



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

---

Project Number: 48189-002  
November 2016

## Proposed Loan Socialist Republic of Viet Nam: Support to Border Areas Development Project

Distribution of this document is restricted until it has been approved by the Board of Directors. Following such approval, ADB will disclose the document to the public in accordance with ADB's Public Communications Policy 2011.

**Asian Development Bank**

## **CURRENCY EQUIVALENTS**

(as of 18 October 2016)

Currency unit	–	dong (D)
D1.00	=	\$0.0000448
\$1.00	=	D22,315.00

## **ABBREVIATIONS**

ADB	–	Asian Development Bank
CLV-DTA	–	Cambodia–Laos–Viet Nam Development Triangle Area
CSB	–	commune supervision board
EIRR	–	economic internal rate of return
GMS	–	Greater Mekong Subregion
IEE	–	initial environmental examination
O&M	–	operation and maintenance
PAM	–	project administration manual
PPC	–	provincial people's committee
PPMU	–	provincial project management unit
REMDP	–	resettlement and ethnic minorities development plan
ROW	–	right-of-way
SDR	–	special drawing right
TTF	–	transport and trade facilitation
VDTA	–	Viet Nam Development Triangle Area

## **NOTES**

In this report, "\$" refers to US dollars.

<b>Vice-President</b>	S. Groff, Operations 2
<b>Director General</b>	J. Nugent, Southeast Asia Department (SERD)
<b>Country Director</b>	E. Sidgwick, Viet Nam Resident Mission, SERD
<b>Team leader</b>	A. Ahonen, Senior Transport Specialist, SERD
<b>Team members</b>	N. Do, Associate Project Analyst, SERD B. Konysbayev, Principal Counsel, Office of the General Counsel T. Le, Senior Project Officer (Transport), SERD K. Leung, Finance Specialist, SERD G. Nguyen, Social Development Officer (Gender), SERD T. Nguyen, Social Development Officer (Safeguards), SERD H. Park, Financial Control Specialist, Controller's Department H. Pham, Associate Financial Control Officer, SERD P. Pham, Environment Officer, SERD P. Phan, Project Analyst, SERD D. Salter, Senior Natural Resources and Agriculture Specialist, SERD S. Schipani, Senior Portfolio Management Specialist, SERD Y. Tamura, Principal Country Specialist, SERD A. Veron-Okamoto, Transport Specialist, SERD
<b>Peer reviewer</b>	D. Hill, Unit Head, Portfolio Management, Papua New Guinea Resident Mission, Pacific Department

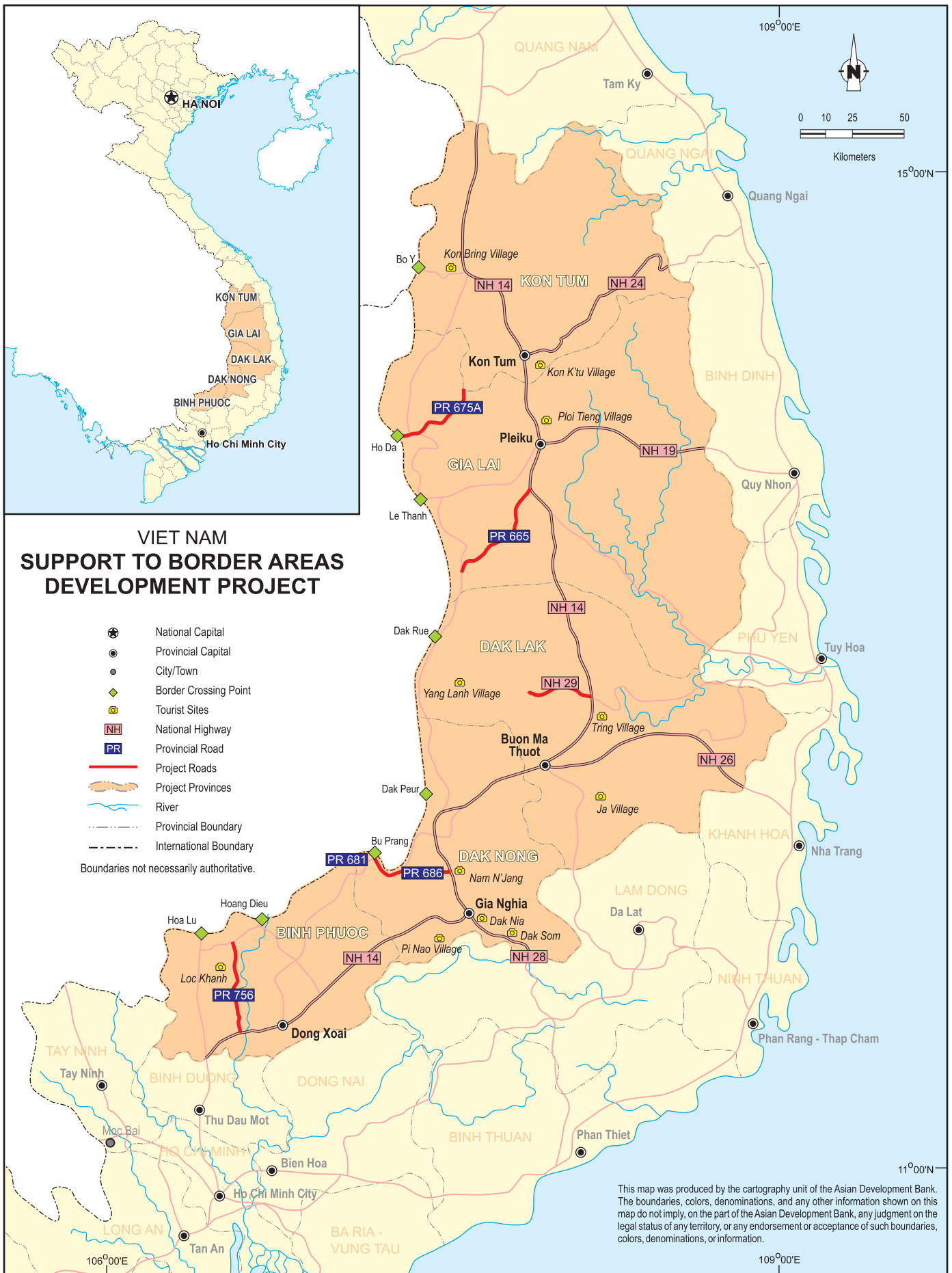
In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.

