

Annual Work Plan

Activities for 2016

Investing in Infrastructure

Final submission May 2016

Comments from Program board included.

1 Introduction

After the first submission of the AWP 2016, *Investing in Infrastructure* (3i) was requested to resubmit the Annual Workplan for approval to the Program board in a different format. *Investing in Infrastructure* created four updated documents:

1. A leaner version of the AWP 2016 that focusses on 2016 activities; for approval to the board
2. A process document that captures how *Investing in Infrastructure* proposes operational processes; for information
3. A document that explains the role of the Oversight Committee (formerly 'Investment Committee')
4. An updated AWP in the original format; for information to DFAT.

After the Program board meeting of 29 March, the AWP 2016 was updated (this document). The Investment committee was renamed as an Oversight Committee (OC) as per the Program board's recommendations and the document explaining the OC's role has also been updated and expanded to clarify scope and operational considerations.

The main contract between DFAT and the managing contractor, The Palladium Group, was signed in August 2015 and the MSA between the Royal Government of Cambodia and DFAT on 21 September 2015.

Palladium has since set up the office and recruited the core implementing team while The Royal Government of Cambodia (RGC) established its 3i Program Implementation Team and created the Investing in Infrastructure Program Management Board.

After an initial period of capacity building and familiarizing with the sectors and government requirements, the program has now started to prepare for the first rounds of funding.

A summary of *Investing in Infrastructure's* indicative planned activities in 2016 is provided in the next section.

