in planning that affects them;
 - b) to ensure that opportunities to provide such groups with culturally appropriate benefits are considered; and
 - c) to ensure that any project impacts that adversely affect them are avoided or otherwise minimized and mitigated.
3. The Bank has determined that OD 4.20 applies with reference to "Highland Peoples" who maintain cultural and socioeconomic practices different than those practiced by the Khmer national majority. This document describes actions taken, or to be taken, by the Royal Government of Cambodia to ensure that project arrangements meet the requirements of OD 4.20. Because RILGP would empower local communities to determine their own development priorities, RILGP has two distinctive features important to design of this plan:
 4. First, in RILGP, the processes of village-level prioritization of needs and commune-level selection of activities occur only during project implementation. So prior assessment of the appropriateness and impacts of particular activities to be funded under the project is impossible.
 5. Second, the plan focuses on one objective: ensuring appropriate opportunities for local participation at both the village and commune levels. With appropriate participation, project activities responding to needs identified by villagers themselves can be considered to be "culturally appropriate" by definition. Similarly, with appropriate participation there is no basis for considering a village to be "adversely affected" as a direct consequence of a development activity the village itself has initiated.

6. The key elements of this plan, then, are:

- a) to ensure through project design and monitoring arrangements that Highland Peoples are afforded opportunities to participate in prioritization of their needs;
- b) to ensure that their expressed needs are subsequently represented at the commune level;
- c) to ensure that commune-level selection of activities for funding is reasonably responsive to Highland Peoples priorities.

Highland Peoples and OD 4.20

7. The Cambodian government does not maintain official statistics regarding its ethnic minorities, and available estimates of ethnic demographics and geographic distribution are scarce and contradictory. In 1992, prior to its discontinuance, the Department of Ethnic Minorities listed 35 ethnic minority groups and estimated their total share of the national population at about four percent. The same proportion was estimated in 1995 by the Ministry of the Interior.

8. The largest ethnic minority groups, including Vietnamese and Chinese descendants, Muslim Chams and ethnic Lao, generally are not considered to be “indigenous peoples” in the Cambodian context, and do not generally exhibit characteristics of potential vulnerability as listed in OD 4.20. The Khmer majority, however, does generally consider a set of minorities known generically as “Khmer Loeu” (or upper Khmer, or “Highland Peoples” in common English usage) to be indigenous and distinctive in their cultural and economic practices. These groups generally exhibit most or all of the characteristics of potential vulnerability listed in OD 4.20:

- a) close attachment to ancestral territories and resources;
- b) reliance on subsistence modes of production;
- c) self-identification or identification by others as distinctive groups;
- d) use of a language different than prominent or official languages within the country; and;
- e) reliance on customary cultural and socioeconomic institutions.

9. Though their numbers are relatively small in proportion to the national population, the Highland Peoples are estimated to represent a majority of the population in Ratanakiri and Monduliri provinces, both in the northeast. They represent much smaller proportions in other provinces. These groups, among them the Tampuan, Kui, Jarai, Phnong, Kreung, Kavaet, Brou, Stieng, Lun and others, are estimated to total about 120,000 people, or about one percent of the national population.

10. In 2002, an “Indigenous Upland Minorities Screening Study” was undertaken as part of RILGP preparation to assess whether people in the project area exhibit the distinguishing characteristics listed in OD 4.20, and to consult with potentially involved ethnic minority communities on their preferences regarding project design and implementation arrangements. The screening study concluded that Highland Peoples in project provinces of Ratanakiri, Kratie, Prey Vihear and Kompong Speu do exhibit most or all of the distinguishing characteristics listed in OD 4.20. The consultations also indicated broad popular support for participating in the project, and broad agreement that proposed implementation arrangements were satisfactory.

11. The small-scale activities chosen by villagers and funded through RILGP will not affect land tenure or otherwise cause any direct adverse impacts. The screening study confirmed, however, that Highland Peoples’ lifestyles and livelihoods are under pressure in some areas because of in-migration by others, forestry concession programs, and discouragement of shifting cultivation practices.

RILGP-related improvements in services and infrastructure could well induce future in-migration and pressure on access to resources. For these reasons, the Highland Peoples are considered potentially vulnerable to disadvantage in the development process, and this plan reviews actions taken, or to be taken, to safeguard their interests. In general, participation arrangements are standardized throughout the Seila program, and thereby benefit the Khmer majority and other minority groups as well. *Measures or special arrangements referring specifically to Highland Peoples are italicized throughout.*

The Cambodian Legal Context

12. Under the Cambodian constitution, the Highland Peoples are afforded Cambodian citizenship. However, at present there is no comprehensive legislation or regulation relating specifically to protection of Highland Peoples rights or interests.

