

PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC83358

Project Name	KH - Livelihood Enhancement and Association of the Poor Project (LEAP) (P153591)
Region	EAST ASIA AND PACIFIC
Country	Cambodia
Lending Instrument	Investment Project Financing
Project ID	P153591
Borrower(s)	KINGDOM OF CAMBODIA
Implementing Agency	Ministry of Agriculture, Forestry and Fisheries, Ministry of Interior (MOI), Phnom Penh Capital Hall (PPCH), Siem Reap Provincial Municipality
Environmental Category	B-Partial Assessment
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Concept Review Decision	Track II - The review did authorize the preparation to continue

I. Introduction and Context

Country Context

Cambodia has experienced remarkable economic growth and macroeconomic stability since the early 2000s. It grew by an average annual rate per capita of 7.8 percent during 2004-2014, ranking among the top 15 economies in the world in terms of economic growth. The gross domestic product (GDP) per capita according to the Atlas Method increased by more than threefold increase of GDP from US\$300 to around US\$1,020 in 2014. The main drivers of growth have been garment, manufacturing, agriculture, tourism and, more recently, construction and real estate. Economic growth eased in the aftermath of the 2009 global crisis while remaining strong at 7.2 percent during 2010-2014, on average. Growth eased slightly to 7.0 percent in 2015, in the context of a slowdown in China and appreciating U.S. dollar; stronger domestic demand, boosted by a construction boom, low oil prices, and fast credit growth, would be partly offsetting the moderation in the garment, tourism, and agriculture sectors.

The sustained economic performance has lifted a large proportion of the population above the national poverty line, but Cambodia is still one of the poorest countries in the Southeast Asia region.

Between 2004 and 2012, the poverty incidence under the national poverty line declined from 50.2 percent to 17.7 percent of the population, reaching the country's Millennium Development Goal before the 2015 deadline. Most of the poverty reduction occurred between 2007 and 2009, when the headcount rate declined by 20 percentage points, driven by a significant hike in the price of rice, the main agricultural product of Cambodia. Despite this progress, the vast majority of the families that rose above the poverty line did so by a small margin, leaving them at risk in the event of an adverse shock. Poverty reduction in Cambodia has been accompanied by shared prosperity—the real consumption growth of the bottom 40 percent of the distribution was larger than that of the top 60 percent—and a decrease in inequality, with the Gini-coefficient going down from 0.351 to 0.308 between 2008 and 2012.

The overall welfare of households, described by non-monetary indicators, improved significantly throughout the period 2004 to 2014. Still, several challenges remain. Cambodia achieved most of the Millennium Development Goal targets, including those related to poverty reduction, child mortality, and maternal mortality. Targets have been nearly achieved in primary education, whereas areas such as gender equality and environmental sustainability have seen less progress. Moreover, the incidence rate and death by tuberculosis remain high. Cambodia's Human Development Index in 2013 was 0.58, well below the East Asia and Pacific average of 0.70 and also below the medium-income countries' average of 0.63.

Sectoral and Institutional Context

The agriculture sector is central to the livelihoods of most Cambodians as 80% of the total population live in the rural areas. In 2011, Cambodia's poor people who lived under US\$1.15 per day were about 3 million and the near-poor who lived under US\$2.3 per day were about 8.1 million, with about 90 percent of them living in rural areas. The majority or 66 percent of the rural population depends on agriculture for their livelihood, however more than 10 percent are landless and a large share of the rural population cultivates less than 0.5 ha which on average provides for less than half of the basic nutritional needs for a typical rural family. Two thirds of the country's rural households still face seasonal food shortages each year. Improving productivity and increasing production are important issues for all of Cambodia's farmers.

Poor rural households are constrained by lack of human, financial and social capital, in particular access to finance and to markets. Despite the growth in the formal financial sector in Cambodia, the poor are still forced to take loans at usurious rates to fulfill basic consumption needs, many are becoming over-indebted and handicapped by low financial literacy. A combination of not being able to achieve economies of scale by producing as a group; lack of technical know-how; limited access to agricultural extension services; lack of market information; and poor infrastructure (e.g. roads and markets) inhibit the ability of the poor to penetrate key value chains. Despite the productivity improvements of some small farms in recent years, the productivity of most small traditional farms has remained low. The poor also lack voice and institutions that can empower them. This lack of voice and sense of powerlessness perpetuates a belief among the poor that their situation is unchangeable, causing some to spiral into inaction or social vices. Together, these constraints create a vicious circle of sustained poverty i.e. inadequate incomes to meet consumption needs and indebtedness to private moneylenders.

