



# Report and Recommendation of the President to the Board of Directors

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Project Number: 47085-002  
December 2015

## Proposed Loan Lao People's Democratic Republic: Road Sector Governance and Maintenance Project

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Asian Development Bank

## CURRENCY EQUIVALENTS

(as of 25 November 2015)

Currency unit	–	kip (KN)
KN1.00	=	\$0.000123
\$1.00	=	KN8,154.0

## ABBREVIATIONS

ADB	–	Asian Development Bank
DOR	–	Department of Roads
DPWT	–	Department of Public Works and Transport
km	–	kilometer
IED	–	Independent Evaluation Department
Lao PDR	–	Lao People's Democratic Republic
MPWT	–	Ministry of Public Works and Transport
NPA	–	national protected area
RMF	–	Road Maintenance Fund
SDR	–	special drawing right

## NOTES

- (i) In this report, "\$" refers to US dollars.

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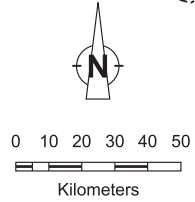
## PROJECT AT A GLANCE

<b>1. Basic Data</b>		<b>Project Number: 47085-002</b>	
<b>Project Name</b>	Road Sector Governance and Maintenance Project	<b>Department /Division</b>	SERD/SETC
<b>Country Borrower</b>	Lao People's Democratic Republic Lao People's Democratic Republic	<b>Executing Agency</b>	Ministry of Public Works and Transport
<b>2. Sector</b>		<b>ADB Financing (\$ million)</b>	
✓ <b>Transport</b>	<b>Subsector(s)</b> Road transport (non-urban)		27.00
		<b>Total</b>	<b>27.00</b>
<b>3. Strategic Agenda</b>		<b>Climate Change Information</b>	
Inclusive economic growth (IEG)	<b>Subcomponents</b> Pillar 1: Economic opportunities, including jobs, created and expanded	Climate Change impact on the Project	Medium
<b>4. Drivers of Change</b>		<b>Gender Equity and Mainstreaming</b>	
Governance and capacity development (GCD)	<b>Components</b> Institutional development	Some gender elements (SGE)	✓
<b>5. Poverty Targeting</b>		<b>Location Impact</b>	
Project directly targets poverty	No	Nation-wide	High
<b>6. Risk Categorization:</b>		Low	
<b>7. Safeguard Categorization</b>		Environment: B Involuntary Resettlement: C Indigenous Peoples: B	
<b>8. Financing</b>			
<b>Modality and Sources</b>		<b>Amount (\$ million)</b>	
<b>ADB</b>		<b>27.00</b>	
Sovereign Project loan: Asian Development Fund		27.00	
<b>Cofinancing</b>		<b>0.00</b>	
None		0.00	
<b>Counterpart</b>		<b>2.90</b>	
Government		2.90	
<b>Total</b>		<b>29.90</b>	
<b>9. Effective Development Cooperation</b>			
Use of country procurement systems		No	
Use of country public financial management systems		No	



# LAO PEOPLE'S DEMOCRATIC REPUBLIC ROAD SECTOR GOVERNANCE AND MAINTENANCE PROJECT

- National Capital
  - Provincial Capital
  - City/Town
  - Project Road
  - National Road
  - Provincial Road
  - Other Road
  - River
  - Provincial Boundary
  - International Boundary
- Boundaries are not necessarily authoritative.



This map was produced by the cartography unit of the Asian Development Bank. The boundaries, colors, denominations, and any other information shown on this map do not imply, on the part of the Asian Development Bank, any judgment on the legal status of any territory, or any endorsement or acceptance of such boundaries, colors, denominations, or information.



## I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed loan to the Lao People's Democratic Republic (Lao PDR) for the Road Sector Governance and Maintenance Project.<sup>1</sup>

2. The project will improve the delivery of public services in road asset management. It will cultivate sustainable and efficient road asset management practices by strengthening governance and capacity for planning, financing, and implementing routine and periodic road maintenance.<sup>2</sup> The project will rehabilitate and maintain 327 kilometers (km) of national and local roads in the provinces of Attapu, Salavan, and Xekong. It will contribute to the achievement of the government's goal of improving road asset management.

## II. THE PROJECT

### A. Rationale

3. **Sector context.** As a landlocked country, the Lao PDR depends heavily on road transport for economic development. The road subsector dominates its transport sector, representing 98% of total passenger-km traveled, and 86% of freight moved in the country.<sup>3</sup> While the road network has expanded significantly in recent years, the growth in the number of vehicles has been faster. The road network in the Lao PDR consists of national, provincial, district, and rural roads, with a total length of about 46,000 km and a density of about 7.4 km per 1,000 persons, which is one of the highest in the region. Nonetheless, much of the road network, particularly in the provinces, is in poor condition due to lack of proper maintenance.

