

# Livelihood Stabilization Program for Households Affected by the Highway One Project

## Concept Paper

Date: 30 May 2008

### PART I. GENERAL INFORMATION

#### 1. Mode of Nonlending Assistance

- Grant-financed assistance (specify source)
- Japan Fund for Poverty Reduction (JFPR)
  - Others \_\_\_\_\_
- Technical assistance (specify TA type)
- Project preparatory
  - Advisory
    - Economic, thematic, and sector work
    - Institutional development
    - Plan formulation
    - Implementation, operation, and management of Asian Development Bank (ADB)-financed projects
    - Other
  - Regional

#### 2. Assistance Focus

a. If TA, specify if it is sovereign (i.e., to be provided in response to a request(s) from a developing member country government) or nonsovereign (i.e., other than sovereign TA):

- Sovereign TA  Nonsovereign TA

b. Sector:

- |  |   |
|--|---|
| <input type="checkbox"/> Agriculture and Natural Resources       | <input type="checkbox"/> Industry and Trade                             |
| <input type="checkbox"/> Education                               | <input type="checkbox"/> Law, Economic Management and Public Policy     |
| <input type="checkbox"/> Energy                                  | <input type="checkbox"/> Transport and Communications                   |
| <input checked="" type="checkbox"/> Finance                      | <input type="checkbox"/> Water Supply, Sanitation, and Waste Management |
| <input type="checkbox"/> Health, Nutrition and Social Protection | <input type="checkbox"/> Multisector                                    |

Subsector: Microfinance

c. Targeting classification

- Targeted intervention  TI-MDG  TI-Geographic
- General intervention

d. Key thematic area(s)

Themes:

- |  |  |
|--|--|
| <input checked="" type="checkbox"/> Sustainable economic growth  | <input type="checkbox"/> Environmental sustainability    |
| <input checked="" type="checkbox"/> Inclusive social development | <input type="checkbox"/> Regional cooperation            |
| <input type="checkbox"/> Governance                              | <input type="checkbox"/> Private sector development      |
| <input type="checkbox"/> Gender and development                  | <input checked="" type="checkbox"/> Capacity development |

Subtheme(s): Developing rural areas; Other vulnerable groups

#### 3. Coverage

- Country  Subregional  Interregional  Internal policy development

Selected Communes along National Highway One

#### 4. Responsible Department and Division: SERD/Cambodia Resident Mission (CARM)

## PART II. DESCRIPTION OF ASSISTANCE

### 1. The Proposed Assistance

- a. **Link to country/regional strategy.** Cambodia's overall macroeconomic performance in recent years has been very good averaging 11.1% over the past four years and indications are that the incidence of overall poverty has declined to around 30%, from 34% in 2004. However, 15-20% of the population is still living in extreme poverty. Poverty remains persistently high in rural areas, from a low of 10-15% in Phnom Penh and about 40% in rural areas. In addressing the poverty, the Government has been implementing its Rectangular Strategy and the NSDP 2006-2015 that focus on (1) enhancement of agricultural sector; (2) private sector growth and employment; (3) continued rehabilitation and construction of physical infrastructure; and (4) capacity building and human resource development. The mid-term review of ADB's Cambodia CSP 2005-2009 of poverty reduction through broad-based economic growth, inclusive social development, and good governance called for a strategic thrust which emphasized on agriculture and rural development and private-sector-led growth.

The GMS: Phnom Penh-Ho Chi Minh Highway Project (Highway One) was the first GMS road project financed by ADB in Cambodia, and thus had inadequate resettlement planning and implementation. Some affected households (AHs) now find themselves in perpetual debt due to the inadequacy and the absence of a reliable and stable source of livelihood, exacerbated by the debilitating effects of having outstanding loans at very high interest rates. Access to new road and bridges almost completely eliminated their day-to-day income generating activities from unpaved roads and the ferry crossing. Expensive loans from money lenders were incurred when the AHs needed to rent homes and relocate their houses as land allocation and financial compensation only came sometime later. A livelihood stabilization program is, therefore, needed to bring AHs and those living along Highway One out of their impoverished state.

The proposed JFPR is aimed at remedying the consequences suffered by the project AHs and beyond by enabling microfinance solutions that will help AHs pay off their debt and generate sustainable income and employment to sustain and improve their livelihood while at the same time boost agriculture and rural development. In doing so, the project is fully aligned with the NSDP and the Government's Financial Sector Development Strategy 2006-2015 that indicates rural credit as an important ingredient for broad based economic expansion, for rural development, and for alleviation of poverty by supporting agricultural production and the creation and expansion of businesses (particularly SMEs), increasing productivity, and generating incomes and for raising living standards. ADB's lead role in supporting reforms in the financial sector, especially in strengthening supervisory capacity and regulatory environment of microfinance provides sound framework and solid foundation for the implementation of this JFPR.