13. In 1997, a special Inter-ministerial Committee for Highland Peoples Development released a draft “General Policy for Highland Peoples Development.” The draft, culminating from a long process of consultations among local groups, NGOs, international development agencies and government, has never been formally adopted by the government. The policy statement would provide a number of protections for Highland Peoples, many relating to land rights and access to resources. Of particular importance in the context of RILGP are these provisions in the general policy statement:

- the government “shall promote understanding and respect of cultural diversity and ensure that Highland Peoples can practice their own cultures” (para.1);
- “Highland Peoples shall have the right to be fully informed about, determine the priorities for and to exercise control over their economic, social and cultural development” (para. 6);

and this provision in the policy guidelines section of the document:

- “Highland Peoples’ communities shall be given the opportunity to participate and take responsibility in all decisions regarding infrastructure projects that affect them. The affected community and persons must have agreed, after being fully informed in a language that they clearly understand, of the project and all its consequences for them and their natural environment, before any development project may proceed” (para. 7.2).

14. At the time of RILGP the draft “General Policy for Highland Peoples Development” remains under consideration by the government. For the purposes of RILGP, the Kingdom of Cambodia has agreed to employ measures consistent with the above policy provisions to guide project design and implementation arrangements. Specific measures to ensure adequate opportunities to participate in both village and commune decision-making processes are explained in the sections that follow.

Village-Level Participation Arrangements

15. The Cambodian Constitution, as well as basic documents of the government’s decentralization campaign, recognize the commune as the local level of government and administration; generally, villages are organic areas of residence without formal legal standing. Nonetheless, enabling laws and implementation regulations establish that the fundamental purpose of decentralization to the commune level is to promote responsiveness to local residents’ needs and interests.

16. Basic documents guiding the government's decentralization campaign include:

- o "The Law on the Administration and Management of Commune/Sangkat" (March 2001);
- o "Inter-Ministerial Prakas on Commune/Sangkat Development Planning" (January 2002);
- o "Sub-Decree on Decentralization of Powers, Roles and Duties to Commune/Sangkat Councils" (March 2002); and
- o "Guidelines on Commune/Sangkat Planning Process" (April 2002)

17. While these documents primarily involve roles and responsibilities assigned to commune-level officials, they state that villagers are entitled to participate in prioritization of needs, as well as other aspects of planning and implementation. To ensure that Highlands Peoples are able to participate adequately at the village level in identifying and prioritizing needs, the following general arrangements apply:

Information and Facilitation:

18. To initiate each commune-level planning cycle, commune officials will assess living standards and infrastructure conditions, and provide assessment results to each village within the commune. Villagers also will be informed regarding program arrangements as they relate to participation in identifying priorities, detailed planning and implementation of RILGP activities.

19. RILGP requires that district-level facilitation teams disseminate information to villages, explain Seila procedures and ensure that all villagers are aware that they have the opportunity to participate in village planning exercises.

In Highland Peoples villages, information will be disseminated and facilitation will be conducted in the language most accessible to villagers. Additionally, facilitators working with Highland Peoples will ensure that they are provided an opportunity to consider induced changes that may accompany various development activities.

Village-Level Analysis and Discussion:

20. Each year, every village engaging in the program will hold an open meeting or workshop to review particular circumstances within the village, and to produce a list of priorities for village improvement, including small-scale infrastructure improvements. All villagers may participate (whether as individuals or as members of community associations). The form of open meeting or workshop may vary. In some villages, the meeting may be structured or facilitated by village representatives to the Commune Planning and Budgeting Committee (CPBC). In other areas, more informal open gatherings may be appropriate if consistent with local practice. Seila validation procedures require that 70% of villagers participate in the prioritization exercise.

21. The list of priorities established in each village will be officially validated by the CPBC village representatives (see the following section). The lists submitted by each village then serve as the primary basis for development of integrated commune-level development plans and selection of small-scale infrastructure or public service improvements under RILGP.

Village Representation

22. Though members of each Commune Council are to be directly elected by commune residents, there is no requirement that all villages be directly represented. Members of Highland Peoples groups

are not explicitly ineligible for Commune Council service, but a requirement that council members must be able to read and write in Khmer may discourage direct participation. To ensure adequate representation from each village within the commune, a Planning and Budgeting Committee will be established to advise the Commune Council.

23. This committee will include two representatives from each village. Though these representatives formally are to be appointed by the Commune Council, they are to be chosen from among persons nominated by villagers prior to preparation of village priority lists. To promote gender equity in local governance, the Commune Council will appoint at least one woman to represent each village. In addition to appointment of two representatives from each village, the commune chief may select as many as four other village representatives to serve as members for service on the advisory committee.

In general, available information indicates that most rural villages in northern and northeastern Cambodia are either more or less ethnically homogeneous, or consist predominantly of members of Highland Peoples groups. For heterogeneous villages that include a significant proportion (e.g., more than a third) of Highland Peoples, the Commune Council will ensure they are represented on the advisory committee, either as nominated and appointed village representatives or as members selected by the commune chief.

