



Asian Development Bank

Cambodia Resident Mission

14 December 2008

Director, Mekong Watch
2F Maruko Bldg., 1-20-6 Higashi-Ueno,
Taito-ku, Tokyo 110-0015, Japan
Tel: 03-3832-5034
Fax: 03-3832-5039
Email: info@mekongwatch.org

To the Director, Mekong Watch

Dear Sir,

Subject: Mekong Watch Briefing on 63 Families' Grievance, 20 November 2008

Thank you for submitting your latest briefing note on ADB Loan 1659-CAM to our Director General Arjun Thapan in Tokyo recently. We believe in constructive dialogue with civil society and to that end appreciate Mekong Watch's research and advocacy on the environmental and social impacts of development in the Mekong Region. On 28 November 2008 the ADB Cambodia Resident Mission (CARM) had the opportunity to meet Mr. Toshiyuki Doi, Senior Advisor, Mekong Watch Bangkok Office, to brief him in detail about the proposed Livelihood Stabilization Project (LSP) and its approval status.

With this letter we wish to refer you to the detailed answers and explanations that we presented to Mekong Watch queries on 12 September 2008 (please see attached). We believe the 12 September response clearly articulates ADB's position on the proposed LSP. We see it fundamentally as a project to sustainably address the debt trap in which many poor families along Highway 1 find themselves.

Providing grants to write off debt is not a sustainable way forward for committed engagement from microfinance institutions (MFIs) to support livelihood enhancement. ADB will endeavor to ensure that MFI loans are delivered to the poor people at the most concessional rates and terms possible to enable microfinance outreach. But we cannot ignore the rules and market principles that ADB, other development partners, and the Government have thus far promoted in developing the microfinance industry in Cambodia. The proposed LSP will apply a competitive bidding process to select those MFIs that can not only deliver the lowest interest rate possible for outreach but can also partner with NGOs who can provide corollary training services. The key objective of the proposed LSP will be to enable poor households to generate income to service their loans at a later stage. Consequently, the grant element of the LSP will support those beneficiaries who pursue livelihood training that will help them break the poverty trap. This process will ensure the most favorable terms and conditions for the poor people while maintaining the sustainability, integrity, and viability features that are critical for a project of this nature.

The proposed project duration is 4 years. While the possibility of extension exists, any extension would need to be discussed with the Government upon assessment of progress and success of implementation.

Yours Sincerely,

Arjun Goswami
Country Director

**CARM'S RESPONSE TO MEKONG WATCH'S QUESTIONS
ON
JFPR: LIVELIHOOD STABILIZATION PROGRAM
12 September 2008**

1. Process of the project formation of Livelihood Stabilization Program (LSP)

Q1. Please explain the decision-making process for this LSP in the ADB including the involvement of the Government of Japan, before the Board approval scheduled on 30 October 2008.

A1: The concept paper of the proposed JFPR was presented to Mr. Kennichi Kobayashi, Second Secretary of Embassy of Japan (Phnom Penh) on 19 June 2008. The concept paper was circulated for ADB inter-departmental comments on 21 May 2008, including Mr. Megumi Araki, focal point for JFPR financing with ADB's Office of Cofinancing. After field visit consultations with the project stakeholders, an MOU was signed on 25 July 2008 between ADB and National Bank of Cambodia, the proposed EA. A full draft JFPR proposal was then formulated and circulated for ADB inter-departmental comments on 6 August 2008. An ADB staff review committee meeting to discuss the proposal was chaired by DDG/SERD on 29 August 2008. The proposal was endorsed by the committee during that meeting. The Mission has submitted the final proposal to Ms. Misa Tamura and copied Mr. Kobayashi of the Embassy of Japan. It has also offered to brief representatives of the Embassy again, but has not received any confirmation yet.