4. The poor condition of the roads has led to frequent closures and has effectively cut off transport connections, constraining the movement of people and goods and impeding economic development. The lack of well-managed and well-maintained roads hinders people's access to markets and basic services, significantly contributing to poverty. Inadequate road maintenance reduces the country's economic competitiveness and slows the pace of poverty reduction.

5. Improving the delivery of public services in road asset management is a long-term strategic objective of the government. To achieve it, the government, with assistance from the World Bank and the Swedish International Development Cooperation Agency, embarked on a long-term plan in 2000 to improve road maintenance in the country, primarily by strengthening road maintenance capacity and capability.<sup>4</sup> Key outputs of the plan were the establishment of a Road Maintenance Fund (RMF) and the development of an appropriate road maintenance management system to help allocate funds and prioritize the maintenance of Lao PDR road assets.<sup>5</sup> In 2004–2010, the World Bank and the Swedish International Development Cooperation Agency financed Road Maintenance Program Phase 1 and Phase 2 to further support road maintenance in the country. The Japan International Cooperation Agency currently finances the Road Management Capability Project (2011–2016) to improve governance, planning, and management of sustainable road maintenance in Savannakhet and Vientiane

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<sup>1</sup> The design and monitoring framework is in Appendix 1.

<sup>2</sup> The Asian Development Bank (ADB) provided project preparatory technical assistance: ADB. 2014. *Preparing the Road Sector Governance and Maintenance Project*. Manila (TA 8492-LAO).

<sup>3</sup> Lao PDR National Statistics Center. <http://www.nsc.gov.la>

<sup>4</sup> Development Coordination (accessible from the list of linked documents in Appendix 2).

<sup>5</sup> The Lao PDR established the Road Maintenance Fund (RMF) to finance road maintenance. The RMF commenced operations in 2001. It is managed by the Ministry of Public Works and Transport (MPWT) and is supervised by the Road Maintenance Fund Advisory Board.

provinces. In addition, the World Bank-financed Lao Road Sector Project (2010–2017) supports road maintenance works of the provincial network in Houaphan and Phongsali provinces.

6. **Key issues.** The road sector is under the overall jurisdiction of the Ministry of Public Works and Transport (MPWT). Following the decentralization policy in 2000, road maintenance responsibilities of provincial road network have been delegated to the provincial departments of MPWT called provincial departments of public works and transport (DPWTs). As part of the devolution policy, the assistance provided by development agencies has created a good system for road asset management. Despite this, the devolution of road maintenance responsibilities has continued to be constrained by inadequate governance, weak institutional capacity and insufficient funding for road asset management. The key challenges faced by MPWT and provincial DPWTs for undertaking road maintenance activities are inadequate governance procedures for road maintenance planning, financial management, procurement, and contract supervision, lack of staff's technical capacity and experience in road maintenance management, and financial constraints for undertaking road maintenance. Hence, strengthening governance and institutional capacity for road maintenance activities and supporting physical maintenance work at the provincial level will facilitate efficient decentralization and effective delivery of road maintenance to provide successful future road asset management in the country.

7. The road network is deteriorating rapidly because of the steady growth in traffic, combined with overloading of vehicles. Overloading control is crucial to maintain roads in good condition during the design-life period of the road. The lack of effective axle load control has led to an increased number of overloaded trucks on the roads, which has resulted in the roads deteriorating much quicker than they should. Related to this issue is the lack of effective regulation(s) to provide updated policies and procedures, appropriate institutional setup, feasible measures, and practical enforcement for monitoring axle load. This is one of the major road maintenance governance issues that needs to be addressed.

8. Insufficient financial resources constrain road maintenance activities. With respect to road maintenance financing in Lao PDR, the main funding source is the RMF. The main revenue source of the RMF is from the fuel levy, which accounts for 97% of total revenue.<sup>6</sup> The total revenue of the RMF is about \$48 million in 2013. All of the RMF revenue is used to fund road maintenance in the country, with 90% of the RMF fund allocated to road maintenance of urban and national roads and 10% of the RMF fund allocated to maintenance of provincial and local roads. However, the funding level of the RMF is insufficient to meet road maintenance needs, in particular for the provincial road network. The RMF regulation(s), which govern the financing mechanism and financial management of the RMF, need to be improved to increase RMF revenue level and strengthen governance of the RMF usage for ensuring sustainable road maintenance funding.