Commune Decision-Making Arrangements

24. As provided above, village populations develop their own priorities for infrastructure improvement under RILGP, and are provided direct representation in commune-level development planning through the advisory CPBC. Through involvement of village representatives in the CPBC, villagers have opportunities to exert influence in various stages of commune decision-making.

25. Prior to preparation of a draft commune development plan, CPBC members will review village priority lists and formulate longer-term commune development objectives and strategies.

In communes with Highland Peoples villages, Seila procedures require that representatives of minority groups participate in the process of formulating commune development objectives and strategies, and that minutes of the process are taken.

26. During the process of formulating the commune development plan itself, one or more village meetings will be held to accomplish the following:

- a) The CPBC will prepare a draft commune development plan for consideration by the Commune Council. Prior to action by the Commune Council, the draft plan will be disseminated in all commune villages for public comment.
- b) The draft commune development plan will include preliminary project specification with maps and other relevant documents. For villages in which such activities are sited, an open village meeting will be held to confirm the accuracy of maps and relevant documents.
- c) If the commune development plan calls for villagers to contribute cash, labor or land, an open meeting will be held to disclose and discuss such arrangements.

27. Commune development plans will reflect consideration of special circumstances that may be of particular importance to Highland Peoples:

a) The Commune Planning and Budgeting Committee will review maps assess whether mutually acceptable boundaries exist between villages. Where boundary disputes exist, the committee will negotiate mutually acceptable solutions prior to selection of project activities affecting areas of dispute.

b) The Commune Planning and Budgeting Committee will assess whether proposed activities benefiting one area of the commune may have negative affects on other villages nearby.

In communes with Highland Peoples villages, this assessment will include potential induced effects, specifically whether mapping and land rights are sufficiently clear to protect Highland Peoples from in-migration or loss of access to resources.

c) Village lists of priority needs provide the primary source of activities for inclusion in the commune development plan. If the Commune Council ultimately selects for funding an activity not included on the village lists, additional consultations must be undertaken at the village level to assess the willingness of the village to participate.

RILGP will not fund any activities that affect Highland Peoples without their consent, as demonstrated through acceptance at a facilitated village meeting.

d) In heterogeneous communes, the priorities identified by Highland Peoples villages may be in competition with those identified by Khmer or other villages. Because RILGP promotes integrated commune development planning, it is inappropriate to establish ethnically-based preferences or strictly proportionate criteria for investment. Of course, patterns of exclusion of Highland Peoples village from RILGP benefits also would be inappropriate.

In cases where annual commune development plans do not address any of the priority needs identified by Highland Peoples villages, the Commune Council will utilize its three-year financing plan within its broader five-year planning horizon to make explicit commitments as to when, and to what extent, their priorities will be addressed.

Monitoring Arrangements

28. In RILGP, responsibility for project monitoring is divided among national, provincial, and commune authorities. District-level facilitation teams bear primary responsibility for monitoring village-level participatory activities. For most activities, monitoring includes recording of attendance and minutes of proceedings. Opportunities are also provided for participatory monitoring at the village level during implementation. Each year, the Commune Council will disseminate a report on the status of program implementation. Each village may review this report for general accuracy. Additionally, each year the village chief will review project activities within its boundaries, to confirm whether construction, contracting arrangements, and other aspects have been implemented appropriately.

Conflict Resolution Procedures

29. In general, Highland Peoples resort to traditional leadership and institutional arrangements to resolve conflicts arising from within the village. RILGP views these arrangements as the most appropriate venue for initial airing of project-related conflicts. In the event that conflicts cannot be resolved at this level, district facilitation teams may provide additional mediation. If mediation fails, disputes relating to preparation of the commune development plan will be addressed by the Commune Council prior to plan approval. Disputes arising in the course of implementation will be addressed by the Commune Council prior to submission of its annual implementation report.

Additional Annex 15: Land Acquisition Framework for Commune Sub-Projects CAMBODIA: RURAL INVESTMENT AND LOCAL GOVERNANCE PROJECT

Introduction

The Kingdom of Cambodia seeks an International Development Association credit in support of its Seila Program through a Rural Investment and Local Governance Project (RILGP). The Seila program promotes governmental decentralization and increased local participation. Within the RILGP, support of the Commune/Sangkat Fund is the key component, promoting village and commune participatory processes for prioritizing investment in small-scale infrastructure or improved public services.

Supported infrastructure subprojects – primarily improvements to existing village and commune roads, irrigation and water control, wells, and schools – are small in scale and generally cause little or no significant adverse impacts. Nonetheless, Seila Program experience shows that such activities sometimes do cause loss of land or loss of access to other resources. In practice, land is acquired on an ad-hoc basis; the Seila Program has no policies or procedures upon which to develop a more systematic approach. To meet the requirements of World Bank OD 4.30, Involuntary Resettlement, borrowers in Bank-supported projects must avoid or minimize such losses. And, if involuntary imposition of such losses cannot be avoided, measures must be established to improve, or at least restore, the incomes and living standards of those involuntarily affected.