Q2. We believe it is important to reflect the comments from local residents on the project design of the LSP and get their approval. To date, the residents have been commenting that the timeframe of the project is too short and the interest rate too high, and that the loan should be granted also during the vocational training. Among these comments, the timeframe has been extended from two years to four years. However, regarding other comments, no answer has been given towards the local residents in Khmer. A detailed answer should be prepared in Khmer and given to them.

A2: The Mission believes that it has taken on board relevant comments that the project can accommodate. It did address some concerns of the beneficiaries and respond to their demands, although it acknowledged that there were certain aspects that the project could not accommodate due to the issues concerning project implementation and its sustainability and viability. During the field visit, the Mission already informed the project beneficiaries of an expected interest rate range (10-15% per annum) that potential MFIs may provide. The proposed project modality was designed to ensure that the people could benefit from credit at a lower rate than they currently have to pay either through the formal credit market (36-48% per annum) or through informal money lenders (i.e. more than 50%). As an institution that assists the Government in financial sector reforms, ADB cannot distort the market by subsidizing the provision of such credit sector. The best it could do through this project is to provide source of concessional funding to MFIs (as a loan) so that they could ultimately lend at a lower rate. Indicative interest rates that MFIs have suggested are already less than half of their normal rate. The viability of the project also has an important effect on the beneficiaries. Therefore, it should be left to MFIs to determine at what rate they can lend to the people. What the project can do in addition is to provide project beneficiaries who need to undergo training some daily subsistence

allowance for the training period so that they can afford to attend the skills training while foregoing their livelihood activities. The project has allocated some budget for this purpose. The Mission is already working on the final project summary in Khmer and intends to visit the project beneficiaries again and share it with them once the JFPR receives confirmation of approval from the Government of Japan.

Q3. Although 63 households of the local residents have submitted their comments to the Cambodia Resident Mission (CARM), CARM's prior explanation was insufficient and it was given just on oral basis. The residents do not know the details of the LSP. Furthermore, other households than the above-mentioned 63 are hardly informed of the LSP. So, CARM should give the residents the most detailed explanation on the LSP and collect their comments on the project.

A3: The Mission believed it already explained the core features of the project: the lending arrangement, the terms and conditions, the skills training, sustainability issue, the potential MFIs, limitations of the project, and what ADB can and cannot offer. A project summary (diagram) in Khmer was explained and distributed during that consultation. In addition to the 63 households, the Mission also visited 3 more affected communities and their representatives and presented the proposed project at the meeting. Most of project beneficiaries whom the mission visited confirmed full support for the project. In their joint letter to ADB, the two community leaders of Kraing Khok and Stoeung Slot representing the 63 households confirmed that they had conducted a meeting with their members and as a result 80% of their members were satisfied with the project. The Mission did request community representatives and NGOs who have been representing the affected people to actively share the project information with their members. A copy of the signed MOU was provided on 5 August 2008 to the NGO Forum, who has been representing the affected people, for their information and further dissemination among their network. The Mission intends to visit larger group of project beneficiaries once it is certain about final project approval.

2. Content of the project

Q4. What is the grant from JFPR used for? How is the Cambodian Government going to use the returned loan from the residents?

A4: The grant will be mainly used to finance the cost of skills training for those beneficiaries who need it, the daily subsistence allowances for those undergoing training, and loans to selected MFIs for them to further on-lend. Upon project completion, the project steering committee will decide on the future of the fund. It could be used for similar purposes for other poor or affected areas of Cambodia.

Q5. The past socio-economic survey has illustrated the debt situation of 63 households. Based on the survey, will the ADB provide full amount loan for debt refinancing? Or, MFIs will survey the current debt situation and decide the loan amount?