## CONTENTS

	<b>Page</b>
PROJECT AT A GLANCE	
MAP	
I. THE PROPOSAL	1
II. THE PROJECT	1
A. Rationale	1
B. Impact and Outcome	3
C. Outputs	3
D. Investment and Financing Plans	4
E. Implementation Arrangements	6
III. DUE DILIGENCE	7
A. Technical	7
B. Economic and Financial	7
C. Governance	7
D. Poverty and Social	8
E. Safeguards	8
F. Risks and Mitigating Measures	9
IV. ASSURANCES	10
V. RECOMMENDATION	10
APPENDIXES	
1. Design and Monitoring Framework	11
2. List of Linked Documents	14

## PROJECT AT A GLANCE

<b>1. Basic Data</b>		<b>Project Number:</b> 48189-002	
<b>Project Name</b>	Support to Border Areas Development Project	<b>Department /Division</b>	SERD/VRM
<b>Country Borrower</b>	Viet Nam, Socialist Republic of Socialist Republic of Viet Nam	<b>Executing Agency</b>	Provincial People's Committee of Binh Phuoc, Provincial People's Committee of Dak Lak, Provincial People's Committee of Gia Lai, Provincial People's Committee of Kon Tum Province, Provincial People's Committee, Dak Nong
<b>2. Sector</b>	<b>Subsector(s)</b>	<b>ADB Financing (\$ million)</b>	
✓ <b>Transport</b>	Road transport (non-urban)		104.12
<b>Industry and trade</b>	Trade and services		2.39
		<b>Total</b>	<b>106.51</b>
<b>3. Strategic Agenda</b>	<b>Subcomponents</b>	<b>Climate Change Information</b>	
Inclusive economic growth (IEG)	Pillar 2: Access to economic opportunities, including jobs, made more inclusive	Climate Change impact on the Project	Medium
Environmentally sustainable growth (ESG)	Natural resources conservation		
Regional integration (RCI)	Pillar 2: Trade and investment		
<b>4. Drivers of Change</b>	<b>Components</b>	<b>Gender Equity and Mainstreaming</b>	
Governance and capacity development (GCD)	Institutional development	Effective gender mainstreaming (EGM)	✓
Knowledge solutions (KNS)	Application and use of new knowledge solutions in key operational areas Knowledge sharing activities		
Private sector development (PSD)	Promotion of private sector investment		
<b>5. Poverty and SDG Targeting</b>		<b>Location Impact</b>	
Geographic Targeting	Yes	Rural	High
Household Targeting	No		
SDG Targeting	Yes		
SDG Goals	SDG8		
<b>6. Risk Categorization:</b>	Low		
<b>7. Safeguard Categorization</b>	Environment: B Involuntary Resettlement: B Indigenous Peoples: B		
<b>8. Financing</b>			
<b>Modality and Sources</b>		<b>Amount (\$ million)</b>	
<b>ADB</b>		<b>106.51</b>	
Sovereign Project loan: Asian Development Fund		106.51	
<b>Cofinancing</b>		<b>0.00</b>	
None		0.00	
<b>Counterpart</b>		<b>15.60</b>	
Government		15.60	
<b>Total</b>		<b>122.11</b>	
<b>9. Effective Development Cooperation</b>			
Use of country procurement systems		Yes	
Use of country public financial management systems		No	



## VIET NAM SUPPORT TO BORDER AREAS DEVELOPMENT PROJECT

- National Capital
  - Provincial Capital
  - City/Town
  - Border Crossing Point
  - Tourist Sites
  - National Highway
  - Provincial Road
  - Project Roads
  - Project Provinces
  - River
  - Provincial Boundary
  - International Boundary
- Boundaries 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 Socialist Republic of Viet Nam for the Support to Border Areas Development Project.<sup>1</sup>

2. The project supports the Cambodia–Laos–Viet Nam Development Triangle Area (CLV-DTA) objectives of (i) facilitating the flow of goods, people, and investment capital; and (ii) accelerating economic growth within the five Viet Nam Development Triangle Area (VDTA) provinces of Binh Phuoc, Dak Lak, Dak Nong, Gia Lai, and Kon Tum.<sup>2</sup> The VDTA is characterized by a high concentration of ethnic minorities, low gross domestic product, and areas of persistent poverty. The key impediments to more inclusive growth are insufficient transport and other basic infrastructure, as well as limited institutional capacity. To improve the efficiency of public investment and maximize the benefits of economies of scale and synergies with ongoing or planned projects, the Government of Viet Nam is advocating an integrated area approach under which neighboring localities will work toward common development goals, economies of scale, and jointly enhanced competitiveness. This approach characterizes the design philosophy of the project, which will address the key impediments to inclusive growth.

## II. THE PROJECT

### A. Rationale

3. The VDTA is the largest agricultural producer in the CLV-DTA, and its five main industrial crops are coffee, rubber, pepper, cassava, and cashew kernels, which are traded on international commodity markets. Despite overall poverty reduction and the steady increase in agricultural production and exports since the 1990s, VDTA provinces still face development challenges, such as slow growth, persistent income and non-income inequality of vulnerable and disadvantaged groups, and low competitiveness. Of the VDTA's population of 5,114,780 people, 33% are ethnic minorities and about 77% relies on agriculture as their main source of livelihood. In 2014, the gross domestic product per capita in the VDTA was \$1,683, about 80% of the national average. The average poverty rate for VDTA's ethnic minorities was about 19% against the national average of about 6% for all ethnic groups, indicating that ethnic minorities are not fully benefiting from development advances including social services as well as economic assets and opportunities.<sup>3</sup> Transport connectivity within both CLV-DTA and VDTA remains inadequate partly due to the difficulty in mobilizing funds for infrastructure investment. Some progress has been made in signing and implementing CLV-DTA cross border trade and business agreements but still limited to certain border gates, and mostly on the Vietnamese side. The institutional capacity of VDTA provinces in formulating and implementing their development strategies including investment planning and participation in regional cooperation is weak. For example, all VDTA provinces but Dak Lak were ranked among the 20 lowest of all 63 provinces on the provincial competitiveness index which assesses the ease of doing business, economic governance, and administrative reforms by the provincial governments.<sup>4</sup>

4. These challenges and constraints are primarily due to (i) inadequate physical infrastructure and poor road conditions, (ii) untapped business and livelihood development opportunities, and (iii) weak institutional capacity for investment planning and resource

---

<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 for the Support to Border Areas Development Project (TA 8849-VIE).