For Commune/Sangkat Fund investments, local communes will decide on investment priorities during the course of project implementation. Because it is impossible to prepare land acquisition plans in advance, the Kingdom of Cambodia has prepared this Framework for Land Acquisition Policy and Procedures. The Framework defines terms and provides guidance for involuntary acquisition of land or other assets (including restrictions on asset use), and establishes principles and procedures to be followed to ensure equitable treatment for, and rehabilitation of, any persons adversely affected. .

Key Definitions

Land Acquisition: A process by which any person is compelled to relinquish ownership, possession, control or use of all or part of their land, structures, or other assets. This includes land or assets for which the possessor or user enjoys customary or uncontested access but lacks legal title.

Project-Affected Person: Any person who, on account of the execution of the Project, or any of its components would, as a result of taking of land, have their:

- (i) right, title or interest in any house, land (including residential, agricultural and grazing land) or any other fixed or movable asset acquired or possessed, in full or in part, permanently or temporarily;
- (i i) business, occupation, work, place of residence or habitat adversely affected;
- (i i i) standard of living adversely affected; or
- (iv) access to productive assets adversely affected temporarily or permanently.

Replacement Cost: With regard to land and structures, **replacement cost** is defined as follows: For agricultural land, it is the pre-project or pre-displacement, whichever is higher, market value of land of equal productive potential or use located in the vicinity of the affected land, plus the cost of preparing the land to levels similar to those of the affected land, plus the cost of any registration and transfer taxes. For land in urban areas, it is the pre-displacement market value of land of equal size and use, with similar or

improved public infrastructure facilities and services and located in the vicinity of the affected land, plus the cost of any registration and transfer taxes. For houses and other structures, it is the market cost of the materials to build a replacement structure with an area and quality similar to or better than those of the affected structure, or to repair a partially affected structure, plus the cost of transporting building materials to the construction site, plus the cost of any labor and contractors' fees, plus the cost of any registration and transfer taxes. In determining the replacement cost, depreciation of the asset and the value of salvage materials are not taken into account, nor is the value of benefits to be derived from the project deducted from the valuation of an affected asset.

Voluntary Contribution: A process by which an individual owner or user agrees to provide land (and attached assets) for provision of public goods without compensation in cash or in kind. Voluntary contribution is an act of *informed* consent; voluntary contributions are made with the prior knowledge that other options are available, and are obtained without coercion or duress. For the purposes of Commune Fund investments, only minor contributions (no more than 5% of any holding of productive land, or buildings or other fixed assets worth no more than \$100) will be sought and/or accepted; voluntary contributions will not be sought or accepted where they would significantly harm incomes or living standards of individual owners or users.

Scope of Commune Fund Investment Activities

RILGP will involve more than a thousand communes in 15 provinces. Commune-level decision-making processes will determine local priorities for investment, selecting from priority lists resulting from village-level participatory processes. Commune Fund investments will be limited to provision of improved public services or small-scale infrastructure: construction or improvement of local roads, bridges or culverts; improvement or repair of irrigation works; construction or improvement of public markets, schools, clinics, or community centers; or provision or improvement of water supply systems.

All infrastructure subprojects that involve new physical works or changes in the siting of existing infrastructure may cause land acquisition. Subproject screening measures will ensure that no major land acquisition or resettlement-related impacts occur. Specifically, screening will exclude the following:

- a) Subprojects requiring relocation of residences or commercial enterprises
- b) Subprojects adversely affecting more than 200 persons in total
- c) Subprojects for which sources of necessary compensation have not been established
- d) Subprojects requiring destruction of significant numbers (e.g., more than 10) crop trees or mature forest trees

For any subprojects requiring acquisition of land or other assets, mitigation measures will be provided in consistency with this framework.

Policy Principles

The fundamental principle incorporated in this Framework is that all necessary measures will be undertaken to improve, or at least restore, incomes and living standards of all persons adversely affected as a result of land acquisition. The Framework further incorporates the major guiding principles espoused in World Bank OD 4.30, and in relevant laws of the Kingdom of Cambodia.

Key Principles of World Bank OD 4.30:

General principles and objectives of World Bank OD 4.30 are as follows:

- a. Acquisition of land and other assets should be avoided when feasible and otherwise minimized;
- b. If any persons are to be adversely affected, mitigation measures must provide them with sufficient opportunities to improve, or at least restore, incomes and living standards;
- c. Lost assets should be replaced in kind, or compensated at replacement cost;
- d. Compensation should be paid in full, net of taxes, fees or any other deductions for any purpose;
- e. If any persons are required to relocate, transfer costs and subsistence allowances will be paid in addition to compensation at replacement cost for lost structures and other assets.
- f. Absence of legal title to land or other affected assets will not be a barrier to compensation or other suitable forms of assistance;
- g. Adversely affected persons will be provided information relating to impacts and entitlements, will be consulted as to their preferences regarding implementation arrangements, and will be informed regarding methods and procedures for pursuing grievances.