2 Overview of 2016 targets.

Table 1A – Summary of non-operating deliverables and budget

Outcome*	Output	Output indicator	Activity**	Estimated budget (USD)	
MODALITY 1	Increased access to piped water for households and businesses	<ul style="list-style-type: none"> Assessment of all potential sites for tendering of permits for Piped Water Service Providers (PWSP) <ul style="list-style-type: none"> KANDAL PROVINCE (up to five sites) Other provinces (at least three sites TBC) 	<ul style="list-style-type: none"> All 306 sites (from MIH preselection) across all provinces assessed by end of 2017 In 2016, from the list of 306 sites, at least three provinces will be assessed Eight sites prepared for tender in 2016 Five tender rounds completed in 2016 20 tender rounds completed by June 2017 	Institutional strengthening and support in piped water supply permitting (Licensed Water Operators) <ul style="list-style-type: none"> Meetings and coordination with MIH. Agree assessment criteria. Assess sites for suitability of 3i support Communications and outreach to stakeholders and operators / project travel 3i consultant prepares bidding package documentation for MIH 	Pro rata operating costs
		<ul style="list-style-type: none"> Financial support for successful bidders in PWSP tendering processes*** Technical support for successful bidders in PWSP tendering processes <ul style="list-style-type: none"> KANDAL PROVINCE (up to five sites) Other provinces (at least three sites TBC)*** 	<ul style="list-style-type: none"> Five operators provided with 3i financial support Five operators provided with 3i technical support Five water treatment plants scheduled for installation in compliance with MIH standards 	Co-funding and technical support to Licensed Water Operators <ul style="list-style-type: none"> Liaison with successful operators after evaluation of tender process Due diligence checks on successful operators Development of technical plans / advice to operator if requested Preparation and execution of contracts Output-based monitoring 	Value of contracts: \$500,000 2016 disbursements: \$300,000 Pro rata operating costs
		<ul style="list-style-type: none"> Technical / permitting process support for unlicensed operators Financial support to unlicensed operators 	<ul style="list-style-type: none"> 95 unlicensed operators contacted (already complete with 18 showing interest and which meet other relevant criteria) Two unlicensed operator EOI rounds completed in 2016 (one already issued) Six unlicensed operators supported in 2016 	Co-funding and capacity improvement for Unlicensed Water Operators <ul style="list-style-type: none"> Initial liaison with unlicensed operators Develop expansion plans with interested unlicensed operators 3i and unlicensed operator agree on support offer from 3i 3i supports unlicensed operator to conduct feasibility study to secure permit Once permit secured, 3i provides financial support for agreed plan with unlicensed operator Output-based monitoring 	Value of contracts: \$900,000 2016 disbursements: \$400,000 Pro rata operating costs
	Increased access to energy for households and businesses	<ul style="list-style-type: none"> Pilot energy access projects selected <ul style="list-style-type: none"> Two pilots to be delivered in two provinces selected from: KAMPONG THOM, RATTANAKIRI, KRATIE, PURSAT, and KAMPONG CHHNANG Financial support for successful Rural Electricity Enterprises (in pilot projects) 	<ul style="list-style-type: none"> Two provinces selected EOI processes run in the two selected provinces Two companies financially supported in 2016 	Co-funding and technical support for electricity connection pilots <ul style="list-style-type: none"> Assessment of possible pilot projects across the five provinces Prepare offer to market and liaison with MME/EDC/EAC Issue EOIs in selected provinces Due diligence checks of qualified companies Provide financial support to qualified companies Output-based monitoring 	Value of contracts: \$300,000 2016 disbursements: \$150,000 Pro-rata operating costs
MODALITY 2	New and improved opportunities for trade-related businesses & industries	<ul style="list-style-type: none"> Scan markets and build relationships with investors Sign and/or broker investment partnership contracts with private equity or social impact investors 	<ul style="list-style-type: none"> Number of feasible investment opportunities identified Three concept notes (on possible investments) prepared and submitted to OC Two contracts with modality 2 partners signed 	Co-investment in energy and/or water projects <ul style="list-style-type: none"> Extensive market scanning and relationship building Due diligence checks of partners Justification of investment type and volume, and prepare OC documentation Finalise contract documentation (after OC approval) and execute contract/s Output-based monitoring 	Value of contracts: \$300,000 2016 disbursements: \$50,000 Pro-rata operating costs
MOD 3	Infrastructure investment market constraints addressed	TBC: <i>Opportunities to be identified and proposed to OC over course of 2016</i>	TBC over course of 2016	Catalytic Interventions TBC over course of 2016	
Technical studies (all modalities)	<ul style="list-style-type: none"> Renewable energy concept note 	Quality and timeliness of concept note	<ul style="list-style-type: none"> Research including meetings with stakeholders, prepare concept note 	Pro-rata 2016 operating costs	
	<ul style="list-style-type: none"> Monitoring and results measurement system 	Quality and timeliness of measurement system	<ul style="list-style-type: none"> Undertake preparatory meetings, author relevant documentation 		
	<ul style="list-style-type: none"> Gender checklist (for 3i operations) Social impact baseline study including gender baseline study 	Quality and timeliness of deliverables	<ul style="list-style-type: none"> Undertake preparatory research including necessary baseline surveys Prepare gender checklist and social impact baseline study Awareness raising among 3i team on gender checklist operationalisation 		
	<ul style="list-style-type: none"> Environmental Checklist operationalisation 	Evidence that the checklist is used to inform decision-making	<ul style="list-style-type: none"> Test checklist in the field Awareness raising amongst 3i staff on final environmental checklist 		
Program governance	<ul style="list-style-type: none"> Establish Oversight Committee 	Timeliness and suitability of Oversight Committee	<ul style="list-style-type: none"> Prepare recruitment documentation, approach market, select candidates Briefing of OC members, HR administration Management of OC proposal submission processes 	Pro-rata 2016 operating costs	
Sub-total: investment				\$2,000,000	
				2016 disbursements: \$900,000	

*More detailed *outcomes and social and economic impacts* will be developed in the course of preparing comprehensive results chains for each activity. A comprehensive Monitoring and results measurement system will be prepared in 2016 including, for example, indicators on number of households connected, additional finance leveraged, and broader economic impacts.

**See Table 3 for detailed activity timeframes

*** It is possible that 3i may just support the preparation of tendering packages for some operators, rather than providing financial support, if the site proves to be commercially viable without 3i support. This would not affect overall targets for 2016, just provincial targets.

Table 1B – Summary of deliverables and budget (continued)

Estimated operating costs 2016 ^{*/**}	Cost (USD)
National staff costs ^{***}	\$598,247
Office rental, fit out and utilities	\$177, 234
ICT (capital + ongoing)	\$49,840
Vehicle purchase, hire and operating costs	\$294,154
General operations	\$56,648
Project travel	\$110,344
Other goods and services (MIS developer)	\$140,000
Sub-total operating	\$1,249,233

** A proportion of all wage and other operating costs is associated with conducting expression of interest processes, engaging with companies and Ministries, supporting companies to develop business proposals, conducting feasibility/technical studies and liaising with investors to leverage additional financing. Therefore the ratio of operating costs to investment costs (as presented in this document) does not provide an accurate reflection of non-investment operational expenses.*