Poverty in Siem Reap province is particularly paradoxical. In 2015, Siem Reap attracted more than 2 million international tourists with ticket sales alone at US\$60 million and broader economic activity estimated to exceed US\$500 million per year. Yet, Siem Reap remains the 8th poorest

province in the country (out of 24 provinces) country and communities living in rural areas barely 10 miles from the rapidly urbanizing Siem Reap town live at subsistence-level poverty. The Ministry of Planning's ID Poor assessments conducted in 2008 reveal that out of the total provincial household population of over 136,000 (of which 82% live in rural areas), 14% of households belonged to the poorest group (ID Poor 1) and 15% to the 'poor' category (ID Poor 2) in 2008.

A majority of poor households are in rural areas, yet urban areas are littered with pockets of extreme poverty, a situation likely to be exacerbated by rapid rural-urban migration. With nearly 9 out of 10 poor households residing in rural areas as of 2012, rural communities should remain the primary focus of poverty reduction efforts. Nonetheless, urban poverty remains a concern, particularly in the rapidly growing capital city of Phnom Penh. In 2012, UNICEF prepared a Phnom Penh Urban Poor Assessment for the Phnom Penh Capital (PPC), identifying 281 urban poor communities, most of which are informal settlements. While PPC has managed to reduce the number of urban poor communities to 215 as of October 2015, mainly by organizing them into formal villages, the pressures on urban poverty and informal settlements will continue to grow as rural-urban migration continues apace. In 1998 one in every 20 Cambodians lived in the city of Phnom Penh, and by 2012 this number had increased to about one in 10. The population of Phnom Penh is expected to double yet again by 2025.

The Royal Cambodia Government and the Phnom Penh Capital are developing strategies to manage the risks and opportunities of urban growth. In 2014, the PPC began implementation of its Five-Year Development Plan, 2014 to 2018. In 2015, an Urban Development Plan for Phnom Penh was approved by the RCG and will begin to roll-out in early 2016. Around 20 UN agencies, international and national NGOs are active in Phnom Penh, many of which are contributing to the development and eventual implementation of a "minimum package" of support for urban poor communities.

The LEAP design has been piloted in six communes in Siem Reap and an impact evaluation found it to be effective in encouraging savings and associations through self-help groups. Full-scale implementation of LEAP was intended to cover 50 communes in Siem Reap, but this was never realized. Using a Project Preparation Advance, the full institutional arrangements for implementation were put into place and a pilot was conducted between July 2010 and June 2012. The pilot successfully facilitated the establishment of 100 self-help groups and their development to savings and credit groups. Functioning groups emerged as entry points for capacity building and resource provision for economic activities that strengthened livelihoods and increased incomes from investments in agriculture, livestock and handicraft production. The proposed project would consolidate and scale up the LEAP's early achievements. The RGC also intends to use this model for addressing urban poverty. It will be tested as an instrument to address the needs of urban poor communities in Phnom Penh.

Relationship to CAS

The project was designed based on broader consultation with relevant stakeholders and is one of the priority projects identified in the forthcoming Cambodia Country Engagement Note (FY2016-2017) which is scheduled for Board discussion on May 19, 2016. The CEN has two pillars: (i) sustaining inclusive and competitive economic growth; and (ii) improving public services delivery and reducing vulnerability. The LEAP investment operation would contribute to Pillar 2 by reducing the vulnerability of rural and urban poor households by generating opportunities to build assets and develop income earning potential.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

The Project Development Objective (PDO) is to help improve livelihoods of targeted poor households in selected provinces and communities.

Key Results (From PCN)

The key results the proposed project expects to achieve by targeting rural and urban poor beneficiaries are as follows:

- a. Creation and strengthening of self-sustaining livelihood-related community-level institutions;
- b. Improved access to finance and linkages to markets and key value chains for their livelihood activities; and
- c. Improved delivery of key services, such as capacity building to develop and strengthen technical and managerial (business) skills of targeted poor beneficiaries.

III. Preliminary Description

Concept Description

The proposed project will support rural and urban poor communities through the enhanced provision of livelihood support services and basic infrastructure. A participatory approach to group formation, needs identification and support activity planning will be applied following the CDD principles.

The proposed project will build on the successful pilot activities, incorporating lessons-learned and the results of two independent evaluations, adapting activities to support urban and peri-urban project communities. Activities would be adjusted to reflect the changed conditions since the end of the pilot phase in September 2012.

The proposed project will have 4 main components.