<sup>3</sup> Summary Poverty Reduction and Social Strategy (accessible from the list of linked documents in Appendix 2).

<sup>4</sup> The Viet Nam Chamber of Commerce. 2015. *The Viet Nam Provincial Competitiveness Index 2015*. Ha Noi.

management. The project will help the VDTA overcome these constraints and contribute to CLV-DTA objectives by (i) improving the transport connectivity and safety; (ii) supporting transport and trade facilitation (TTF); (iii) promoting inclusive, community-based tourism; and (iv) strengthening provincial capacity for more strategic investment planning and efficient project management. This integrated area approach will diversify economic and employment opportunities for rural communes by connecting them to increasing trade and passenger flows.

5. **Related policies and strategies.** The project is aligned with Viet Nam’s Socio-Economic Development Plan, 2016–2020,<sup>5</sup> which aims to expand the domestic market, promote export, and sustain trading surpluses. More specifically, the development plan proposes to (i) strengthen domestic markets and promote exports by more closely linking production, processing, and distribution; (ii) improve the quality and competitiveness of local products, especially those that can be identified as a Viet Nam “trademark”; and (iii) more fully utilize existing and potential incentives through trade agreements.

6. The project is consistent with the Asian Development Bank (ADB) Strategy 2020 and its midterm review,<sup>6</sup> which aim to (i) improve physical connectivity, (ii) expand the quality and coverage of basic infrastructure to help create jobs for poor persons and ethnic minorities living in underdeveloped areas, and (iii) build capacity for decentralized public sector management. These aims converge with the three pillars of ADB’s country partnership strategy, 2016–2020 for Viet Nam: (i) the promotion of job creation and competitiveness, (ii) enhanced and more inclusive infrastructure and service delivery, and (iii) improved environmental sustainability and climate change response.<sup>7</sup> The project is included in ADB’s country operations business plan, 2017–2019 for Viet Nam.<sup>8</sup>

7. The project will galvanize ADB’s long-term commitment to the Greater Mekong Subregion (GMS) economic cooperation program by promoting closer integration and cooperation among cross-border areas within Cambodia, Lao People’s Democratic Republic, and Viet Nam.<sup>9</sup> It is consistent with the GMS Transport and Trade Facilitation Action Plan, the updated CLV-DTA master plan,<sup>10</sup> and the government’s transport development strategy.<sup>11</sup> The project also fits well with the GMS Tourism Sector Strategy<sup>12</sup> and the government’s Strategy for Tourism Development in Viet Nam until 2020, Vision to 2030<sup>13</sup>. Overall, it will contribute to expanding market opportunities as envisaged by the Association of Southeast Asian Nations Economic Community.

8. **Lessons.** The project has considered lessons from ADB’s recent transport projects, including (i) the importance of national and subregional transport efficiency, which will help

<sup>5</sup> Government of Viet Nam, Ministry of Planning and Investment. 2016. *The Socio-Economic Development Plan, 2016–2020*. Ha Noi.

<sup>6</sup> ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank, 2008–2020*. Manila; and ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*. Manila.

<sup>7</sup> ADB, 2016. *Country Partnership Strategy: Viet Nam, 2016–2020—Fostering More Inclusive and Environmentally Sustainable Growth*. Manila.

<sup>8</sup> ADB. 2016. *Country Operations Business Plan: Viet Nam, 2017–2019*. Manila.

<sup>9</sup> ADB. 2011. *Greater Mekong Subregion Economic Cooperation Program Strategic Framework, 2012–2022*. Manila.

<sup>10</sup> CLV-DTA Secretariat. 2010. *Report on Reviewing, Adjusting and Supplementing the Master Plan for Socio-Economic Development in Cambodia-Laos-Viet Nam Development Triangle Area up to 2020*. Hoa Binh City.

<sup>11</sup> Government of Viet Nam. 2009. *Decision No. 35/QĐ-TTg. 3 March. Approval of Adjustments to Viet Nam Transport Development Strategy up to 2020 with a Vision toward 2030*. Ha Noi.

<sup>12</sup> ADB. 2011. *Greater Mekong Subregion Tourism Sector Assessment, Strategy, and Road Map*. Manila.

<sup>13</sup> Government of Viet Nam. 2011. *Decision 2473/QĐ-TTg Strategy on Viet Nam’s Tourism Development until 2020, Vision to 2030*. Ha Noi.



stimulate economic growth, develop value chains, and enhance regional and international competitiveness;<sup>14</sup> (ii) the need to strengthen the institutional, financial, and operational capacity of transport agencies and operators; (iii) the transport sector's contribution to social sustainability through inclusive economic growth by connecting disadvantaged groups to markets and increasing their access to basic productive assets and social services; and (iv) the consideration of traffic safety and environmental sustainability. The project has integrated lessons from ADB's successful GMS tourism sector assistance program and completed projects in Viet Nam, including the need to (i) analyze tourism demand in project areas to guide the selection of investments; (ii) improve cross-sector coordination and build synergies with other ADB assistance; and (iii) carry out capacity-building programs to provide livelihood opportunities for poor rural and ethnic minority households, especially those led by women.<sup>15</sup>

9. ADB has been the most active development partner in supporting provinces within and adjacent to the VDTA as part of its operational prioritization of the country's central highlands involving wide sector coverage. ADB will follow the government's focus on an area-wide approach, with the project as the first intervention to help the VDTA become a regional cluster with shared development objectives. Greater synergies will be achieved with ongoing and planned support by ADB, such as the Productive Rural Infrastructure Sector Project in the Central Highlands (approved in 2013)<sup>16</sup> and the Water Efficiency Improvement for Drought-Affected Provinces (proposed for 2018), as well as support from other development partners.

## B. Impact and Outcome

10. The impact will be an established engine and gateway within the five VDTA provinces to wider regional and international markets. The outcome will be increased movement of goods, vehicles, and people among the five VDTA provinces.