*** Vehicle cost does not include vehicle tax. Income tax has been included for national staff wages through to 1 July 2016 and excluded thereafter.*

****'National staff costs' does not include international adviser costs. Wages are based on the Australian Aid Adviser Remuneration Framework available at <http://dfat.gov.au/about-us/publications/Pages/adviser-remuneration-framework.aspx>.*

3 Overall program logic

Cambodia’s impressive economic growth has been mainly centred around a few major cities where the main drivers of growth have been the garment industry, tourism, construction and an emerging service sector. A good part of Cambodia’s productive workforce has moved to the large cities or abroad. The low level of rural infrastructure has slowed the country’s growth potential in rural areas which prevents the primarily young labour force from seeing rural areas as an attractive alternative to moving to countries like Thailand for work.

The RGC has taken the lead in investing in rural roads, but has collaborated with the private sector in developing communication, electricity and safe drinking water. In the design of 3i, DFAT did not see a need for *Investing in Infrastructure* to support rural communication, but sees a role in further electrification and increased access to safe water.

Other donors like AFD, ADB, EU, WB and Japan that are active in these sectors are primarily focused on major public sector and regulatory investments. Therefore, DFAT concluded that focusing on the capital needs and investment readiness of rural companies is the most effective way to contribute to further rural economic development.

There are three Modalities in which *Investing in Infrastructure* can contribute. Modality 1 will support rural companies with a grant to incentivise investments that otherwise would not happen. Under modality 2, *Investing in Infrastructure* will develop better access to risk capital for companies in the water or electricity sector.

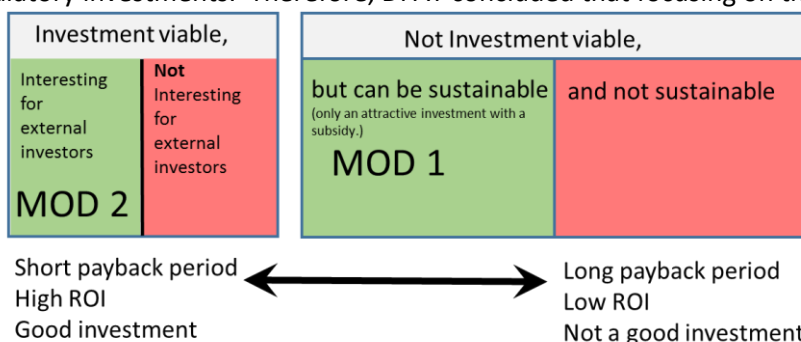


Figure 1. Viable investments and 3i's modalities

In the design of *Investing in Infrastructure* there is also an opportunity to support other market players in the water and electricity sector, as long as it contributes to better functioning rural water and electricity markets. These activities will make up the program’s third modality.

4 Piped water service providers

4.1 Strategy

Good investment areas for water companies have four things in common: the connections are close together (density); there are sufficient connections; there is a good purchasing power; there is access to sufficient raw water supply.

While areas in and close to major cities and highways tend to fulfil these four criteria—and are therefore often the most attractive places to invest in a piped treated water company—these places are often already under licence. Therefore, the next group of areas that would qualify for new piped water service providers is likely to be less attractive and, in many cases, not attractive enough to invest in without some financial support. These are the areas where *Investing in Infrastructure* will focus its investments.

This “next group” that *Investing in Infrastructure* will focus on could easily be more than 100 sites.

In close collaboration with MIH *Investing in Infrastructure* will explore opportunities where it can contribute to improve the supply and quality of piped treated water.

4.2 Priorities from the Ministry of Industry and Handcrafts.

In recent years the RGC—especially the Ministry of Industry and Handicraft—has made good progress in setting up a legal framework to better regulate the sector. The new regulations will allow for proper tariffs and will help improve the water quality and water production standards in Cambodia. An important step will be the new twenty year licences that will provide investors with the confidence they need to invest more.

During a number of meetings, the Ministry of Industry and Handicrafts requested *Investing in Infrastructure* to take a three-pronged approach in the piped water sector:

- 1) Assist the MIH with preparing an overview of where there is potential for issuing new licenses in Cambodia
- 2) Assisting in preparing and conducting tendering processes for new areas. During this process, *Investing in Infrastructure* can propose a level of cost sharing with the interested companies.
- 3) Assist unlicensed *piped water service providers* to improve their company and to apply for a license.