Relevant Laws of the Kingdom of Cambodia

Key provisions of current legislation governing land ownership, resettlement and compensation in Cambodia are established in the national Constitution, the Land Law of 1992, and the Land Law of 2001. Key aspects are as follows:

- a. All land in Cambodia is vested in the state. No land ownership prior to 1979 is acknowledged;
- b. Registration of land by private citizens has been possible since 1989. Although there is a process for obtaining formal land title, progress has been slow with very few titles being issued;
- c. There is provision for land acquisition where the public interest requires it. Where this is done, the registered owner is entitled to "fair and just" compensation.

No laws or regulations specifically relating to land acquisition or resettlement exist, however. In practice, land often is obtained without compensation or through ad-hoc local negotiations.

Resolving Inconsistencies:

In the event of conflict or inconsistency between Cambodian law and Bank principles as established in this Framework, the Kingdom of Cambodia will waive Cambodian law to the extent necessary for effective implementation of this Framework.

Avoidance and Minimization of Adverse Impacts

It is anticipated that the great majority of commune subprojects funded through RILGP will be sited on public land and / or will involve rehabilitation of existing infrastructure rather than new construction. Small amounts of land, currently in private use or ownership, may be required, for example for widening of an existing road. In these cases, and provided that the amount required from any individual does not exceed 5% of that individual's holding, the most effective means to avoid involuntary acquisition of land is likely to be through reliance on local level participatory processes. The Commune Council, acting in cooperation with the village representatives to the Commune Planning and Budgeting Committee (CPBC) may assess the willingness of individual owners or users to voluntarily contribute land. The results of such assessments shall be publicly disclosed and validated by a public meeting of villagers.

Communes proposing to undertake involuntary land acquisition in order to construct infrastructure on private land, or land which is currently in private use, will be obliged to demonstrate that no satisfactory alternative is available and to prepare a Land Acquisition Report (LAR) for review by the provincial governor (or his designee). The review and approval of the LAR (as part of the review process for each Commune Development Plan) must take place prior to adoption by the commune of the Commune Budget which includes the proposed subproject. In other words, land acquisition issues must be resolved in the planning year before the implementation of the subproject.

Planning and Reporting Requirements

As commune investment subprojects are relatively small in scale, the number of persons to be adversely affected by land acquisition is likely to be very small. Accordingly, planning and reporting requirements are kept as simple as possible.

Confirmation That No Involuntary Land Acquisition Required:

For all Commune Fund investments for which no involuntary acquisition is necessary, the relevant commune will provide to the PRDC the following information:

EITHER a statement, signed by the Commune Chief and countersigned by the Technical Support Staff, that the subproject will be implemented entirely on public land which is not under private use;

OR a report indicating the following information:

- a) an estimate of the amount of land and other assets to be utilized, and field measurement results indicating that no more than 5% of total land holdings and/or other assets of value greater than \$100 are needed from any household;
- b) a description of methods used to inform potentially affected individuals regarding the proposed investment, and their rights and options regarding land or other assets required, and confirmation that individuals have been informed that they have the option of refusing land contribution;
- c) signed Statements of Voluntary Contribution from each individual voluntarily contributing land (and any attached as sets), indicating their *informed* consent; and

- d) A report of the village meeting at which the voluntary land acquisition arrangements (including siting maps) have been disclosed to, and validated by, villagers.

Land Acquisition Report Required:

In cases where land or other assets will be acquired involuntarily, a Land Acquisition Report must be prepared, including the following elements:

- a) description of the subproject necessitating land acquisition;
- b) basic data identifying impacts and persons to be affected by them;
- c) arrangements for in-kind replacement of land, or for compensation at replacement cost, including signed statements by all affected landowners confirming that these arrangements are satisfactory;
- d) arrangements to ensure adequate performance by contractors relating to compensation for temporary impacts;
- e) a schedule of assets (other than land), which will require to be replaced as part of the construction contract, and signed statements by the affected owners confirming that these arrangements are satisfactory;
- f) an implementation schedule indicating that replacement land will have been provided before implementation of the subproject begins;
- g) a siting map and field measurements validated by villagers, showing land to be acquired and replacement land to be provided, sufficiently detailed to allow verification;
- h) arrangements for disclosure of information, consultations, and procedures for pursuing grievances.

The planning report is to be prepared as part of feasibility studies and will be reviewed as part of the technical assessment process prior to provincial approval of commune plans. Following provincial approval, provision of in-kind asset replacement, other than that to be included in the subproject implementation contract, will be completed before the contract for subproject implementation is signed.

Entitlements Relating to Specific Categories of Impact

If substantial acquisition of land or other assets is necessary, the following provisions will be followed in development of mitigation measures:

Loss of agricultural land: Any persons losing a significant proportion (i.e, more than 5%) of their agricultural land must be provided an opportunity for in-kind replacement, obtaining access to land of equal productive value. Such persons also may be offered optional cash compensation at full replacement cost. Those whose land holdings are not significantly affected can be compensated at full replacement cost.