## C. Outputs

11. **Output 1: Road infrastructure in the five Viet Nam Development Triangle Area provinces rehabilitated.** The poor condition of critical roads constrains economic activities, including employment and income opportunities in all VDTA provinces. The project will improve physical connectivity within and among the five provinces by upgrading national and provincial roads, as well as strategic roads that link the VDTA road network to border crossings with Cambodia and the Lao People's Democratic Republic. The roads were selected using a multicriteria prioritization filter to ensure the greatest impact.<sup>17</sup> Traffic is expected to increase as road conditions improve, and appropriate civil works designs and road safety awareness programs will be provided to mitigate the higher risk of accidents. The project will provide targeted traffic and road safety training to the most vulnerable road users.

<sup>14</sup> For example, the GMS Noi Bai–Lao Cai Highway—the country's longest expressway, which opened in 2014—has halved travel times; reduced traffic accidents by 60%; and boosted the cross-border movement of vehicles, goods, and travelers to the People's Republic of China.

<sup>15</sup> Independent Evaluation Department. 2009. *Sector Assistance Program Evaluation: Tourism Sector in the Greater Mekong Subregion*. Manila:ADB; and ADB. 2013. *Completion Report: Greater Mekong Subregion Mekong Tourism Development Project*. Manila.

<sup>16</sup> ADB. 2013. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Socialist Republic of Viet Nam for the Productive Rural Infrastructure Sector Project in the Central Highlands*. Manila.

<sup>17</sup> The road selection criteria and list of agreed road subprojects are in the Project Administration Manual (accessible from the list of linked documents in Appendix 2).

12. **Output 2: Viet Nam Development Triangle Area plans and facilities for transport and trade facilitation with a focus on inclusive growth developed.** This output will stimulate inclusive economic activity by preparing an action plan to implement the CLV-DTA master plan and TTF agreements, taking into account ongoing and proposed TTF considerations under other regional frameworks, such as the GMS. The action plan will help project executing and implementing agencies incorporate gender, ethnic minority, climate change, and environmental aspects into integrated area development planning and execution. This soft infrastructure support supplements the rehabilitated physical connectivity by easing the movement of goods and people across borders, which will strengthen backward and forward links among agro-processing and other industries.

13. The benefits of improved transport connectivity will be harnessed further by promoting pro-poor, ethnic-inclusive tourism to boost trade in goods and services. Provincial tourism plans prioritize inclusive, community-based, pro-poor tourism, and seven tourism subprojects have been selected for investment in Binh Phuoc, Dak Lak, Dak Nong, and Kon Tum.<sup>18</sup> These projects will include (i) small infrastructure improvements, such as water supply, solid waste, and wastewater management facilities; (ii) rural access road improvements, pathways, trails, and drainage; and (iii) the provision of related training to strengthen the business-enabling environment and provide new livelihood opportunities for poor rural and ethnic minority households.

14. The project will be implemented in coordination with an ongoing regional technical assistance project<sup>19</sup> to help the VDTA integrate aspects related to the protection and use of natural resources<sup>20</sup> into the strategic planning and development of the VDTA master plan.

15. **Output 3: Institutional capacity for investment planning, project design and implementation, and resource management strengthened.** This output will help improve the efficiency of broad investment planning, project management, and small business development within the VDTA provinces in line with the VDTA's long-term development objective to become a stronger and more cohesive economic area. Activities include (i) institutional strengthening and training for officials appointed by the VDTA provinces to implement the action plans, and (ii) capacity development and business support programs for local entrepreneurs, especially women and ethnic minorities, to develop and operate small and micro-enterprises such as accommodation, agro- and food processing, food and beverage services, tourism transport services, handicraft production, and other cultural industries.

#### **D. Investment and Financing Plans**

16. The project is estimated to cost \$122.11 million. Detailed cost estimates by expenditure category and financier are in the project administration manual (PAM).<sup>21</sup>

17. The government has requested a loan in various currencies equivalent to SDR76.84 million from ADB's Special Funds resources (Asian Development Fund) to help finance the

<sup>18</sup> A description of the selected tourism subprojects is in the Project Administration Manual (accessible from the list of linked documents in Appendix 2).

<sup>19</sup> ADB. 2013. *Technical Assistance for Promoting Ecosystem Services and Forest Carbon Financing in Asia and the Pacific*. Manila (TA 8564-REG).

<sup>20</sup> Rapid Ecosystem Assessment (accessible from the list of linked documents in Appendix 2).

<sup>21</sup> Project Administration Manual (accessible from the list of linked documents in Appendix 2).

project.<sup>22</sup> The loan will have a 25-year term, including a grace period of 5 years, an interest rate of 2% per annum during the grace period and thereafter, and such other terms and conditions set forth in the draft loan and project agreements. The ADB loan financing charges during implementation will be capitalized as part of the loan. The VDTA provinces will provide \$15.60 million.<sup>23</sup> The project investment and financing plans are in Tables 1 and 2.

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

Item	Amount <sup>a</sup>
<b>A. Base Cost<sup>b</sup></b>	
1. Road infrastructure in five VDTA provinces rehabilitated	91.34
2. VDTA plans and facilities for transport and trade facilitation with a focus on inclusive growth developed	10.37
3. Institutional capacity for VDTA investment planning, project design and implementation, and resource management strengthened	3.10
<b>Subtotal (A)</b>	<b>104.81</b>
<b>B. Contingencies<sup>c</sup></b>	<b>14.81</b>
<b>C. Financing Charges During Implementation<sup>d</sup></b>	<b>2.49</b>
<b>Total (A+B+C)</b>	<b>122.11</b>

VDTA = Viet Nam Development Triangle Area.

<sup>a</sup> Includes taxes and duties of \$12 million to be financed by the Government of Viet Nam and the Asian Development Bank (ADB). The following principles were followed in determining taxes and duties to be financed by ADB: (i) the amount does not represent an excessive share of the project, (ii) the taxes and duties apply only to ADB-financed expenditures, (iii) the amount is within the country cost-sharing ceiling, and (iv) financing of taxes and duties is material and relevant to the project's success.

<sup>b</sup> In mid-2016 prices based on ADB's project preparatory technical assistance for the Support for the Border Areas Development Project (TA 8849-VIE) team's estimates.