9. Since the funding for road maintenance is limited, prioritization and monitoring of road maintenance activities is crucial for effective road asset management. At present, no centralized record keeping system exists to provide such information. The absence of such record keeping system results in a governance issue, leading to difficulty in monitoring and audit of the road maintenance work. The establishment of a road asset management registry system with consolidated information about all stages of road maintenance work including planning, budgeting, procurement, and implementation will facilitate project prioritization and monitoring; and will improve governance and transparency.

10. The poor road condition of the road network is also caused by outdated road

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<sup>6</sup> Assessment on Road Maintenance Fund (accessible from the list of linked documents in Appendix 2).



construction and maintenance standards, design and construction deficiencies, and inadequate institutional capacity in road maintenance and road asset management practices. The absence of standardized road asset management manuals and updated road construction technical specifications has resulted in poor road construction and maintenance quality as well as design and construction deficiencies. Upgrading and standardization of road asset management manuals and technical specification will be essential to improving road construction and maintenance standards, thus facilitating the upkeep of roads in good condition.

11. Weak institutional capacity for road asset management contributes to poor road conditions. The project will implement capacity building programs for MPWT and DPWTs, private contractors and local communities to strengthen human resource capacity in technical issues concerning road asset management planning, implementation and management. The strengthening of institutional capacity will improve the delivery of road asset management by concerned stakeholders.

12. The project will rehabilitate and maintain 327 km of national and local roads in the provinces of Attapu, Salavan, and Xekong. The three provinces are amongst the poorest rural provinces in the country where large proportion of rural poor live. Much of the road network in these three provinces lacks proper maintenance due to limited road maintenance funding. The selected road sections for rehabilitation and maintenance are priority in terms of improving access for people in rural areas. Although vital for transport within the provinces of Attapu, Salavan, and Xekong, and to cross-border transport and trade, most of these road sections are unpaved and/or in poor condition and unable to provide all-year accessibility. The rehabilitation and maintenance of these road sections will provide reliable all-year road access from provincial towns and agricultural rural areas to markets, employment centers, and social services in the three provinces, improving socio-economic living conditions of the rural population in the project regions.

13. **Development coordination.** The Asian Development Bank (ADB) collaborated closely with the government and other development partners for the project design. The project builds on the existing road asset management system and focuses on areas needing improvement. The project design incorporates lessons from other road maintenance projects and innovations in road maintenance. This approach ensures nonduplication and harmonization of development assistance.

14. **Related policies and strategies.** The project aligns with the prevailing Lao PDR transport policy and strategy, which focusses on “recurrent works in transport infrastructure; road maintenance and asset management.”<sup>7</sup> In light of this, the government is committed to achieving sustainable road maintenance. The MPWT has been tasked to identify areas needing improvement for road asset management, develop adequate measures, review existing regulations and laws, and propose actions. This government initiative is a significant step towards enabling the Lao PDR to effectively utilize development assistance for better road asset management. The project will complement the government’s initiative and support the MPWT in realizing sustainable road maintenance.

15. The project is consistent with ADB’s country partnership strategy, 2012–2016 for the Lao PDR and with the government’s Seventh Five-Year National Socio-Economic Development Plan (2011–2015), both of which have the overarching objective of promoting inclusive and

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<sup>7</sup> Government of the Lao PDR. 2014. *Country Report of the Implementation of the Almaty Programme of Action*. Vientiane.

sustainable economic growth and poverty reduction.<sup>8</sup> ADB's 2011 Transport Sector Assessment, Strategy, and Road Map for the Lao PDR recognized the need to support road maintenance as a key component of future ADB assistance to the country's transport sector.<sup>9</sup> The project also captures the essence of ADB's Sustainable Transport Initiative, which promotes a transport system that is accessible, safe, environment-friendly, and affordable.<sup>10</sup>

16. **Lessons.** ADB's Independent Evaluation Department (IED) identified assistance to the MPWT in tackling issues related to capacity development and road maintenance as the primary area where ADB performance could be improved.<sup>11</sup> IED recently reaffirmed the importance of maintaining the roads in good condition as a follow-up support to the Lao PDR's transport sector.<sup>12</sup> Among the key lessons learned from ADB's experience and road maintenance projects financed by other development agencies are (i) policy actions on governance issues should be based on realistic assessments of political will and appropriate timing ; (ii) capacity building requires proper planning and adequate targeting; (iii) streamlined approaches to procurement facilitate effective project implementation; and (iv) upfront support to the executing agency on ADB procedures and information requirements are crucial for effective implementation. These lessons have been incorporated in the project design.

## B. Impact and Outcome

17. The expected impact of the project will be the improved delivery of public services in road asset management. The outcome will be that sustainable road maintenance is implemented in the provinces of Attapu, Salavan, and Xekong.