4.3 Proposed activities for 2016

Investing in Infrastructure proposes to fully follow these requests and to dedicate, in collaboration with MIH, most of its available resources for 2016 on these three areas.

- 1) *Assist the MIH with preparing an overview of where there is potential for issuing new licenses in Cambodia.*

MIH has prepared a list of communes that showed interests in developing a *piped water service provider* in their commune. *Investing in Infrastructure* will initiate a process in 2016 to scope the potential for tendering licenses in these sites.

Investing in Infrastructure will develop a methodology to conduct quick assessments of the suitability to develop each site. For the sites that pass the first check, *Investing in Infrastructure* will conduct more detailed assessments.

Although *Investing in Infrastructure* will fulfil this process for all 306 identified communes, it will focus on a number of provinces in 2016 with a view to finalising this work in 2017.

Investing in Infrastructure will consider collaboration or subcontracting part of the work to organisations who have sufficient relevant experience.

- 2) *Assisting in preparing and conducting tendering processes for new areas.*

Investing in Infrastructure is committed to support a number of these processes in 2016. In its 2017 workplan *Investing in Infrastructure* will confirm if the initial target of tendering 20 areas before July 2017 is feasible. During this process, *Investing in Infrastructure* can propose a level of cost sharing with the interested companies.

The process of supporting areas for tendering licenses will have a number of stages

- In collaboration with MIH and based on initial assessment of the potential, a number of sites will be selected for the first rounds of funding.

- For each of the selected sites *Investing in Infrastructure* will develop an initial feasibility study and a basic design of the needed investments for budgeting purpose.
- For each site *Investing in Infrastructure* will consider the desirability of a financial grant and calculate, before tendering, the proposed indicative amount of financial support to the winning company.
- In close collaboration and potentially with support of consultants, *Investing in Infrastructure* will assist in the whole tendering of license process.
- *Investing in Infrastructure* will assist the selected company to develop a more detailed investment plan and will assist the company in preparing a proposal to determine the final investment support.
- Some of the tasks of the investment committee may be brought forward in the process.
- *Investing in Infrastructure* will need to develop a new contracting process that includes the specific role of MIH in selecting the companies. For this *Investing in Infrastructure* will need to thoroughly familiarize themselves with the Cambodian tendering procedures.
- *Investing in Infrastructure* may consider collaborating with organisations that have gained experience in delivering similar support in the past. This may offer a way of accelerating the process of offering support to successful operators in targeted sites while learning from initial mistakes.

Expected results in 2016: *Investing in Infrastructure* will prepare tendering documents for 8 sites in 2016 and expects to finish the process for 5 sites in 2016. *Investing in Infrastructure* will seriously consider how it can honour the request from MIH to increase this number in 2016. The first round of support to tendering permits will take more time and effort. Over time *Investing in Infrastructure* expects to become more experienced and efficient. The request of conducting tendering processes for 20 sites in the fiscal year (July 2016 to June 2017) is ambitious but *Investing in Infrastructure* is committed to try.

3) *Assist unlicensed piped water service providers to improve their company and to apply for a license.*

The Ministry of Industry and Handicraft identified close to 100 *piped water service providers* who presently operate without a license from MIH, though legally they are obliged to obtain one. Applying for a license will become even more pertinent when the new water law will become in operation in 2017.

Many of these unlicensed operators have very limited capacity nor the capital and interest to invest in their company to meet the requirements to qualify for a licence. A good group of these companies however showed serious interest to comply with the regulations and to apply for a license with MIH. In this group the majority lack the funds to invest on their own, or consider the return on the needed investments to low.

Investing in Infrastructure has initiated the process of identifying the companies that show interest in upgrading and acquiring a license. Of the almost 100 companies that *Investing in Infrastructure* approached, around 15 showed serious interest. During field visits *Investing in Infrastructure* found around 8 seriously interested companies. *Investing in Infrastructure* will support at least 6 companies in 2016.

In collaboration with MIH, *Investing in Infrastructure* will develop an offer for these companies and will request the companies to express their interest and commitment.

Investing in Infrastructure expects that once the sector becomes familiar with the support that *Investing in Infrastructure* can offer and once the companies become more aware of the legal requirements, the request for support from *Investing in Infrastructure* will grow over the years. Diligent expectation management by all stakeholders will be important to ensure unsuccessful companies do not feel unfairly treated.