<sup>c</sup> Physical contingencies were computed at 10% for all categories, except tourism infrastructure, community development support, and vehicles and equipment, which were computed at 0%. Price contingencies were computed at 1.4% for 2017, 1.5% for 2018 and thereafter for foreign currency costs, and 5% for 2017 and thereafter for local currency costs; this includes a provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

<sup>d</sup> Computed at 2% per annum on withdrawn amounts.

Source: Asian Development Bank estimates.

**Table 2: Financing Plan**

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank		
Special Funds resources (ADF loan)	106.51	87.22
Provincial peoples' committees	15.60	12.78
<b>Total</b>	<b>122.11</b>	<b>100.00</b>

ADF = Asian Development Fund.

Source: Asian Development Bank estimates.

18. The government will provide the proceeds of the loan to the VDTA provinces through (i) budgetary grant transfers and (ii) relending to the executing agencies under subsidiary loan agreements, with terms and conditions satisfactory to ADB. The ratio of relending from the government to the provinces will vary depending on the provinces' financial capacity.

<sup>22</sup> ADB will finance (i) civil works; (ii) consulting services for construction supervision, capacity building, and external audit, inclusive of applicable taxes and duties for the expenditure items covered by ADB; and (iii) interest during project implementation.

<sup>23</sup> Counterpart funds will finance (i) land acquisition and resettlement costs; (ii) community development for tourism services; (iii) all consulting services for project implementation, except for construction supervision and external audit; (iv) gender action plan and environment monitoring plan implementation; (v) project management unit operation; and (vi) all training and awareness programs.

## E. Implementation Arrangements

19. The implementation arrangements are summarized in Table 3 and detailed in the PAM.

**Table 3: Implementation Arrangements**

Aspects	Arrangements		
Implementation period	June 2017–December 2022		
Estimated completion date	31 December 2022 (loan closing date: 30 June 2023)		
Management			
(i) Oversight body	Interministerial project steering committee. Chair: Rotation shared by the heads of each of the five PPC members: MPI, MOF, MOT, MCST, MOC, PPMU, directors of five PPCs		
(ii) Executing agencies	PPCs of the VDTA		
(iii) Key implementing agencies	DPIs of the VDTA		
(iv) Implementation unit	Five PPMUs (total of 12 PPMU staff in each of the five VDTA provinces)		
Procurement (Works and Equipment)	National procedures	37 contracts (government-financed)	\$2.82 million
	NCB	16 contracts	\$87.05 million
Consulting services	National procedures	37 contracts (government-financed)	\$5.51 million
	QCBS	5 contracts, 150 person-months each PPMU	\$0.73 million
	LCS	5 contracts, approximately 5 person-months each PPMU	\$0.25 million
Advance contracting	Key government-financed consulting packages, including start-up and project implementation support consultants, will be recruited as advance actions.		
Disbursement	The loan proceeds will be disbursed in accordance with ADB's <i>Loan Disbursement Handbook</i> (2015, as amended from time to time) and detailed arrangements agreed between the government and ADB.		

ADB = Asian Development Bank; DPI = Department of Planning and Investment; LCS = least-cost selection; MCST = Ministry of Culture, Sports and Tourism; MOC = Ministry of Construction; MOF = Ministry of Finance; MOT = Ministry of Transport; MPI = Ministry of Planning and Investment; NCB = national competitive bidding; PPC = provincial people's committee; PPMU = provincial project management unit; QCBS = quality and cost-based selection; VDTA = Viet Nam Development Triangle Area.

Source: Asian Development Bank.

20. The project steering committee will represent the provinces in addressing project-related interprovincial coordination, negotiations, and discussions. The five VDTA provincial people's committees (PPCs) will be the executing agencies; they have nominated their departments of planning and investment as the implementing agencies, and will appoint a provincial department to be responsible for the provincial project management units (PPMUs). The PPMUs, which will be supported by project implementation consultants,<sup>24</sup> will manage the day-to-day project implementation and, with ADB's prior concurrence, will appoint the PPMU's key professional staff and assign qualified support staff. At the commune level, the project will coordinate closely with the existing local administrations, utilizing the commune people's committee as the project point of liaison. The communication and participation plan and gender action plan provide guidance to ensure that project stakeholders are appropriately engaged. The PPMUs will cooperate closely with commune personnel in (i) organizing public consultations, (ii) monitoring design and implementation, and (iii) creating a grievance redress mechanism with commune supervision boards (CSBs).<sup>25</sup>

<sup>24</sup> The terms of reference for the implementation consultants are in the Project Administration Manual (accessible from the list of linked documents in Appendix 2).

<sup>25</sup> The CSBs will include at least one female representative.

### III. DUE DILIGENCE

#### A. Technical

21. Engineering solutions are based on whole life cost considerations that take into account the project's technical feasibility, cost, durability, affordability, and environmental aspects, such as adequacy of embankment height, drainage and erosion control, for addressing extreme weather conditions. Standards and best practices that the contractors and local authorities are familiar with are used to eliminate delays. Contract packaging has been tailored to attract qualified contractors and capacity-building programs will help small entrepreneurs improve the business-enabling environment.

#### B. Economic and Financial

22. Economic analysis was undertaken for each of the five road subprojects. The benefits quantified for output 1 come from reduced vehicle operating costs and time savings. The economic internal rates of return (EIRRs) for the provincial subprojects are 18.7% (Gia Lai), 16.4% (Dak Lak), 12.3% (Dak Nong), 12.2% (Kon Tum), and 13.1% (Binh Phuoc). The output 1 investment is assessed as feasible across all subprojects, with an EIRR of 14.5%.

23. The benefits quantified for output 2 are derived from the incremental increase in the number of visitors to the tourist sites (footnote 18), visitor spending, and additional revenues arising from the homestay business. The estimated EIRR of the tourism subprojects averages 15.4%, declining to 14.1% if the capacity strengthening costs under output 2 are included.

24. The project's economic viability was tested by combining the net cash flows of outputs 1 and 2, the costs of output 3, and project management overhead. The overall project was found to be economically feasible, with an EIRR of 13.9%.<sup>26</sup>

25. **Financial viability.** A projection of the financial position of the five provinces for 2017–2026 has been prepared. Revenue and expenditures have been conservatively projected to grow annually over this period at the local inflation rate of 5% or, if higher, to follow past growth trends. The dong is expected to depreciate by 5% each year. The projections include the provincial project investment, ADB loan proceeds utilized, counterpart contribution, debt service repayment on the subloan, and adequate O&M for the sustainable operation of the project infrastructure. The financial analysis showed that the provinces can afford the project, as they can provide the counterpart contribution, provide adequate O&M for sustainable operation, and repay the debt service on the subloan. The annual counterpart contribution and combined annual O&M plus debt service are individually less than 1% of total state budget expenditures.