## C. Outputs

18. The project will have three outputs.

19. **Output 1: Governance and practice for road asset management improved.** This output will provide measures to improve governance and practice. The measures are crucial to delivering successful road asset management. They involve the (i) revision of axle-load monitoring regulation(s), (ii) revision of RMF regulation(s), (iii) development of a web-based road asset management registry for public disclosure, and (iv) upgrade of road asset management manuals and technical specifications.

20. **Output 2: Institutional capacity for road asset management strengthened.** This output will bolster national and provincial institutional capacity. It involves (i) strengthening the capacity of the MPWT for road asset management, (ii) improving contractors' capacity for road maintenance contract tendering and management, and (iii) improving community-based road maintenance capacity.

21. **Output 3: Road asset rehabilitation and maintenance completed.** This output will rehabilitate and maintain 327 km of selected national and local roads in the provinces of Attapu

<sup>8</sup> ADB. 2011. *Country Partnership Strategy: Lao People's Democratic Republic, 2012–2016*. Manila; and Government of the Lao PDR, Ministry of Planning and Investment. 2011. *The Seventh Five-Year National Socio-Economic Development Plan (2011–2015)*. Vientiane.

<sup>9</sup> ADB. 2011. *Lao People's Democratic Republic: Transport Sector Assessment, Strategy, and Road Map*. Manila.

<sup>10</sup> ADB. 2010. *Sustainable Transport Initiative: Operational Plan*. Manila.

<sup>11</sup> IED. 2010. *Sector Assistance Program Evaluation for the Transport Sector in Lao People's Democratic Republic*. Manila: ADB.

<sup>12</sup> ADB. 2014. *Performance Evaluation Report. Lao People's Democratic Republic: Greater Mekong Subregion Northern Economic Corridor Project*. Manila.

(166 km), Salavan (84 km), and Xekong (77 km).<sup>13</sup> The selection of road sections is guided by multicriteria analysis with respect to actual road conditions, economic benefits, social and environmental impacts, strategic importance, and connectivity. Performance-based contracting for civil works will be used to provide incentives for innovation and value engineering, cost reduction, and improvement of maintenance efficiency.

#### D. Investment and Financing Plans

22. The project is estimated to cost \$29.9 million. Table 1 shows the project costs by output.

**Table 1: Project Investment Plan**  
(\$ million)

Item	Amount <sup>a</sup>
<b>A. Base Cost<sup>b</sup></b>	
1. Output 1: Governance and practice for road asset management improved	2.5
2. Output 2: Institutional capacity for road asset management strengthened	2.2
3. Output 3: Road asset rehabilitation and maintenance completed	18.9
<b>Subtotal (A)</b>	<b>23.6</b>
<b>B. Contingencies<sup>c</sup></b>	<b>5.7</b>
<b>C. Financing Charges During Implementation<sup>d</sup></b>	<b>0.6</b>
<b>Total (A+B+C)</b>	<b>29.9</b>

<sup>a</sup> Includes taxes and duties of \$2.5 million to be financed from government resources in cash contribution.

<sup>b</sup> In 2015 prices.

<sup>c</sup> Physical contingencies computed at 10% for base costs. Price contingencies computed on the basis of foreign exchange costs' annual escalation rate ranging from 0.3% to 1.5%, and local currency costs' annual escalation rate ranging from 4.0% to 5.5%; includes provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

<sup>d</sup> Interest during construction for the Asian Development Bank loan has been computed at 1% per annum.

Source: Asian Development Bank.

23. The government has requested a loan in various currencies equivalent to SDR19,119,000 from ADB's Special Funds resources to help finance the project.<sup>14</sup> The loan will have a 32-year term, including a grace period of 8 years, an interest rate of 1.0% per annum during the grace period and 1.5% per annum thereafter, and such other terms and conditions as are set forth in the draft loan agreement. The government has requested for the ADB loan to cover the civil works, equipment, consulting services, contingencies, and financial charges during implementation. The government will finance an estimated \$2.9 million in taxes and duties (\$2.5 million) and incremental administration costs (\$400,000 in kind) (Table 2).

**Table 2: Financing Plan**

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank (loan)	27.0	90.2
Government	2.9	9.8
<b>Total</b>	<b>29.9</b>	<b>100.0</b>

Source: Asian Development Bank estimates.

<sup>13</sup> The maintenance work in the project refers to specific maintenance, which generally includes road drainage improvements, slope protection, minor upgrade of structural sections, pavement resurfacing, and provision of road furniture. Such maintenance is not an ongoing task by nature and can be completed within a specific time frame.

<sup>14</sup> The ADB loan may finance local transportation and insurance costs.