4.4 Other support to the piped water service providers sector.

In 2016 *Investing in Infrastructure* will investigate the need and benefits for support in the following areas:

- Support the capacity of public or private organisations to better assist water operators.
- Assist financial institutions to support investment in larger piped water service providers
- Explore the possibility to subsidise connections for poorer households in areas selected for 3i-supported tendering processes.

5 Electricity distribution companies

The RGC has three major national players in electrification: the Ministry of Mines and Energy (MME), Electricity Authority of Cambodia (EAC) and Electricité du Cambodge (EDC). The goal of the rural electrification development program in the Kingdom of Cambodia fixed by Royal Government of Cambodia has two phases: 1-all villages in the kingdom of Cambodia have access to electricity of any type by the year 2020 and 2-at least 70% of all households in the Kingdom of Cambodia have access to grid quality electricity by the year 2030.

In March 2016 the EAC reduced the tariff for rural households from 1000 or 1050 riels to 800 riels/kWh. It also slightly reduced the tariff for electricity purchased by REEs from the National Grid. These tariffs will be reduced further in subsequent years. This scheme, however, is not applied to imported electricity since the tariffs for such electricity are already lower than 800 riels. The tariff reduction should benefit rural households and industries, and will likely lead to increased energy consumption. It may also impact REEs' appetite for future investment, which 3i will monitor.

The RGC will further reduce the tariff for poor households to around 600 Riel / kWh for the first 50 kWh.

To achieve these targets, the Rural Electrification Fund (REF) Department within EDC has set up two specific programs: (1) Program to assist REEs in developing rural electricity infrastructure, and (2) Power to the Poor (P2P). The first program provides interest-free loans (for network extension in areas with medium household density) and grants plus some interest-free loans (for low density areas). The P2P program provides interest-free loans (up to \$120 USD per household for 36 months) to households to pay for connection fees (~\$35 USD).

Much will further depend on the announced subsidy that REEs can request in the event that their profits fall below ten percent of the value of their Net Present Assets.

The EAC has urged REEs to extend their network fully in their license areas with support funds from REF as described so far. However, if some of the REEs are still unable to extend their network, the EDC stands ready to buy the license of such REEs, which effectively means that the EDC will buy their businesses. Thus, network expansion will most likely happen rapidly in the next 5 years.

The RGC showed full commitment to the recent climate change conference in Paris. Its commitment is well captured in its “*Cambodia’s Intended Nationally Determined Contribution*”¹ document. For the energy sector, the document sets as the following priority: “*National grid connected renewable energy generation (solar energy, hydropower, biomass and biogas) and connecting decentralised renewable generation to the grid.*” This is expected to lead to a sixteen percent reduction in CO2 equivalent compared to the baseline.

5.1 Priorities from MME for Investing in Infrastructure

In consultations with the MME, EDC and EAC, a number of areas of support were suggested:

- Direct support to the REF fund that supplies interest free loans.
- Giving grants to those investments that are not viable even with the Governments’ subsidies
- Capacity building and support for energy planning and the energy outlook for Cambodia.
- Exchange visits.
- Promoting lines for irrigation pumps.

In addition to priorities identified above, MEF’s written submission on the draft AWP 2016 in advance of the March 29 board meeting identified that *Investing in Infrastructure* could consider ways of helping to address the energy supply gap in Cambodia (i.e. electricity generation).

5.2 Proposed activities for 2016

Investing in Infrastructure has started to investigate the potential to support companies where investments are not viable, even with the Government’s subsidy. It will initiate a pilot round of funding in May 2016.

Later in the year, *Investing in Infrastructure* will recommend to the Program board further activities that meet design criteria and can be implemented. This will depend on the interest from companies and on the value for money demonstrated by investment opportunities.

Initial research in to the potential to attract third party investors under modality 2 shows potential for investing in decentralised electricity generation, especially in renewables. *Investing in Infrastructure* will continue to develop potential proposals.

Investing in Infrastructure will further engage with MME over 2016 to understand how it can best support the energy planning and the energy outlook for Cambodia.

6 Modality 2

For their investments, REEs and piped water companies rely on their own capital, on loans, and on contributions from family and friends. Some regional investment companies have invested in rural water companies, but their involvement in the companies goes far beyond availing risk capital.

Initial investigations show that a few large operators are interested in some forms of risk capital, but their number is small.

