

Ex-ante Evaluation

1. Name of the Project

Country: The Kingdom of Cambodia

Project: Sihanoukville Port Special Economic Zone Development Project

(Loan Agreement: March 31, 2008; Loan Amount: 3,651 million yen; Borrower: The Royal Government of Cambodia)

2. Necessity and Relevance of JBIC's Assistance

Since establishing its constitution in 1993, Cambodia has been moving from a planned economy to a market economy, and international integration and development have been proceeding at a swift pace. In addition, since achieving accession to the World Trade Organization (WTO) in October 2004, Cambodia has taken steps to develop laws and regulations related to investment and economic activities. On the other hand, Cambodia's economic base is weak – as evidenced by the lack of industrial infrastructure and limited supply capacity due to low level of manufacturing technology, coupled with the restrictive nature of the country's domestic industry (total population: 14.2 million; GDP per capita: US\$512, as of 2006) – and the high percentage of the younger generation in its population highlight the urgency of generating employment.

Expectations run high for foreign direct investment (FDI) to compensate for Cambodia's lack of domestic funds as well as to promote transfer of manufacturing technologies and job creation. In recent years, as evidenced by the large increase in FDI from 2005 to 2006 (from US\$1.1 billion in 2005 to about US\$4.4 billion in 2006 on approval basis), the scale of foreign investment has tended to expand, with about half of it going to the construction industry. Although the textile and sewn products industry accounts for about 71% of the country's exports, there are concerns that the industry may lose its competitive edge when, among other things, the safeguard against textile and sewn products from China is lifted (EU in January 2008, USA in January 2009) and the preferential tariff rate on imports by the United States, the main destination for Cambodian textile and sewn products, is lowered. Thus, FDI and other types of investments are expected to help diversify Cambodian industry. Under such circumstances, it is essential that an attractive investment climate be created if Cambodia is to be able to successfully generate employment through the development of its private sector; albeit, there are many problems the country faces including poor governance and lack of infrastructure.

This project will take over from the Sihanoukville Port Special Economic Zone Development Project (E/S¹), for which JBIC signed an ODA loan agreement in March 2006, and support the main construction work. The establishment of the special economic zone (SEZ) focusing on attracting FDI is expected to contribute greatly to the development of Cambodia's export-related industries, at the same time generating employment opportunities, particularly for the young. In addition, 18 SEZs have been approved in Cambodia up to now, and the success of the SEZ is expected to have a pipe-priming effect in expanding investments in other SEZs.

The government of Cambodia cites the development of the private sector and the creation of employment opportunities as important strategic targets in the Quadrilateral Strategy announced by

¹ E/S (Engineering Services) Loans: These loans are provided to finance operations, including such preliminary work as project formation and bidding (engineering services), undertaken by hiring consultants before a project is implemented.

the new government, which was formed in July 2004, and in the National Strategic Development Plan (NSDP) drawn up in January 2006.

In the Country Assistance Plan announced by the government of Japan in 2002, “sustainable economic growth and the realization of a stable society” headed the list of issues that need to be supported as priority matters. Moreover, in JBIC’s Medium-Term Strategy for Overseas Economic Cooperation Operations (2005), support for “infrastructure improvement and policy system reforms to invigorate private economic activities” was cited as one of the priority areas to be considered in relation to Cambodia. Therefore, JBIC’s assistance for this project, which promotes invigoration of private-sector economic activities, is highly necessary and relevant.

3. Project Objectives

This project aims to increase direct investment flows into the region and to generate employment by developing an SEZ in Sihanoukville City; thereby, contributing to the economic growth of Cambodia.

4. Project Description

(1) Target Area

Sihanoukville City

(2) Project Outline

This is a project to develop an SEZ with an area of about 70 ha in Sihanoukville City. The scope of the project is as follows:

- (a) Development of an industrial site
- (b) Development of public services including roads, water supply facilities and sewage treatment facilities
- (c) Consulting services for implementation of construction monitoring and supervision, support for establishment of administrative decrees and statutes, support for creation of an implementation structure, and support for investment inducement activities

(3) Total Project Cost / Loan Amount

3,922 million yen (Yen Loan Amount: 3,651million yen)

(4) Schedule

April 2008–January 2011 (34 months). The project will be completed when the construction work is completed.