## E. Implementation Arrangements

24. The oversight body for the project will be a steering committee to be chaired by an MPWT vice minister. The steering committee will comprise vice governors from the provinces of Attapu, Salavan, and Xekong; officials from the MPWT, Ministry of Finance, Ministry of Natural Resources and Environment, and Ministry of Planning and Investment; and provincial DPWTs. A regional advisory committee comprising vice governors from Attapu, Salavan, and Xekong provinces, and officials from provincial DPWTs will be established for consultation on provincial issues. The executing agency will be the MPWT and the implementing agency will be its Department of Roads (DOR). Provincial DPWTs in Attapu, Salavan, and Xekong will act as project implementing units. DOR will have overall coordination responsibility and will work closely with the provincial DPWTs to implement the project. A project team within the MPWT and/or DOR will be established to implement the project. The project team will comprise a project manager, three deputy project managers (one each from the target provinces), one social and environmental monitoring officer from the Public Works and Transport Institute, one axle-load and road safety officer from the MPWT's Department of Transport, and supporting staff from DOR and provincial DPWTs. The implementation arrangements are summarized in Table 3 and described in detail in the project administration manual.<sup>15</sup>

**Table 3: Implementation Arrangements**

Aspects	Arrangements		
Implementation period	April 2016–March 2021 (project completion date: 31 March 2021)		
Loan closing date	30 September 2021		
Management			
Oversight body			
(i) National steering committee	MPWT vice minister (chair); vice governors of Attapu, Salavan, and Xekong provinces; representatives of DPWTs from Attapu, Salavan, and Xekong; departments of roads, transport, finance, and planning; Public Works and Transport Institute; MPWT and ministries of finance, planning and investment, and natural resources and environment		
(ii) Executing agency	MPWT		
(iii) Implementing agency	Department of Roads		
(iv) Implementing units	DPWTs of Attapu, Salavan, and Xekong provinces		
Procurement	International competitive bidding: works	2 contracts (performance-based)	\$9.199 million
	National competitive bidding: works	4 contracts (performance-based)	\$7.120 million
	National competitive bidding: goods	1 contract	\$0.450 million
	Shopping: goods	1 contract	\$0.100 million
Consulting services	Firm (QCBS)	345 person-months	\$6.156 million
	Firm (LCS)	30 person-months Lump sum for financial audits	\$0.150 million
Advance contracting	Advance action for recruitment of project management consultant is requested		
Disbursement	The loan proceeds will be disbursed in accordance with ADB's <i>Loan</i>		

<sup>15</sup> Project Administration Manual (accessible from the list of linked documents in Appendix 2).

Aspects	Arrangements
	<i>Disbursement Handbook</i> (2015, as amended from time to time); and detailed arrangement agreed between the government and ADB.

ADB = Asian Development Bank, DPWT = Department of Public Works and Transport, LCS = least-cost selection, MPWT = Ministry of Public Works and Transport, QCBS = quality- and cost-based selection.  
Source: Asian Development Bank.

25. The implementation period is April 2016 to March 2021. Civil works construction will start in the second quarter of 2017 and end in the first quarter of 2021. The project completion date will be 31 March 2021, and the ADB loan will close on 30 September 2021.

26. All goods and works will be procured following ADB's Procurement Guidelines (2015, as amended from time to time). Works valued at \$3 million or above and goods valued at \$1 million or above will be procured through international competitive bidding. The government's public procurement legislation and regulations (as acceptable to ADB) will be applied for packages below the respective international competitive bidding thresholds; they will be procured using national competitive bidding. For packages below \$100,000, goods and works will be procured through shopping. All consultants will be recruited following ADB's Guidelines on the Use of Consultants (2013, as amended from time to time). The draft master bidding documents have been prepared following ADB's standard requests for proposals for consulting services, and ADB's standard bidding documents for goods and works (large and small). The bidding documents will be finalized upon completion of the detailed engineering design, which will be done by the project management consultant.

### III. DUE DILIGENCE

#### A. Technical

27. Work will entail rehabilitation and maintenance of national and local roads. The chosen rehabilitation and maintenance activities considered cost, durability, affordability, safety, and climate resilience, and are deemed technically feasible. The maintenance technology involved is straightforward and within the capacities of engineers and contractors available in the Lao PDR. All civil works designs are compatible with standard MPWT parameters and the available operation and maintenance capacity. Contract packaging will attract contractors with suitable qualifications and ensure efficient procurement.

#### B. Economic and Financial

28. For the economic appraisal, the roads under the project are assumed to receive only routine maintenance in the without-project scenario.<sup>16</sup> The economic analysis compared the individual roads' conditions in the with-project with the without-project scenarios to measure the benefits from vehicle operating and time cost savings arising from the project road improvements. Calculated using these quantified benefits, the project internal rate of return was found to be 17.2% and the net present value of net benefits using a 12% discount rate is \$ 5.4 million.