Loss of productive assets: Landowners contributing land upon which seasonal crops are standing have the right to insist that subproject implementation is delayed until the crops are harvested, or to be compensated at the market value of the crop. Those losing perennial fruit or pulp trees should be compensated in cash at net present value, where it is possible to do this from local cash contributions to the subproject.

Temporary loss of land: No land may be taken temporarily during construction except by voluntary arrangement between the landowner and the contractor. Contractors should be informed before bidding of any case where use of private land or damage to private property, including crops, is likely to be necessary, in order that compensation or restoration costs can be included in the bid price.

Loss of structures: Project funds may not be used to fund activities which will require demolition or relocation of permanent dwelling or private business premises. For ancillary structures that may be affected, compensation will be paid at replacement cost. .

Loss of other assets: Where fixed assets other than land (such as fencing) will be lost, replacement of these should be negotiated with the owner and should then form part of the contract for construction of the subproject.

Consultations and Information Disclosure

As stated above, obtaining land or other assets through voluntary contribution and negotiated agreement requires that individuals potentially involved are informed about their rights and options. Prior to such negotiations, and prior to any land acquisition proceedings, the Commune Council must provide information about key provisions of this Framework. Potentially affected individuals must be informed that they are not obligated to voluntarily contribute land for subproject purposes, that involuntary acquisition of land without appropriate compensation is not permitted, and that lodging of a valid objection by an affected landowner will be sufficient cause for subproject approval to be delayed or withheld. Additional information to be disclosed will include: entitlement to replacement in kind or compensation at replacement cost; methods to be used in establishing compensation rates; and procedures for pursuing grievances, including contact information. Information should be presented in a language and medium accessible to those potentially involved or affected.

Grievance Procedures

Each village will have an opportunity to comment on annual commune reviews of subproject implementation performance. Any grievances may be addressed as part of the review process. If project-affected persons are not satisfied with proposed entitlements or implementation arrangements, or are dissatisfied with actual implementation, they also can seek satisfaction through the Commune Council or its designated officials. If this does not result in resolution of issues, project-affected persons can also make grievance verbally or in written form to district-level and/or provincial-level officials responsible for project facilitation and information dissemination. If this does not result in resolution of issues, project-affected persons can make grievance verbally or in written form to the provincial governor and ultimately to the national-level Seila Program Task Force. At each level, specified authorities should record receipt of grievances and reply to the project-affected person or persons within ten days after receiving the grievances. Project-affected persons will be exempted from any administrative or legal charges associated with pursuing grievances.

Organization Roles and Financial Responsibilities

To achieve the objectives of this Framework, Seila Program manuals and procedures will establish the following roles and responsibilities:

Commune Council: As the local authority and as the subproject planning and implementing body, the Commune Council has the primary responsibility to ensure that the rules and procedures set out under this Framework are adhered to. Specifically, the Commune Council or its designated officials will:

- a. Ensure that potentially involved village residents are informed regarding proposed investments, and their rights and options relating to land or other assets that may be involved
- b. Ensure that CPBC village representatives are informed about their responsibilities under this Framework;
- c. Closely monitor and assist the CPBC village representatives in all matters relating to land acquisition, and attend and monitor public meetings to discuss land acquisition issues with villagers;
- d. Review and approve village-level reports (as outlined above) as part of subproject feasibility study, prior to PMP appraisal for any investment activities requiring access to privately owned or utilised land or other assets;
- e. Ensure timely provision of compensation in cash or in kind, as required;
- f. Review contractor performance to ensure that any required payments to individuals for materials or temporary use of land are made, and to ensure that any temporarily utilised land is adequately restored, and;
- g. Respond to any grievances submitted by adversely affected persons.

CPBC Village Representatives: At the village level, CPBC village representatives will assist the Commune Council in all matters concerning information, communication, discussion and negotiation with landowners, or with the villagers collectively, about land acquisition matters. Specifically, village representatives will assist the Commune Council in:

- a. Scheduling open meetings to ensure that potentially involved village residents are informed regarding proposed investments, and their rights and options relating to land or other assets that may be involved;
- b. Identification of impacts on land and assets, individuals potentially involved, and the amounts and types of land and other assets sought from each individual;
- c. Scheduling open meetings for public validation of field measurements and maps relating to siting of proposed activities, and public disclosure and validation of any land-related agreements;
- d. Seeking voluntary contributions or negotiated agreements;
- e. Preparing required reports on matters relating to land acquisition;
- f. Facilitating compensation in kind and exemptions from local contributions in relation to land acquisition.
- g. Conducting public meetings to review commune-level annual reviews of implementation performance, to solicit villagers' views on the adequacy of implementation, and to address any grievances, if possible.