- b. **Impact.** The proposed project will support the goals of economic growth and poverty reduction through affordable and reliable access to finance as a mean to improve and sustain the livelihoods of the AHs and those impoverished households who were indirectly affected. It will also foster the growth of agriculture development by equipping the rural households with entrepreneur skills and financial means to carry out productive agricultural and SME activities.
- c. **Outcome.** The expected project outcomes are (i) the 63 currently affected households in Neak Loeung commune, Prey Veng province and those indirectly affected (including 875 original AHs) living along National Highway One have improved their livelihoods in a sustainable manner and are able to free themselves from vicious indebtedness through financial solutions provided by MFIs, (ii) increased access to finance for agricultural and SME activities, (iii) integration of rural and informal economy into the formal sector, and (iv) enhanced integrity of the microfinance sector and further deepening as a result of improved supervisory capacity and wider rural outreach.
- d. **Expected outputs and time frame.** The JFPR will be implemented over a 48-month period and its expected outputs include:

- i. **Entrepreneur Skills Training:** The 63 currently AHs will have received entrepreneur skills and access to affordable credit from MFIs to generate income that will help relieve their debt stress, as will other affected households living along the National Highway One. At least 50% of the AHs will have improved their livelihood in the second year of project implementation). In turn, there will be an expansion in productive agriculture and SME activities. Upon completion of the project, at least 50% of the AHs will have enhanced their entrepreneur skills.
- ii. **Microcredit Program:** AHs will have received affordable credit from selected MFIs to pay off their debts. They will also have better access to credit for their income generating purposes (at least an incremental 30% for each year of project implementation). As a result, there will also be an increased integration of rural finance to the formal financial system and the economy.
- iii. **Monitoring and Implementation Support:** The project will have improved MFI supervisory capacity of both supervisor (the National Bank of Cambodia) and implementing MFIs, and established underpinning conditions for broader market and outreach for rural microfinance. It will have generated successful lessons learnt from the implementation modality of this JFPR for replication in a larger-scale project to boost agriculture and rural development.

**e. Potential issues and risks.** The livelihood stabilization program is to be implemented under the JFPR grant and will cause neither involuntary resettlement impacts, nor any negative impacts to the tribal/minority groups living along the National Highway One. There are, however, two potential risks: (i) willingness of qualified MFIs to get involved in the project, and (ii) debt claim manipulation by AHs and their return to a debt trap. The project will motivate MFIs by providing a package of operational incentives and promising access to concessional funding. By offering affordable credit to AHs to help pay off their debts, the project will put an end to the debt trap while resting the responsibility to repay to AHs. By equipping them with affordable credit and entrepreneur skills to generate sustainable income, the project will prevent AHs from further impoverishment and falling back into a debt trap. ADB's experience from the Rural Credit and Savings Project is being taken into account by way of guidance on the project design and pinpointing what may or may not work in Cambodia. Characteristics and dynamics of informal credit market will also be taken into account in the design of the JFPR to address the issue of balancing effective rural outreach whilst not creating market distortions.

**f. Plans for disseminating results.**

- Internal
  - Announcement in ADB Today
  - Article in ADB Review
  - Seminar, workshop, brown bag
- External
  - Publication of articles in external journals or books
  - Posting article on adb.org
  - Media plan to be drafted (includes news releases, op-eds, or press briefings, interviews, or tours)
  - Presentation at external conferences
  - Others—Relevant In-Country Stakeholders

**2. Proposed Executing/Implementing Agency or Agencies:** National Bank of Cambodia (NBC) is the Executing Agency. Selected and qualified MFIs will be the implementing agencies (IAs). NBC will chair a project steering committee comprising of NBC; the Inter-ministerial Resettlement Committee (IRC) of the Ministry of Economy and Finance; the Provincial Authorities of Prey Veng and Svay Rieng provinces; and the IAs. The steering committee will review the project implementation biannually.

**3. Stakeholder Participation and Consultation:** The Project will adopt a fully participatory approach with adequate consultations with all stakeholders: government officials at all levels, the community, the private sector and development partners who are involved under the GMS Phnom Penh to Ho Chi Minh City Highway Loan 1659-CAM. The project will also take account of lessons learnt from previous microfinance projects..

#### 4. Financing Plan

- JFPR: \$1,800,000
- Technical Assistance Special Fund:
- Japan Special Fund:
- Other:

| Source               | Amount (\$)      |
|----------------------|------------------|
| ADB Financing        | 1,800,000        |
| Government Financing | 180,000          |
| <b>Total Cost</b>    | <b>1,980,000</b> |

Source: Staff Estimates.

#### PART III. TIMETABLE FOR ASSISTANCE DESIGN, PROCESSING, AND IMPLEMENTATION

1. Year included in a regional or country operations business plan or an annual work plan of interregional TA: 2008
2. Expected date of submission for approval: September 2008
3. Period and duration of assistance: 48 Months (January 2009 to December 2012)
4. Expected Year of Ensuing Loan/Grant:

ADB = Asian Development Bank, CSP = Country Strategy and Program, GMS = Greater Mekong Sub-region, JFPR = Japan Fund for Poverty Reduction, Microfinance Institution= MFI, NBC = National Bank of Cambodia, NSDP = National Strategic Development Plan, SME = Small and Medium-sized Enterprise.