29. Of the project's mix of national, provincial, and district roads, analysis indicated that users of the local roads, all initially in poor condition, would receive the greater portion of total project benefits. Given that the local roads link produce-growing hinterlands with provincial

<sup>16</sup> Economic Analysis (accessible from the list of linked documents in Appendix 2).

and district markets as well as urban centers, this is a particularly desirable outcome from a redistributive as well as a growth perspective.

30. The executing agency and project owner is a government line ministry, and the project is neither revenue generating nor cost recovering by nature, hence the financial analysis focuses on the financial sustainability of the project. The financial analysis assesses the executing agency's financial capacity to meet the recurrent costs of operating and maintaining the developed facilities in a sustainable manner. The overall financial position was projected for the fiscal years 2015–2025.<sup>17</sup> The projection, based on historical income and expenditure statements, confirms the project owner's financial ability to cover its current costs and sustain the facilities developed under the project. Moreover, the government has assured that it will increase its budget allocation for the MPWT to fund the incremental recurrent costs of operating and maintaining the project. The project is considered financially sustainable. Relevant covenants are included in the draft loan agreement to ensure project sustainability.

### **C. Governance**

31. The risk ratings for financial management and procurement are moderate. Assessments of the MPWT's financial management and procurement capacity confirmed that project implementation arrangements, which follow previous ADB transport-sector projects in the Lao PDR, are appropriate. The MPWT has extensive experience in managing ADB and other externally funded projects, and has sufficient capacity to undertake international and national competitive bidding for procurement. Its Department of Finance will adopt a project financial management system, including internal control procedures, used in ADB- and World Bank-financed road projects. A grievance redress mechanism will be established for the project, following the successful examples of other ADB-financed road improvement projects in the Lao PDR. While incumbent MPWT staff members have experience with ADB guidelines, the implementation of the project will further strengthen the capacity of project staff and provide on-the-job assistance to ensure that procurement, financial management, and disbursements undertaken are acceptable to ADB. An independent external financial auditor will be hired for external auditing of the project accounts. Review missions and regular project supervision will monitor compliance with ADB's financial reporting and external audit requirements. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government, including the MPWT. The specific policy requirements and supplementary measures are described in the project administration manual (footnote 15).

### **D. Poverty and Social**

32. The project will result in better access to schools, markets, and health facilities.<sup>18</sup> Six training courses in routine road maintenance and management will be provided to communities along project roads, with women comprising 50% of trainees. The training sessions and maintenance tools to be provided to the communities are part of the community development support for generating local employment and will be carried out voluntarily; they are not part of the government's routine maintenance activities. Social risks are involved, such as the risk of spreading communicable diseases, human trafficking, and an increase in road accidents. To mitigate these risks, an HIV/AIDS and human trafficking awareness and prevention program, and a road safety program are included in the project. These will be designed and implemented in a gender-sensitive and culturally appropriate manner.

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<sup>17</sup> The fiscal year of the Government of the Lao PDR and its agencies ends on 30 September.

<sup>18</sup> Summary Poverty Reduction and Social Strategy (accessible from the list of linked documents in Appendix 2).

## E. Safeguards

33. All safeguard documents were prepared following ADB's Safeguard Policy Statement (2009) and will be posted on the ADB website in compliance with disclosure requirements.<sup>19</sup> Initial consultations with residents, government officials, and civil society confirm broad support for the project. Consultation with these groups will continue throughout the project cycle, following the consultation and participation plan and stakeholder communications strategy in the project administration manual. The project includes resources to assist counterparts in implementing social and environmental safeguards effectively. Monitoring requirements and appropriate grievance redress mechanisms are outlined in the safeguards documents.

34. The project is not anticipated to cause significant adverse environmental impacts and has been classified as environment category B in accordance with ADB's Safeguard Policy Statement. An initial environmental examination (IEE) was prepared for each project road to meet the requirements of the safeguard policy. The IEE has been disclosed on ADB's website. Except for National Road 18B, none of the roads passes through protected areas. National Road 18B, which was opened to traffic about 10 years ago, traverses 54 km of the core zone of the Dong Amphan National Protected Area (NPA). Only spot rehabilitation will be carried out for National Road 18B due to the relatively good condition of much of the road length and will not involve widening and tree cutting. The environmental management plan will be incorporated into the project's civil works contract documentation. Public consultations were conducted for the project, and a grievance redress mechanism will be implemented to facilitate resolution of project-related environmental impacts. Based on the Preliminary Climate Risk Screening Checklist, the project is in the medium-risk category.<sup>20</sup> Potential flood impacts, erosion, and climate risks were considered during project preparation. Corresponding adaptation measures were identified and included in the project cost estimates and in the design for the roadway, drainage, erosion control, and maintenance, as well as in the institutional aspect.