District and Provincial Facilitation Teams: In line with their broader facilitation roles, the DFT and the PFT will:

- a. provide advice and facilitation to Commune Councils and Planning and Budgeting Committees with their roles and responsibilities listed above;
- b. supervising and ensuring effective implementation of this framework; and
- c. respond to extent possible to grievances submitted by affected persons.

Provincial Office of Local Administration: At the provincial level, POLA will be responsible for:

- a. Ensuring that all Commune Councils participating in Commune Fund activities are informed about their responsibilities under this Framework;
- b. Assigning trained personnel to assist Commune Councils with preparation of a Land Acquisition Report where necessary;
- c. Approving or rejecting any LARs prepared in support of proposed commune-level Commune Fund investments;
- d. Verifying that the Commune Council has sufficient funds or other resources to pay necessary compensation or meet other obligations associated with acquisition of land or other assets; and
- e. Monitoring implementation of any approved LARs and ensuring that any inadequate implementation is corrected.

Provincial Governor: The governor of each province (or an official delegated by the governor) will respond to any grievances submitted by adversely-affected persons.

Sources of Funding for Land Acquisition-Related Activities

As the borrower, the Kingdom of Cambodia carries official responsibility for meeting terms of this Framework, including financial obligations associated with land acquisition. In practice, Royal Government funds will not be regularly available to Commune Councils for this purpose. Therefore, where a subproject is proposed that would require land acquisition, and where no sufficient source of necessary compensation funds can be identified, the proposal will be disqualified. Intermediate sources of support for land acquisition may include:

- a. For very minor land acquisition, where the value of the land taken from a person is approximately equal to the share of the cash contribution for which the person is responsible, exemption of individuals from contributing cash for necessary village Commune Fund contributions may be sufficient compensation; and/or
- b. With the approval of the relevant commune officials, village cash contributions (at least 3% of estimated subproject costs) collected from unaffected villagers may be used for payment of compensation to affected villagers.

World Bank Supervision Arrangements

The World Bank will undertake periodic project supervision in RILGP provinces to assess compliance with Framework requirements, and to recommend any corrective measures that may be necessary to resolve implementation problems or inadequacies. To facilitate Bank supervision, all approved LARs will be available for Bank review at the Provincial Rural Development Committee office. And all village-level land use reports, including Statements of Voluntary Contribution and Statements of Negotiated Agreement, will be available for Bank review at the commune level.

Additional Annex 16: Seila Program Approach to Strengthening Local Governance CAMBODIA: RURAL INVESTMENT AND LOCAL GOVERNANCE PROJECT

The RILGP Credit is funding a discrete part of the Seila Program, which itself is incorporated into and, indeed, is largely driving the Royal Government of Cambodia's reform agenda for decentralized and deconcentrated governance and development. A wide range of the relevant features of the Seila Program and the current status of the regulatory framework most immediately relevant to RILGP implementation have been described in other sections of this PAD. Nonetheless, it has not been possible to describe in detail the full complement of resources, direct and parallel partnerships and critical thinking that has been applied within the Seila Program or within the larger framework of support to RGC's decentralization and deconcentration reforms. This annex provides a brief overview of the approach under the Seila Program to strengthening local governance.

The Seila Program is comprehensively addressing local governance, including but not limited to anti-corruption, through a multi-pronged approach: understand why and where it happens; get policies, laws and regulations right; put in place robust, participatory and transparent planning, budgeting and financial management and procurement systems; build capacity in local government and communities; ensure monitoring and accountability; and change attitudes. The salient feature of this approach is the premise that policy, law, civil service and system reform, training and attitudinal change within governance can impact on corruption and minimize leakage and this is preferred to alternative programs and approaches that by-pass government yet remain sustainable should be pursued. One of the interesting aspects of the early Seila experience cited by several evaluations was the decision by CARERE to take a "leap of faith" and jump in with government at sub-national level. While nearly every one else was designing parallel systems to by-pass government, Seila with CARERE support designed a parallel government system which first by-passed existing government systems and eventually has led to the reform of the government systems related to decentralization and hopefully in the future to deconcentration as defined in Cambodia. This would not have been possible without a high level of trust between CARERE/PLG and Seila/RGC that begins with the premise that in a post-conflict country suffering from a policy vacuum and poorly trained human resources, everyone deserves a second chance.

Understand why and where corruption happens. Endemic corruption is a salient part of the context within which development programs operate in Asia, and particularly in Cambodia. Among the many core issues of corruption in Cambodia is the level of impunity for government officials. There are very few cases where a government official is actually dismissed from the civil service and put in jail. The most that usually happens is that the official is transferred, out of the way, which only results in a loss of face. Seila, CARERE and PLG are very well informed on the nature and extent of corruption in Cambodia at all levels and have spent an enormous amount of time and energy designing approaches to minimize leakage of resources within the Seila framework.

Get policies, laws and regulations right. There is continuous work being undertaken to complete the decentralized regulatory framework, revise and strengthen existing regulations and improve accountability and performance. Through the design and preparation of RILGP, IDA has contributed to some important changes in the regulations, and further policy changes and refinements will be support during RILGP implementation.