A5: This question was also raised during the meeting with affected people on 26 June 2008. The Mission highlighted the absence of basic skills for sustainable livelihoods as a fundamental root cause of their impoverishment. The project will provide the affected people with basic skills and credit so that they will be able to improve their livelihood on a sustainable basis. With regard to their debt, the Mission could not verify and validate their claims despite the initial survey. Subsequent visits and inquiries gave contradictory

information and claims that drastically varied in merely a short follow-up period. The Mission found that claims were inflated based upon rumors that ADB was about to give grant compensation. Proof of their debt claims was not verifiable and credible and there is no way the ADB could validate such claims. Any cash handout would have a significant negative affect that could potentially trigger similar demands in other projects unnecessarily. On the other hand, the Mission believes that a third party i.e. the MFI that is neutral and not involved in the resettlement issue should be in the best position to deal with the evaluation of debt and decide the amount it will lend to refinance such debt. Project beneficiaries will have no incentive to inflate their debt amounts when enter into transactions directly with MFIs and fully realize the repayment obligation they have.

Q6. After the survey conducted in November 2007, the debt situation of 63 households has been worsened. The additional debt after the survey is also covered by the refinancing loan?

A6: The proposed project is aimed at improving and stabilizing the livelihood of the project beneficiaries. It is not about debt relief. Selected MFIs will evaluate the amount of debt and decide the amount of lending to the households. It is important to note also that MFIs will receive a loan, not grant, from this project. They will have a contractual obligation to repay to the Government. Therefore they would need to exercise their proper due diligence and assessment when determining the loan amount. Please also see the answer in A5.

Q7. Regarding other households than 63 households, how will ADB inform them of the LSP? While the socio-economic survey is not conducted for them, how will ADB assess their debt situation and select the households for refinancing loan and other programs?

A9. The Mission already informed the 63 households and other affected communities during the field visit on 26 June 2008 as coordinated by the NGO CDCam. The project will carry out a needs assessment and poverty survey to determine the poor. They will all be eligible to participate in the project. As for the loan, they will work directly with the MFIs to determine the amount that they are capable to borrow.

Q8. Are the residents who have already been transferred from along National Highway One covered by the LSP? How will ADB assess the existence of these residents and inform them of the LSP?

A9. We do have a list of originally affected households and those will be eligible to participate in the project if the needs assessment and poverty survey indicate that they are poor. The project will work with local authorities and community leaders to ensure that they are informed of their eligibility.

Q9. The residents in Kandal are covered by the LSP. Does this mean that the residents who are affected by the C1 of National Highway One (under construction by the Japanese grant aid project) are also covered by the LSP?

A9. Yes, it is the intention of the project. But the needs assessment and baseline survey will determine who are the poor. Coverage of the project will therefore have to be subject to the availability of funds and the actual number of eligible beneficiaries who want to participate in the project.

Q10. According to CARM, a loan is granted to the households with no skills, after the vocational training. However, during the vocational training, their debt situation can be aggravated. What measures will ADB take towards this?

A10. The households will need to understand that this project is not about debt relief. They need to come to some form of agreement with their lenders to break out of the loan cycle based on the promise that they will have a more sustainable livelihood that will enable them to generate income to service the loan at a later stage. The project will provide some daily subsistence allowance during the training period to ensure that those households can still support their family without having to resort to additional borrowing while foregoing their income generation activities. Therefore, households should not incur any more debt during this interim period.

Q11. For those who are unable to improve their livelihood (elderly or sick people etc.) through vocational training, assistance should be given not by loan, but grant.

A11. Eligibility to borrow will be extended to other active members of the households should the heads of households be elderly or sick. The ADB finds grants or donations are best implemented by a charity organization. It is also a hard concept for ADB as implementer of JFPR to defend since it poses a major question on the issue of sustainability.

3. Other

Q12. How is the issue of granting the title to land resolved, which was claimed in the appeal to SPF (Special Project Facilitator)?

A12. A letter requesting land title for relocated people was submitted to Ministry of Land Management and Urban Planning (MLMUP) on 10 August 2008. The Minister of MLMUP has already approved the request last week and sent it to Cadastral Department of MLMUP for preparation of the land title, and this will be subsequently forwarded to the Cadastral Department of Prey Veng province.

(end)