35. The project will not entail any land acquisition or restriction of access to land resulting in physical or economic displacement of people. The involuntary resettlement categorization is C. The indigenous peoples categorization for the project is B. National Road 16 and Provincial Road 7615 (Salavan Province) and Provincial Road 9001 (Attapu Province) are dominated by a number of ethnic groups, such as Hahak, Katu, Lavy, Shuay and Triang, while the Lao Loum are dominant along the remaining four project roads. An indigenous peoples plan (ethnic communities development plan) was prepared and uploaded on the ADB website.

## F. Risks and Mitigating Measures

36. The overall risk is assessed as medium. The integrated benefits and impacts are expected to outweigh the costs. Major risks and mitigating measures are summarized in Table 4 and described in detail in the risk assessment and risk management plan.<sup>21</sup>

<sup>19</sup> ADB. 2011. *Public Communications Policy 2011: Disclosure and Exchange of Information*. Manila.

<sup>20</sup> Preliminary Climate Risk Screening Checklist is used for initial assessment of the level of sensitivities of the project location and its key components to climate variables, such as temperature, rainfall amount, and temporal distribution.

<sup>21</sup> Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

**Table 4: Summary of Risks and Mitigating Measures**

<b>Risks</b>	<b>Mitigating Measures</b>
Delay in project implementation and civil works procurement	Advance actions for recruitment of consultants will speed up project implementation. The consultants will assist the implementing agency in civil works procurement.
Limited procurement staff in the implementing agency	The consulting team will include experts in procurement to support the implementing agency. Both the executing agency, MPWT, and the implementing agency, DOR, have substantial experience in ADB procurement.
Weak financial management capacity	MPWT has an adequate financial management mechanism in place and extensive experience in implementing ADB projects. It is familiar with ADB financial management requirements, and its finance and accounting staff are qualified and experienced in ADB-financed projects.
Weak external audit capacity by the Lao PDR's State Audit Organization	An external independent financial auditor will be engaged for external financial audits.
Inadequate funding for incremental recurrent costs of the project	The Ministry of Finance has confirmed that budget allocation to MPWT will be increased to fund the incremental costs of the project. The project will also include measures to increase the funding level of the Road Maintenance Fund to rectify inadequate financing of road maintenance in a broader context.

ADB = Asian Development Bank, DOR = Department of Road, Lao PDR = Lao People's Democratic Republic, MPWT = Ministry of Public Works and Transport.

Source: Asian Development Bank.

#### **IV. ASSURANCES**

37. The government has assured ADB that implementation of the project shall conform to all applicable ADB policies, including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in detail in the project administration manual and loan documents. The government has agreed with ADB on certain covenants for the project, which are set forth in the loan agreement.

#### **V. RECOMMENDATION**

38. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the loan in various currencies equivalent to SDR19,119,000 to the Lao People's Democratic Republic for the Road Sector Governance and Maintenance Project, from ADB's Special Funds resources, with an interest charge at the rate of 1.0% per annum during the grace period and 1.5% per annum thereafter; for a term of 32 years, including a grace period of 8 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement presented to the Board.

Takehiko Nakao  
President

18 December 2015



## DESIGN AND MONITORING FRAMEWORK

### Impact of the Project is Aligned with the National Socio-Economic Development Plan 2015<sup>a</sup>:

For delivery of public services in road asset management improved

Project Results Chain	Performance Indicators with Targets and Baselines	Data Sources or Reporting Mechanism	Risks
<p><b>Outcome</b> Sustainable road maintenance implemented in the provinces of Attapu, Salavan, and Xekong</p>	<p>By 2022</p> <p>a. Percentage of national roads in good condition in target provinces increased to 60% (2014 baseline: 40%)</p> <p>b. Percentage of local roads in good condition in target provinces increased to 20% (2014 baseline: 6%)</p> <p>c. Average daily traffic on all project roads increased to 30,000 PCUs (2014 baseline: 21,600 PCUs)</p>	<p>a–c. Annual road asset management report of MPWT</p>	<p>Diminishing government support for road asset management because priorities change.</p>
<p><b>Outputs</b> 1. Governance and practice for road asset management improved</p>	<p>1a. Revised axle-load control regulation developed by 2017 (baseline: NA)</p> <p>1b. Revised RMF regulation developed by 2017 (baseline: NA)</p> <p>1c. A web-based road asset management registry established and made available for public disclosure by 2018 (baseline: NA)</p> <p>1d. Updated performance-based maintenance contract documents, technical specifications for road construction and maintenance, road design manual, and road maintenance manual prepared, approved, and issued by 2017 (baseline: NA)</p>	<p>1a–d. Quarterly progress reports from project management consultant</p>	<p>Cost overrun because of unforeseen circumstances</p>