#### C. Governance

26. The financial management assessment indicates that the project-specific risks, which are generally moderate, can be reduced to low with appropriate mitigation measures, involving the appointment of experienced and qualified staff to the PPMU, technical support, and training in ADB procedures.<sup>27</sup> Each PPMU will (i) maintain separate project accounts and records by funding source for all expenditures incurred under the project, (ii) cause the detailed project accounts to be audited following international auditing standards and ADB's requirements by an

---

<sup>26</sup> Economic Analysis (accessible from the list of linked documents in Appendix 2).

<sup>27</sup> Financial Management Assessment (accessible from the list of linked documents in Appendix 2).

independent auditor acceptable to ADB, and (iii) involve the CSBs to ensure their participation in monitoring subproject implementation

27. The financing allocations and components that must follow ADB procedures have been arranged taking into account the PPCs' limited experience and capacity for managing externally funded projects. All procurement of goods and civil works and recruitment of consultants to be financed by the ADB loan must follow ADB's Procurement Guidelines (2015, as amended from time to time) and Guidelines on the Use of Consultants (2013, as amended from time to time). The government's public procurement regulations (as acceptable to ADB) will be applied for packages procured using national competitive bidding and shopping procedures.

28. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government and the PPCs. The specific policy requirements and supplementary measures are described in the PAM.

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

29. The project will directly benefit about 225,000 people, including 12,400 ethnic minority beneficiaries of tourism subprojects (footnote 3). The poverty rate in the VDTA provinces, except for Binh Phuoc, is higher than the national average. Ethnic minorities represent a relatively larger share of the poor population, with many just above the poverty level and highly vulnerable to unpredicted events. Poverty is attributed to (i) a lack of land, labor, and credit, and limited production knowledge and trade skills, especially on the part of poor ethnic women who have limited education; and (ii) poor basic infrastructure, which hampers economic development by creating high costs throughout value chains such as agriculture and tourism. The project's road investments will expand economic opportunities to benefit all, while the tourism investments will benefit the rural poor, especially ethnic minorities.

30. **Gender.** The project is categorized *effective gender mainstreaming*. A gender analysis revealed that women have fewer opportunities than men to participate in public decision-making, and less access to information, training, and employment, especially during the low agricultural season. A gender action plan was prepared that promotes (i) equality of project benefits and opportunity-sharing between men and women; (ii) reduction in gender inequalities and social risks (HIV/AIDS transmission prevention, human trafficking prevention, and road safety); (iii) training of women, including those from ethnic minorities, on technical topics, including tourism service deliveries; (iv) increased representation of women in decision-making bodies; and (v) collection of sex-disaggregated data for benefit monitoring and evaluation.<sup>28</sup>

#### **E. Safeguards**

31. **Involuntary resettlement.** Based on ADB's Safeguard Policy Statement (2009), the overall project is classified *category B* for involuntary resettlement. The developments and improvements under the subprojects are unlikely to trigger major resettlement impacts because most of the infrastructure will be improved within existing rights-of-way (ROWs). As a result, the primary points of concern will be minor land acquisition and compensation for roadside trees, crops, or small structures that may be affected within the ROW. The PPCs and ADB have agreed on a combined resettlement and ethnic minorities development plan (REMDP).<sup>29</sup> Minor land acquisition, compensation, allowances, operation and administration, surveys, monitoring,

<sup>28</sup> Gender Action Plan (accessible from the list of linked documents in Appendix 2).

<sup>29</sup> Resettlement and Ethnic Minorities Development Plan (accessible from the list of linked documents in Appendix 2).

and reporting will be financed by government counterpart funds. The internal monitor will ensure that the resettlement process and impacts are evaluated properly and timely reported to ADB.

32. **Indigenous peoples.** Based on ADB's Safeguard Policy Statement (2009), the overall project is classified *category B* for indigenous peoples. Impacts on ethnic minorities in the project areas are overwhelmingly positive since the subprojects will be aimed at the overall economic and social improvement of the total population. The project will not cause physical displacement from traditional or customary lands, nor negatively impact the identity, culture, or customary livelihood system of ethnic minorities. The REMDP will be used to ensure the inclusion of ethnic minorities and their access to project benefits. The REMDP also includes mitigation measures to address impacts on ethnic minorities, an institutional capacity development program, and a grievance redress mechanism. It also complies with ADB information disclosure and consultation requirements. The seven tourism subprojects are assessed *category C* for involuntary resettlement and indigenous peoples.

33. **Environment.** Based on ADB's Safeguard Policy Statement (2009), the overall project is classified *category B*. Initial environmental examinations (IEEs)<sup>30</sup> were prepared for each of the five road subprojects. The IEEs found only a few significant adverse impacts, none of which is irreversible. All road works under the project will be carried out within existing ROWs, and no civil works will be carried out in sensitive biodiversity areas. The environmental management plans, included in the IEEs, will be updated during the detailed design of the road subprojects and reviewed and endorsed by ADB. The five tourism subprojects under output 2 involve the construction of small infrastructure in the villages to improve tourist destinations, and will cause minor or no environmental impacts. During project implementation, parallel to the preparation of the detailed designs, rapid environmental assessments to be agreed with ADB will be carried out to reconfirm the tourism subprojects as *category C*. A climate risk and vulnerability assessment was prepared based on climate projections downscaled within the VDTA.<sup>31</sup>

## F. Risks and Mitigating Measures

34. Major risks and mitigating measures are summarized in Table 4 and described in detail in the risk assessment and management plan.<sup>32</sup> With the mitigation measures, the overall risk is considered medium, and the project's benefits and impacts will outweigh the estimated costs.