- Component 1: Building and Strengthening Institutions of the Poor
- Component 2: Supporting Income Generation
- Component 3: Basic Services and Infrastructure
- Component 4: Project Management, Coordination, and Monitoring & Evaluation

Activities under the 4 components will be adapted and detailed for implementation in rural and urban environments respectively. There would not be specific rural and urban poor components but the project would build on rural pilot experiences and have the proposed project adapt activities for rural and urban communities respectively.

Project Components:

Component 1: Building and Strengthening Institutions of the Poor (US\$ 4million)

Building on the experience of supporting 100 SHGs supported during the pilot phase, the objective of this component would be to mobilize and build self-managed, and financially sustainable community based institutions of the poor through a participatory process. The core institutions created will be Self-Help Groups (SHGs) built around common economic interests. In rural

communities, these groups will mostly form around agriculture-based livelihood activities, in urban environments, saving and credit, and other common interests will unite groups. Based on the need and opportunity, the project would also support federating SHGs to the commune level to establish "Commune Level Federations" (CLFs), which would perform a financial function as well as economic support services for the producer groups. Depending on the scope of the SHGs, they might form or become part of an Agriculture Cooperative (AC), which would open the possibility for further public and private support offered by RGC and other development partners. The specific activities of Component 1 will be (a) financing NGO partners and a team of community facilitators for social mobilization; (b) training and capacity-building support for each of the community-level institutions; (c) training and financing of a cadre of Community Professional (CPs); (d) start-up supplies and equipment for the community-level institutions; (e) development and use of strategic information, education and communication (IEC) materials.

Component 2: Supporting Income Generation (US\$ 8million)

The main objective of this component would be to increase the income generated by poor households by improving their access to financial services and resources and skills needed for small enterprise growth and improved employment. Activities would include seed grant financing to SHGs and CLFs, support to engage with partner commercial banks and MFIs, value-chain linkages (e.g. middlemen, buyers, suppliers, processors, or directly with consumers), vocational training and job linkages. The specific activities of Component 2 will include (a) identification of market opportunities for rural and urban SHGs and individual members; (b) farmer training and technical assistance to improve production and delivery techniques; (c) marketing research studies; (d) seed capital to producer associations to set up basic organizational structures; and (e) specialized value chain support to producer associations through contracts and marketing tie-ups with private sector agencies. Co-financing of small-scale economic infrastructure (storage facilities, agro-processing, packaging and delivery channels) could also be undertaken on a demand-driven basis

Component 3: Basic Services and Infrastructure (US\$ 6million)

The objective of this component is to improve the quality and availability of basic social and economic services and infrastructure for poor and vulnerable communities. Activities would focus on the upgrading or rehabilitation of small-scale infrastructure and services, which contribute to improved income generating potential for poor households. Specific activities could include storage facilities, small roads/footpaths, water supply and sanitation, education/training facilities, among others, to be identified during preparation. Where communities identify gaps in basic infrastructure as a major constraint to livelihood improvements, the project could fund rehabilitation activities or upgrading and expansion of small scale but critical infrastructure. Where project resources are not sufficient for coverage of identified critical needs, the village/community development planning process will be supported to have necessary investments included in the commune/sangkat development and investment plans. The Component will fund planning processes and required technical assistance. It will also finance implementation costs for capacity building, training, and the implementation of small-scale infrastructure projects.

Component 4: Project Management, Coordination, and Monitoring & Evaluation (US\$ 2million)

This component would facilitate overall co-ordination, implementation, financial management, and monitoring and evaluation of the project at national provincial, khan, commune, and village/

community levels. It would include setting up and strengthening provincial and municipality level project units, providing office infrastructure and logistic support, and setting up monitoring, auditing, and evaluation and learning systems.

IV. Safeguard Policies that might apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01	x		
Natural Habitats OP/BP 4.04			x
Forests OP/BP 4.36			x
Pest Management OP 4.09			x
Physical Cultural Resources OP/BP 4.11	x		
Indigenous Peoples OP/BP 4.10			x
Involuntary Resettlement OP/BP 4.12	x		
Safety of Dams OP/BP 4.37			x
Projects on International Waterways OP/BP 7.50			x
Projects in Disputed Areas OP/BP 7.60		x	

V. Financing (in USD Million)

Total Project Cost:	20.00	Total Bank Financing:	20.00
Financing Gap:	0.00		
Financing Source			Amount
BORROWER/RECIPIENT			0.00
International Development Association (IDA)			20.00
Total			20.00

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