Put in place robust, participatory and transparent planning, budgeting and financial management and procurement systems. Beginning with the issue of transparency, it is widely recognized and often publicly stated by donors, government and NGOs that Seila is at the very least the most

transparent program of any scale in Cambodia today. All resources under Seila, both financial and technical, to individual C/S Councils, provincial departments, provinces as a whole, Ministries and the Seila Task Force itself are openly discussed through the planning and programming process; transformed into detailed budgets and work plans; approved under specific contracts and entered into contract monitoring data bases. Detailed annual budgets at commune, province and national level are published and widely distributed to government, donors, agencies and a broad section of the interested public. We consider this to be the critical first step in addressing corruption as 'leakage' often takes place within both government and aid programs because very few people have any idea of what has been agreed and committed. The more people that are informed, the more people there are to monitor and report on irregularities and the more wary officials become towards abusing the system.

The second element concerns the systems design themselves; both financial and procurement. A complete manual of financial management and procurement procedures for both the external resources managed under Seila as well as the C/S Fund have been developed and continuously updated through support from well qualified advisors and consultants and incorporate a range of best practices. The World Bank has already contributed to the design through the process of formulating the RILG loan and we hope that this will continue. The internal controls that have been put in place under Seila are certainly not complete but they are probably the most robust of any large scale program in Cambodia today. While there has been internal and external monitoring within Seila, there is a clear need for this to be formalized. Included in the 2003 Seila Work Plan and Budget, discussed at the recent Seila Forum chaired by the Minister of Economy and Finance, the following strategic activities related to the decentralized financial system design were approved:

- Seila will work with the MEF to establish a regular system of internal and external auditing of the C/S Fund;
- Seila will work with the MEF to pilot the use of commercial bank accounts by C/S Councils;
- On a pilot basis in 7 provinces, the C/S Fund accounting system within the Provincial Treasuries will be computerized.

Build capacity in local government and communities. Capacity building efforts are targeted to responsible authorities, accountants and finance staff at the level of the commune, within provincial departments, under the Governor and within Ministries, so that they are fully aware and capable of operating the financial system and procurement guidelines. In 2002, training was provided for approximately 10,000 Commune Councilors and Clerks, 1,000 provincial department officials, all of the Provincial Treasury staff working as accountants for the C/S Councils and all of the key officials in the Provincial Department of Finance. Refresher training both on finance and competitive bidding is planned and included in the 2003 work plan. The key objective here is to ensure that ignorance or lack of capacity can not be an excuse for leakage.

Ensure monitoring and accountability. This includes monitoring and accountability both internally within government and externally by advisors. In 2002, the Minister of Economy and Finance sent a letter to each province formally assigning the national Finance Advisor employed under PLG to the Provincial Treasury and the Provincial Finance Unit. The role of this advisor is both to support training and capacity building at province and commune level as well as to be 'physically present' to reinforce accountability. Monitoring and accountability is also the duty of other PLG provincial advisors assigned to management units and departments as well as those supporting the local level.

As the Provincial Treasuries had very little sense of horizontal accountability in the province, in 2002 measures were taken to include them in the provincial management unit (Executive Committee) which coordinates and oversees the implementation of the decentralized regulatory framework. By having to regularly report to this unit chaired by the Governor and be subject to questions on performance, there has been a noticeable improvement and reduction of reported incidents. Procedures have been developed for how PLG advisors are to deal with corruption and seek resolution which first involves a discussion with the Governor, second a referral to the PLG Senior Program Advisor, third a discussion between PLG and STFS and if necessary fourth the involvement of the MEF.

Change attitudes, beliefs and practices. This concerns principles, attitudes and commitment. Regardless of the level of transparency, system design, training, monitoring and auditing, without commitment and a change in attitudes no reform is possible. Since its outset Seila has been involved in mainstreaming good governance principles throughout the program. The core set of principles adopted have been Dialogue, Clarity, Agreement and Respect. Dialogue means making sure that all key stakeholders are consulted in planning and decision making and leads to Clarity. Clarity relates to prioritizing actions and defining roles and responsibilities but needs Agreement. Agreement involves the act of officially signing and approving plans and contracts and actions. Respect involves implementing what has been agreed to. While this may sound trite, these simple principles have been mainstreamed from village to national level, are consistently used in meetings and workshops and have even been analyzed as being consistent with Buddhist principles.

One of the PHRD studies undertaken during RILGP preparation was a governance assessment on knowledge, attitudes and practices. Through interviews with Governors and provincial officials, the consultant found that there is a “white hat/black hat” syndrome involving public finance with the white hat being donned for managing funds associated with Seila and a black hat often used in managing other components of the provincial budget. We believe there is clear evidence of the “white hat” being used for managing the C/S Fund owing to the work being done by Seila, the commitment of the Royal Government for decentralization and the attitude of government officials towards the elected local governments.

MAP SECTION

