

1. INTRODUCTION

INTRODUCTION

The RILGP Project Implementation Manual is intended to assist the Commune/Sangkat Councils, Commune Clerks, Provincial PRDC ExCom Unit, Provincial Treasury and Seila Task Force Secretariat staff manage the RILGP loan in accordance with relevant RGC laws, regulations and guidelines.

The Manual is based on the implementation of regulations and guidelines approved by the National Council for Support to Communes/Sangkats for the planning, financing and management of development activities at the local level by the duly elected Commune/Sangkat Councils. These regulations and guidelines have been heavily influenced by the experience of the Seila Program¹. At the national level the Seila Task Force Secretariat as the executing agency for the RILGP has developed systems and procedures for financial management. In addition the STFS is responsible to ensure that where the current commune level regulations and guidelines do not include specific reference to World Bank safeguard concerns, that these will be incorporated through the Commune/Sangkat Fund Implementation Manual.

PROJECT DESCRIPTION AND OBJECTIVES

The proposed Rural Investment and Local Governance Project (RILGP) 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 decentralization reforms, as well as to review and strengthen the regulatory framework for decentralization.

¹ The relevant Laws and Regulatory framework are provided as in annex 11 of this manual.

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 11 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 compliment 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 two follow-up studies to the *Knowledge, Attitudes, Practices and Beliefs* survey; conduct mid-term and final project evaluations; and (iv) 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.