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

Risks	Mitigating Measures
<p><b>Regional and local coordination</b> Delays in implementing CLV-DTA transport and trade agreements, the inability to engage stakeholders effectively on strategies and priorities, and difficulty in mobilizing and retaining qualified and trained staff.</p>	<p>ADB will remain closely engaged with and actively support Viet Nam's participation in subregional economic cooperation and integration programs, including those related to transport and trade facilitation. The project will specifically support the implementation of CLV-DTA agreements by training and motivating provincial officials for better investment planning and project management, and beneficiaries in business development and livelihood enhancement, especially in inclusive tourism.</p>
<p><b>Public financial management</b> Weak budget planning, which can lead to suboptimal budget allocation decisions, inadequate institutional arrangements and capacity, and</p>	<p>ADB assistance, particularly programmed policy-based loans, will help improve public financial management systems, while the project will benefit from tried-and-tested procedures and measures established under the ADB portfolio. On the part of the Government of Viet Nam, the recent tightening of policies and measures on ODA financing through</p>

<sup>30</sup> Initial Environmental Examination (accessible from the list of linked documents in Appendix 2)

<sup>31</sup> Climate Risk and Vulnerability Assessment (accessible from the list of linked documents in Appendix 2).

<sup>32</sup> Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

<b>Risks</b>	<b>Mitigating Measures</b>
negative consequences of insufficient preparation for decentralization.	various legal and regulatory changes will help strengthen local governments' commitment to fiscal restructuring and financial management reforms and ownership of their ODA financed projects.
<b>Procurement</b> The new procurement law must be fully complied with to improve transparency, efficiency and fair treatment in procurement; external checks on procurement decisions and actions by government agencies need to be made more effective; and strengthening of provincial institutional frameworks and procurement capacity is needed.	ADB will prepare national and sector-level procurement risk assessment and management plans to guide a risk-based approach to procurement. ADB will also continue enforcing its guidelines on conflicts of interest and facilitate training for government officials. At the project level, ADB will encourage PPMUs to engage accounting support to ensure timely record-keeping and reconciliation, and strict adherence to financial management policies and internal controls. The project's procurement plan proposes fewer and larger packages to reduce the number of transactions.
<b>Governance</b> Inappropriate monitoring and oversight mechanism, and executing and implementing agencies' weak integrity, institutions, and capacity.	ADB will support the implementation of the Amended Law on Anti-Corruption of 2012, which includes guidelines on increased transparency and accountability of public agencies and officials. ADB-funded PPMUs will establish and strengthen mechanisms to mitigate the risk of seeking personal gain. ADB will provide continuous support for capacity development and resources for accountability institutions.
<b>Project management</b> Weak capacity of PPCs and communes to sustainably operate and maintain the infrastructure and facilities supported under the project, and construction delays due to extreme weather conditions	The project design includes targeted ADB financing of specific items that are easily measured and monitored (infrastructure and consulting services). The executing agencies will be responsible for identifying key project staff and will allow ADB to review their qualifications as outlined in the PAM. ADB will provide the implementing agencies with on-the-job training. Civil works contractors are required to follow the environment management plan to minimize adverse impacts on the environment.

ADB = Asian Development Bank, CLV-DTA = Cambodia–Laos–Viet Nam development triangle area, ODA = official development assistance, PPC = provincial people's committee, PPMU = provincial project management unit.

Source: Asian Development Bank.

#### IV. ASSURANCES

35. The government and VDTA PPCs have assured ADB that the implementation of the overall 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 PAM and loan documents. The government and VDTA PPCs have agreed with ADB on certain covenants for the overall project, which are set forth in the loan and project agreements.

#### V. RECOMMENDATION

36. 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 SDR76,840,000 to the Socialist Republic of Viet Nam for the Support to Border Areas Development Project, from ADB's Special Funds resources, with an interest charge at the rate of 2% per annum during the grace period and thereafter; for a term of 25 years, including a grace period of 5 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan and project agreements presented to the Board.

Takehiko Nakao  
 President

17 November 2016



## DESIGN AND MONITORING FRAMEWORK

<b>Impact the Project is Aligned with</b> Engine and gateway within the five VDTA provinces to wider regional and international markets established <sup>a</sup>			
<b>Results Chain</b>	<b>Performance Indicators with Targets and Baselines</b>	<b>Data Sources and Reporting Mechanisms</b>	<b>Risks</b>
<b>Outcome</b> Movement of goods, vehicles, and people among the five VDTA provinces increased	By 2023: a. Average daily passenger traffic increased by 12% and movement of goods (ton-km) increased by 20% on the improved roads (2016 baseline: 850 vehicles and 100,000 ton-km of freight per day)  b. 20% increase in the value of commodities passing through the VDTA border-crossing stations (2016 baseline: \$1.5 billion)  c. 30% increase in international visitor expenditure in the VDTA (2015 baseline: \$5.9 million)  d. 50% of tourism-related job opportunities generated by the project held by women from ethnic minority groups (2016 baseline: 0)	a. Provincial department of transport traffic statistics and completion of traffic counts reported through annual project progress reports  b. Provincial trade statistics by border crossing broken into exports and imports by major commodity tonnage and values to be included in annual project progress reports  c. Provincial departments of culture, sports, and tourism statistics on arrivals and daily spend per tourist  d–e. Provincial data from health centers and schools reported in annual provincial statistics and included in project progress reports	Weak capacity of PPCs and communes to operate and maintain the infrastructure and facilities supported under the project successfully and sustainably, including premature deterioration due to inadequate maintenance  Border trade and regional tourism demand adversely affected by delays in implementing CLV-DTA transport and trade agreements
<b>Outputs</b> 1. Road infrastructure in the five VDTA provinces rehabilitated	By 2022: 1a. 236.7 km of national and provincial roads linking to National Highways 14 and 14C rehabilitated (2016 baseline: 0 km)  1b. 26.6 km of provincial roads linking to border-crossing stations rehabilitated (2016 baseline: 0 km)  1c. Road safety-awareness program for at least 32,000 vulnerable road users (of whom 50% are women) who commute to factories, communes, schools, and markets along the improved roads conducted (2016 baseline: 0)	1a–b. Project M&E field reports and annual project progress reports, ADB review missions, and contractor handover certification  1c. Provincial road safety committee work plans, evaluation reports, and project progress reports	Construction delays due to extreme weather conditions, such as unseasonable rainfall

