

Ex-ante Evaluation

1. Name of the Project

Country: The Kingdom of Cambodia

Project: Sihanoukville Port Special Economic Zone Project (E/S)

(Loan Agreement: March 20, 2006; Loan Amount: 318 million yen; Borrower: The Royal Government of Cambodia)

2. Necessity and Relevance of JBIC's Assistance

Since its constitution was established 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.

However, levels of poverty remain high with making up 35% of the population (as of 2004). Furthermore, in view of the restricted nature of the country's domestic market (total population 13,800,000 people; GDP per capita US\$350, as of 2004) and the growing pressure of its working age population, the employment generation through the development of Cambodia's private sector focusing on labor-intensive and export-oriented industries is a pressing issue from the perspective of poverty reduction.

There are great expectations of foreign direct investment (FDI) to resolve the problems. However, while at one point in the mid-1990s the scale of FDI reached almost US\$250 million, this was followed by a downward trend, and in 2004 it remained at approximately US\$150 million. There are also concerns that investment in the textiles and sewn products industry which makes up over 70% of the country's exports (2004) could decrease in the wake of the expiration of the WTO Textiles Agreement at the end of 2004. In such circumstances, in order for the country to successfully generate employment through the development of the private sector it is essential to create attractive investment climate as a recipient of direct investment, but there are many problems for the country including complicated administrative procedures and lack of infrastructure.

This project will establish a Special Economic Zone (SEZ) in Sihanoukville (selected as a model in the JICA Development Study, the 2003 "Study on Regional Development of the Phnom Penh Sihanoukville Growth Corridor" as a result of its location) as. In addition, the project will make legal and institutional policy proposals which will be conducive to the attract investment.

The establishment of the SEZ focusing on FDI, is expected to contribute greatly to the development of the country's export-related industries, at the same time as generating employment opportunities, particularly for the young.

The Government of Cambodia puts the development of the private sector and the employment generation as the important strategies in the form of the Rectangular Strategy, announced by the new government that was formed in July 2004, and the National Strategic Development Plan (NSDP) drawn up in January 2006.

In the Country Assistance Program announced by the Government of Japan in 2002, “sustainable economic growth and the realization of a stable society” headed the list of issues which need to be supported as serious matters. Moreover, in JBIC’s “Medium-Term Strategy for Overseas Economic Cooperation Operations” (2005), support toward “the development of infrastructure and policy institutional reform for the invigoration of private-sector economic activities in the Growth Corridor region” was cited as one of the priority areas in relation to Cambodia. Therefore, the level of necessity and relevance of JBIC assistance is high.

3. Project Objectives

This project aims to expand the flow of direct investment into the region and to generate employment by developing the SEZ directly connected to the Sihanoukville Port, 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 a SEZ with an area of about 70 hectares in Sihanoukville City, focusing on an export processing zone, and to implement consulting services. The target of the loan is the engineering services (E/S) that will precede the main building work.

(3) Total Project Cost/Loan Amount

4,394 million yen (Yen Loan Amount: 318 million yen)

(4) Schedule

January 2006 - May 2009 (40 months)

(5) Implementation Structure

(a) Borrower: The Royal Government of Cambodia

(b) Executing Agency: Council for the Development of Cambodia (CDC) and the Port Authority of Sihanoukville (PAS)

(c) Operation and Maintenance System

(i) National government: Cambodia SEZ Board (CSEZB)

(ii) Sihanoukville Port SEZ: The Sihanoukville Port Authority will bear responsibility for maintenance. A one-stop service office for dealing with government procedures in an integrated fashion will be established.

(6) Environmental and Social Consideration

(a) Environmental Effects/ Land Acquisition and Resident Relocation

(i) Category: B

(ii) Reason for Categorization

This project is classified as Category B because it is a loan targeting engineering services, and does not fall under Category C as stipulated in the “Japan Bank for International Cooperation Guidelines for Confirmation of Environmental and Social Considerations” (established April 2002).

(b) Promotion of Poverty Reduction

The project will promote economic growth, of great importance for the poverty reduction in Cambodia, and is expected to be conducive to the reduction of poverty primarily through the generation of employment.

(c) Promotion of Social Development (e.g. Gender Perspective)

As the target area is an international port and a tourist area with a high rate of HIV/AIDS infection it is planned to include conditions for the prevention of HIV/AIDS in the contract made with the contractor for the main business of the project and to have the contractor and PAS implement measures against AIDS among the construction workers, and also to carry out such support in E/S.

(7) Other Important Issues

(a) Partnership with the World Bank

The World Bank's Poverty Reduction Supporting Operation plans to promote improvements in the institutional side of this SEZ with the aim of developing the private sector, one of its main improvement areas.

(b) Partnership with JICA

Having adopted the "Study on Economic Policy Support in the Kingdom of Cambodia" (2005), JICA will propose measures aimed at attracting investment in Cambodia, principally by Japanese companies.

5. Outcome Targets

(1) Evaluation Indicators (Operation and Effect Indicator)

| Indicators | Baseline (2005) | Target (2012 [2 years after completion of project]) |
|--|--------------------|---|
| Amount of Direct Investment (for SEZ in total) (millions of US dollars) | - | 170 |
| Number of Relocating Companies (companies) | - | 29 |
| Number of Jobs Generated (people) | - | 29,200 |
| Amount of Exports (amount of exports by relocating companies) (millions of US dollars/year) | - | 116 |
| Volume of Containers Handled (additional volume) (TEU/year) | - | 40,000 |

(2) Internal Rate of Return

Financial Internal Rate of Return (FIRR): 5.3%

(a) Cost: Project cost, operation and maintenance expense

(b) Benefit: Leases from real estate, revenue from public service payments

(c) Project Life: 30 years

Economic Internal Rate of Return (EIRR): 16.0%

(a) Cost: Project cost (excluding tax), operation and maintenance expense

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| <p>(b) Benefit: Added value from investment (c) Project Life: 30 years</p> |
| <p>6. External Risk Factors</p> |
| <p>Changes of the priorities accorded the project by the Government of Cambodia following changes in the administration.</p> |
| <p>7. Lessons Learned from Findings of Similar Projects Undertaken in the Past</p> |
| <p>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. Based on this, this project will construct an SEZ adjacent to the Sihanoukville Port, and develop the necessary infrastructure in locations which are particularly attractive to export-oriented industries. Furthermore, with regard to investment conditions (preferential tax treatment etc.), amended investment laws have been applied, with contents which are advantageous for investors in comparison with other ASEAN countries. Moreover, to make the area an attractive area for investment from investors’ point of view, the project will propose appropriate rent levels through consulting agencies etc., and will support implementing agencies concerned with the attraction of companies.</p> |
| <p>8. Plans for Future Evaluation</p> |
| <p>(1) Indicators for Future Evaluation</p> <ul style="list-style-type: none"> (a) Amount of Direct Investment (for SEZ in total) (millions of US dollars) (b) Number of Relocating Companies (companies) (c) Number of Jobs Generated (people) (d) Amount of Exports (amount of exports by relocating companies) (millions of US dollars/year) (e) Volume of Containers Handled (additional volume) (TEU/year) (f) Internal Rate of Return (FIRR, EIRR): % <p>(2) Timing of Next Evaluation After project completion</p> |