In the region there are a number of investment funds that have shown interest in investing in Cambodia. The improved legal framework emerging in the water and electricity sector has increased

¹<http://www4.unfccc.int/submissions/INDC/Published%20Documents/Cambodia/1/Cambodia%27s%20INDC%20to%20the%20UNFCCC.pdf>
http://unfccc.int/files/meetings/paris_nov_2015/application/pdf/cop21cmp11_leaders_event_cambodia.pdf

interest from funds. However, a major constraint remains scale. To justify transaction costs, the size of investments has to be larger than what typical operators generally can and want to absorb.

Investing in Infrastructure intends to explore opportunities in three ways:

1. Being a broker between the largest rural infrastructure operators and potential investors. *Investing in Infrastructure's* involvement will reduce the initial transaction costs for both parties.
2. Support investment of larger local, regional or international investors in infrastructure in general. By stimulating the presence of institutional investors, investments that directly accelerate infrastructure connections to consumers are more likely to happen. An example could be stimulating investments in renewable energy. Renewable investments may bring investment companies in and make them more comfortable in general to invest in infrastructure in Cambodia. Through this work, *Investing in Infrastructure* will be well-placed to capitalise on and help coordinate the upswing in investment in this area that could be realised in coming years.
3. Developing new financial tools for investment into the energy and water sectors together with trusted financial institutions.

6.1 Activities modality 2

Investing in Infrastructure has conducted initial interviews with a large number of stakeholders, both in the water and electricity sector as well as in the financial world.

In Q1/2 in 2016 *Investing in Infrastructure* will further prioritize available opportunities and will develop a number of concept notes that it will share with the OC.

Specifically for the renewable energy investment, a concept note will be prepared in April 2016 and submitted in June 2016.

Investing in Infrastructure expects to have finalized brokering at least two deal in 2016 and it expects to submit a further two additional concept notes to the OC.

7 Modality 3

The PDD outlined that *Investing in Infrastructure* may be able to support public or private institutions that play a key role in the functioning of *Investing in Infrastructure's* core sectors. This support is expected to develop the capacity of the organisations to better support water and electricity companies and, where possible, to follow sound market development principles.

In its first year, the program foresees three types of organisations it may support.

1. In collaboration with the RGC, there may be activities or processes where *Investing in Infrastructure* can contribute to government initiatives or programs.
2. In the piped water sector, there is a real need for technical support. *Investing in Infrastructure* could assist existing or new service providers to improve their support to companies.
3. Both sectors have young industry associations that are still developing their assistance to the companies. These associations could potentially benefit from *Investing in Infrastructure* support to better fulfil their roles in the future.

Investing in Infrastructure will support at least one institution that plays a key role in the functioning of the piped water or electricity sectors in 2016.

8 Studies.

Impact studies

Investing in Infrastructure will develop a methodology to assess the wider impact that the activities undertakes will have. Preparatory work for this study started in May 2016 and a final document is expected to be ready in August 2016.

Gender studies

In the same period *Investing in Infrastructure* will conduct a study how water and energy connections proportionally benefit male and female members of the household in Cambodia, and how *Investing in Infrastructure* can further support the priorities of both governments to advance women’s economic empowerment in practical ways.

Sector studies

Investing in Infrastructure will investigate what other private infrastructure sectors could be viable options for future expansion of *Investing in Infrastructure*. After the study *Investing in Infrastructure* will submit a concept note in October 2016. As per discussion at the March 29 board meeting, *Investing in Infrastructure* will not expand into new sectors in 2016.

9 Estimated Expenditure

At this stage of the program it is very difficult to accurately project how many companies are interested in the offers *Investing in Infrastructure* will prepare for the market. It is also difficult to predict the size of the first round of grants. *Investing in Infrastructure* therefore proposes an initial indicative budget for 2016 as outlined in Table 1 and detailed in . *Investing in Infrastructure* will resubmit a budget if there is a need for more money from the investment fund and will inform the Program Board in the case of significant under allocation of funds.

Table 2 financial intervention budget forecast for 2016

	Estimated total value of contracts (USD)	Estimated expenditure (USD)
Investment fund for MOD 1 water	1,400,000	700,000
Investment fund for MOD 1 electricity	300,000	150,000
Investment fund for MOD 2	300,000	50,000
Investment fund for MOD 3	50,000	20,000
Cost of impact studies	20,000	20,000

Investing in Infrastructure has agreed with DFAT on an operational budget for the duration of the program. It does not have specific budgets per year. Neither does it have specific budgets for specific line items. For planning purpose 3i has its own operational budgets.