(5) Implementation Structure

- (a) Borrower: The Royal Government of Cambodia
- (b) Executing Agency: Port Authority of Sihanoukville (PAS) and Council for the Development of Cambodia (CDC)
- (c) Operation and Maintenance System: PAS

(6) Environmental and Social Consideration

- (a) Environmental Effects / Land Acquisition and Resident Relocation

(i) Category: A

(ii) Reason for Categorization

This project is likely to have significant adverse impact on the environment under the “Japan Bank for International Cooperation Guidelines for Confirmation of Environmental and Social Considerations” (established in April 2002). Thus, this project is classified as Category A.

(iii) Environmental Permit

The Environmental Impact Assessment (EIA) report related to the project was approved by the Ministry of Environment in March 2006.

(iv) Anti-Pollution Measures

Wastewater from the SEZ will be treated and released into the sea in a state and manner that meets the wastewater standards established in Cambodia.

(v) Natural Environment

The project site is not located in or around sensitive areas, such as national parks, and so adverse impact on the natural environment is assumed to be minimal.

(vi) Social Environment

In this project, residents of about 700 households located in the target area were relocated from 2001 to 2006. In addition, resident relocation of 10 households to make room for the construction of an access road is being carried out by PAS in accordance with the country’s domestic procedures.

(vii) Other/Monitoring

In this project, PAS will monitor the progress of the resident relocation operation, the living conditions of the residents after relocation, in addition to noise, vibration, water quality and soil.

(b) Promotion of Poverty Reduction

None

(c) Promotion of Social Development (e.g. Gender Perspective, Measures for Infectious Diseases Including AIDS, Participatory Development, Consideration for the Handicapped, etc.)

In previous projects, including the Sihanoukville Port Urgent Rehabilitation Project SAPI (2001), PAS implemented measures against AIDS targeting construction workers. Similarly, in this project, PAS has agreed to implement measures against AIDS using existing schemes including in-house clinics.

(7) Other Important Issues

The government of Japan is at present implementing the Poverty Reduction Growth Operation (PRGO) to promote Cambodia’s policy system reforms at the initiative of the World Bank.

5. Outcome Targets

(1) Evaluation Indicators (Operation and Effect Indicator)²

Indicators	Target (2013, 2 years after completion)
Amount of direct investment (million dollars)	150
Number of relocating companies (companies)	26
Number of jobs created (people)	15,000
Amount of exports (amount of exports by relocating companies) (million dollars/year)	87
Volume of containers handled (additional volume) (TEU/year)	30,000

(2) Number of Beneficiaries

15,000 (number of jobs created)

(3) Internal Rate of Return (Financial and Economic Internal Rate of Return)

Based on the following conditions, the economic internal rate of return (EIRR) and financial internal rate of return (FIRR) of the project is 43.1% and 3.1%, respectively.

[EIRR]

- (a) Cost: Project cost (building expenses, operation and maintenance expenses) (excluding tax)
- (b) Benefit: Investment-induced added value (increased exports and imports, increased job creation, increased tax revenue, etc.)
- (c) Project Life: 30 years

[FIRR]

- (a) Cost: Project cost (building expenses, operation and maintenance expenses)
- (b) Benefit: Leases from real estate, revenue from public service payments
- (c) Project Life: 30 years

6. External Risk Factors

There is a risk that, due to delays in a number of projects linking transmission lines from the Vietnamese border to Sihanoukville, and other problems, it may not be possible to supply the SEZ with affordable and stable electric power charge.

7. Lessons Learned from Findings of Similar Projects Undertaken in the Past

From ex-post evaluations of similar projects in the past, the lesson has been learned that appropriate “location, infrastructure development, investment conditions, rent levels and attraction of companies” etc. are important. In light of this lesson, the project will construct an SEZ linked directly to Sihanoukville Port, and develop the necessary infrastructure in locations that are particularly attractive to export-oriented industries. Moreover, with regard to investment conditions (preferential tax treatment, etc.), thanks to the application of revised investment laws, an attractive investment climate is being created in Cambodia. Furthermore, to make the SEZ an attractive area for investment

² Among the five indicators, the “volume of containers handled” covers the containers handled in Sihanoukville Port for export/import by the relocating companies to the SEZ. The other four are the indicators covering the SEZ.

from the investors' point of view, the project will propose appropriate rent levels through consulting services etc., and will support PAS and CDC in attracting companies.

8. Plans for Future Evaluation

(1) Indicators for Future Evaluation

- (a) Amount of direct investment (million dollars)
- (b) Number of relocating companies (companies)
- (c) Number of jobs created (people)
- (d) Amount of exports (amount of exports by relocating companies) (million dollars/year)
- (e) Volume of containers handled (additional volume) (TEU/year)
- (f) Internal Rate of Return: EIRR, FIRR (%)

(2) Timing of Next Evaluation

Two years after project completion