<p>2. VDTA plans and facilities to facilitate transport and trade with a focus on inclusive growth developed</p>	<p>By 2022:</p> <p>2a. VDTA implementation action plan of the CLV-DTA master plan prepared with ecosystem services, climate change, gender, and ethnic minority considerations (2016 baseline: no VDTA implementation plan)</p> <p>2b. VDTA integrated trade strategy and action plan prepared and submitted to the Government of Viet Nam for approval (2016 baseline: no strategy and action plan)</p> <p>2c. VDTA implementation plans prepared for CLV-DTA transport and trade agreements (2016 baseline: no implementation plan)</p> <p>2d. Facilities in 11 VDTA tourist destinations developed (2016 baseline: 0)</p>	<p>2a. Copies of the implementation action plan with the MPI letter submitted to the CLV-DTA secretariat, and referred to in the relevant Greater Mekong Subregion documents, and annual and quarterly project progress reports</p> <p>2b. Copy of the VDTA integrated trade and logistics strategy and action plan and PMU-PPC submission covering letter</p> <p>2c. Provincial implementation plans for the agreed CLV-DTA trade and transport agreements submitted to the PMU and ADB and posted online</p> <p>2d. Contractor completion and project progress reports</p>	<p>Inability to engage all stakeholders effectively to agree upon strategies and priorities</p>
<p>3. Institutional capacity for VDTA investment planning, project design and implementation, and resource management strengthened</p>	<p>By 2022:</p> <p>3a. Officials nominated by the PPC (30% of whom are female) and trained to implement the VDTA implementation action plan and project (2016 baseline: 0)</p> <p>3b. 200 ethnic minority persons (more than 50% of whom are women) at the improved tourist destinations trained in cultural and nature tourism-related business operations and service provision (2016 baseline: 0)</p>	<p>3a. Training reports from the service provider and project progress reports</p> <p>3b. Training evaluation and training provider completion reports, and annual and quarterly project progress reports</p>	<p>Difficulty in mobilizing and retaining qualified and trained staff for the project during and after implementation</p>
<p><b>Key Activities with Milestones</b></p> <p><b>1 Road infrastructure in five VDTA provinces rehabilitated</b></p> <p>1.1 Prepare detailed design and contract documents for five subprojects (February 2018)</p> <p>1.2 Award contracts for five road subprojects (September 2018)</p> <p>1.3 Complete construction of five subprojects (March 2021)</p> <hr/> <p>1.4 Approve road safety committee campaign work plans (June 2019)</p> <p>1.5 Complete road safety training (December 2020)</p> <p><b>2 VDTA plans and facilities to facilitate transport and trade with a focus on inclusive growth developed</b></p> <p>2.1 Agree on the process for preparing the VDTA implementation action plan (June 2019)</p>			

- 2.2 Implement the VDTA master planning process and submit the plan to the PPCs and MPI (March 2020)
- 2.3 Review the CLV-DTA master plan to identify VDTA investment priorities agreed by the PPCs and submitted to the Ministry of Finance and MPI (September 2020)
- 2.4 Complete work plans for preparing the VDTA integrated transport and trade strategy and action plan (May 2019)
- 2.5 Submit the VDTA integrated transport and trade strategy and action plan to the government (September 2020)
- 2.6 Complete work plans for preparing the VDTA transport and trade implementation road maps (May 2019)
- 2.7 Complete the VDTA transport and trade implementation road maps (June 2020)
- 2.8 Complete government feasibility studies for seven tourism subprojects (March 2018)
- 2.9 Prepare detailed designs and contract documents for tourism subproject (March 2019)
- 2.10 Award tourism subproject contracts (September 2019)
- 2.11 Complete construction of the tourism subproject (March 2022)
- 3 Institutional capacity for VDTA investment planning, project design and implementation, and resource management strengthened**
- 3.1 Complete master planning training needs assessment and identify trainees (May 2018)
- 3.2 Start implementing the master planning training program (January 2019)
- 3.3 Prepare tourism participation training packages (February 2019)
- 3.4 Start implementing tourism participation training (May 2020)

### **Project Management Activities**

Provincial PMUs and VDTA secretariat established and fully staffed (June 2017)  
 Consultant recruitment: start-up consultants (September 2016); loan implementation consultants (October 2017)  
 Baseline survey (March 2018)  
 Project performance monitoring system functioning (October 2018)  
 Project quarterly coordination meeting and reports (starting Q3 2017)  
 Project completion report prepared (Q2 2023)

### **Inputs**

ADB: \$106.51 million (Asian Development Fund loan)  
 Government: \$15.60 million

### **Assumptions for Partner Financing**

Not applicable

ADB = Asian Development Bank, CLV-DTA = Cambodia–Laos–Viet Nam Development Triangle Area, km = kilometer, M&E = monitoring and evaluation, MPI = Ministry of Planning and Investment, PMU = project management unit, PPC = provincial people's committee, Q = quarter, VDTA = Viet Nam Development Triangle Area.

<sup>a</sup> Provincial Socio-Economic Development Plans (2016–2020) of Binh Phuoc, Dak Lak, Dak Nong, Gia Lai, and Kon Tum; and CLV-DTA Secretariat. 2010. Report on Reviewing, Adjusting and Supplementing the Master Plan for Socio-Economic Development in Cambodia-Laos-Viet Nam Development Triangle Area up to 2020. Hoa Binh City.

<sup>b</sup> The detailed implementation schedule is in the Project Administration Manual (accessible from the list of linked documents in Appendix 2).

Source: Asian Development Bank.

### **LIST OF LINKED DOCUMENTS**

<http://www.adb.org/Documents/RRPs/?id=48189-002-3>

1. Loan Agreement
2. Project Agreement
3. Sector Assessment (Summary): Transport, Tourism and Public Sector Management
4. Project Administration Manual
5. Contribution to the ADB Results Framework
6. Development Coordination
7. Financial Analysis
8. Economic Analysis
9. Country Economic Indicators
10. Summary Poverty Reduction and Social Strategy
11. Gender Action Plan
12. Initial Environment Examinations
13. Risk Assessment and Risk Management Plan

### **Supplementary Documents**

14. Resettlement and Ethnic Minority Development Plans
15. Financial Management Assessment
16. Procurement Risk Assessment
17. Climate Risk and Vulnerability Assessment
18. Rapid Ecosystem Assessment
19. Detailed Economic Analysis
20. Feasibility Assessment of Tourism Subprojects
21. Methodology for the Selection of Road Subprojects
22. Detailed Financial Analysis