Project Results Chain	Performance Indicators with Targets and Baselines	Data Sources or Reporting Mechanism	Risks
2. Institutional capacity for road asset management strengthened	<p>2a. 200 staff of MPWT and DPWTs with improved knowledge and skills in sustainable road asset management by 2020 (baseline: NA)</p> <p>2b. Contractors with improved skills in performance-based maintenance contract tendering and implementation by 2018 (baseline: NA)</p> <p>2c. Six training courses in routine road maintenance and management provided to communities along project roads, with women comprising 50% of trainees, by 2019 (baseline: NA)</p>	<p>2a–b. Training workshop evaluation reports</p> <p>2c. Quarterly progress reports from project management consultant</p>	
3. Road asset rehabilitation and maintenance completed <sup>b</sup>	3a. 166 km of roads in Attapu Province, 84 km of roads in Salavan Province, and 77 km of roads in Xekong Province are rehabilitated and maintained by 2021 (2015 baseline:0)	3a. Quarterly progress reports from project management consultant	

### Key Activities with Milestones

#### Output 1: Governance and practice for road asset management improved

- 1.0 Recruit project management consultant (Q3 2015–Q2 2016)
- 1.1 Review existing policy for overloading control and monitoring, and prepare draft revised axle-load control regulation for government approval (Q3 2016–Q2 2017) [GCD]
- 1.2 Prepare draft long-term financing plan and revised RMF regulation (Q3 2016–Q2 2017) [GCD]
- 1.3 Prepare web-based registry system and procurement and/or development of road asset management system, and procure equipment (Q1 2017–Q2 2018) [GCD]
- 1.4 Prepare, approve, and issue updated (i) performance-based maintenance contract documents, (ii) technical specifications for road construction and maintenance, (iii) road design manual, and (iv) road maintenance manual, for acceptance by and approval of MPWT (Q3 2016–Q4 2017) [GCD]

#### Output 2: Institutional capacity for road asset management strengthened

- 2.1 Provide capacity building and/or training for MPWT and DPWTs for Output 1 (Q3 2017–Q4 2020) [GCD]
- 2.2 Provide training for contractors in preparation of tenders and implementation of performance-based maintenance contracts (Q1 2017–Q2 2018) [GCD]
- 2.3 Provide capacity building for supporting community-based routine maintenance (Q1 2017–Q2 2018)

<b>Key Activities with Milestones</b>	
<b>Output 3: Road asset rehabilitation and maintenance completed</b>	
3.1 Undertake detailed design and prepare bidding documents (Q2 2016–Q4 2016)	
3.2 Procure civil works (Q1 2017–Q4 2017)	
3.3 Implement and complete civil works (Q4 2017–Q1 2021)	
<b>Inputs</b>	
Asian Development Bank:	\$27,000,000.00
Government:	\$2,940,000.00
<b>Assumptions for Partner Financing</b>	
Not applicable.	

DPWT = Department of Public Works and Transport, GCD = governance and capacity development, km = kilometer, MPWT = Ministry of Public Works and Transport, NA = not applicable, PCU = passenger car unit, Q = quarter, RMF = Road Maintenance Fund.

<sup>a</sup> Government of the Lao People's Democratic Republic, Ministry of Planning and Investment. 2011. *The Seventh Five-Year National Socio-Economic Development Plan (2011–2015)*. Vientiane.

<sup>b</sup> The maintenance work in the project refers to specific maintenance, which generally includes road drainage improvements, slope protection, minor upgrade of structural sections, pavement resurfacing, and provision of road furniture. Such maintenance is not an ongoing task by nature and can be completed within a specific time frame.

Source: Asian Development Bank.

### **LIST OF LINKED DOCUMENTS**

<http://www.adb.org/Documents/RRPs/?id=47085-002-3>

1. Loan Agreement
2. Sector Assessment (Summary): Transport
3. Project Administration Manual
4. Contribution to the ADB Results Framework
5. Development Coordination
6. Financial Analysis
7. Economic Analysis
8. Country Economic Indicators
9. Summary Poverty Reduction and Social Strategy
10. Initial Environmental Examination: Local Road 6901, Salavan Province
11. Initial Environmental Examination: Local Road 7615, Xekong Province
12. Initial Environmental Examination: Local Road 9001, Attapu Province
13. Initial Environmental Examination: National Road 16, Xekong Province
14. Initial Environmental Examination: National Road 18B, Attapu Province
15. Initial Environmental Examination: National Road 20, Salavan Province
16. Indigenous Peoples Plan
17. Risk Assessment and Risk Management Plan

### **Supplementary Documents**

18. Economic Analysis Linked Document Appendix
19. Assessment on Road Maintenance Fund