



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

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Project Number: 49026-003  
November 2017

## Proposed Loans Socialist Republic of Viet Nam: Basic Infrastructure for Inclusive Growth in the North Central Provinces Sector Project

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Asian Development Bank

## **CURRENCY EQUIVALENTS**

(As of 31 October 2017)

Currency unit	-	dong (D)
D1.00	=	\$0.000044
\$1.00	=	D22,471

## **ABBREVIATIONS**

ADB	-	Asian Development Bank
GAP	-	gender action plan
GDP	-	gross domestic product
GMS	-	Greater Mekong Subregion
Lao PDR	-	Lao People's Democratic Republic
NCP	-	north central province
O&M	-	operation and maintenance
PAM	-	project administration manual
PMU	-	project management unit
PPC	-	provincial people's committee
RDWS	-	rural domestic water supply scheme

## **NOTE**

In this report, "\$" refers to United States dollars.

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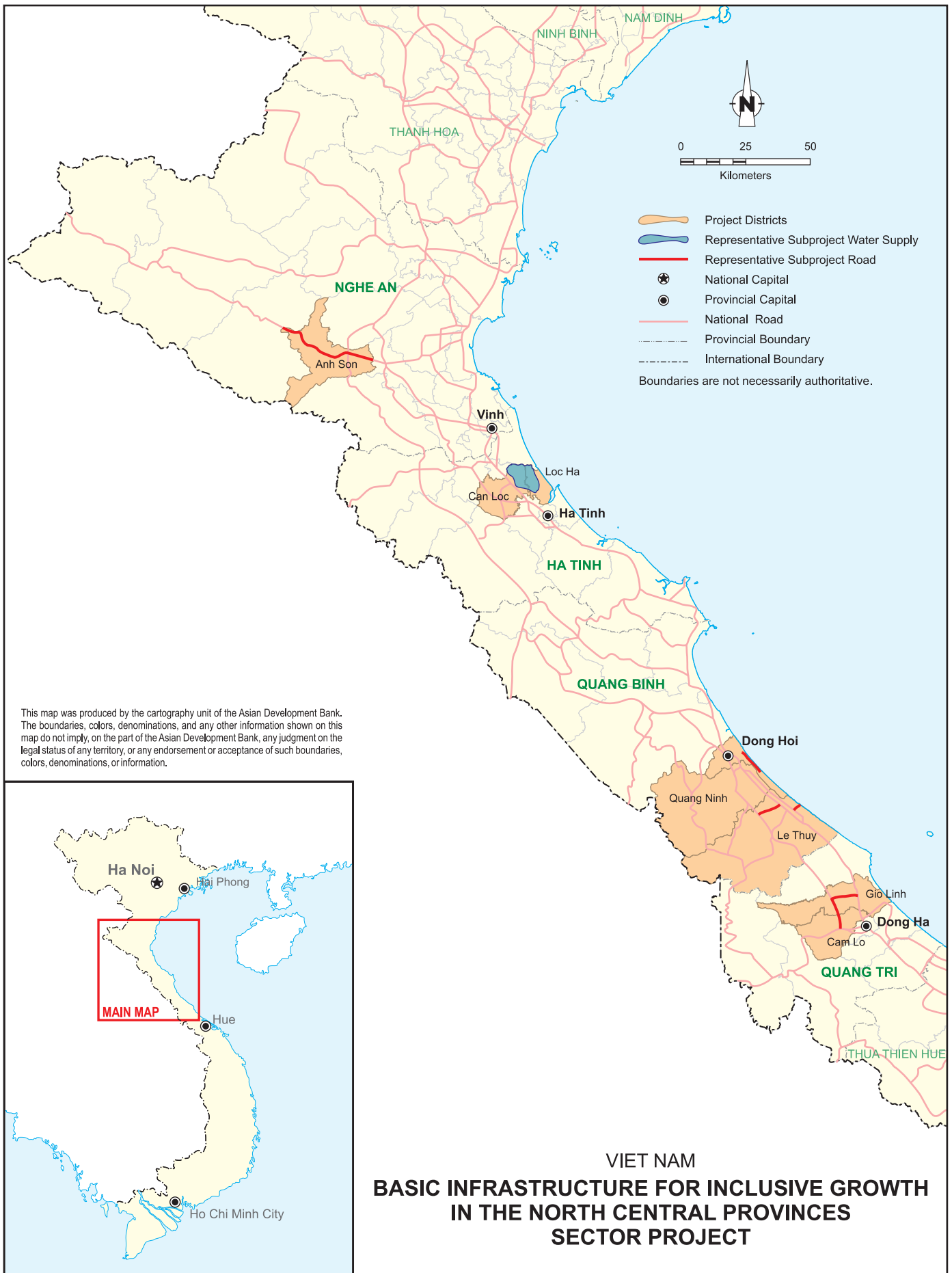
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## PROJECT AT A GLANCE

<b>1. Basic Data</b>		<b>Project Number:</b> 49026-003	
<b>Project Name</b>	Basic Infrastructure for Inclusive Growth in the North Central Provinces Sector Project	<b>Department /Division</b>	SERD/SEER
<b>Country Borrower</b>	Viet Nam, Socialist Republic of Viet Nam, Socialist Republic of	<b>Executing Agency</b>	Provincial People's Committee of Ha Tinh Province, Provincial People's Committee of Nghe An Province, Provincial People's Committee of Quang Binh Province, Provincial People's Committee of Quang Tri Province
<b>2. Sector</b>	<b>Subsector(s)</b>	<b>ADB Financing (\$ million)</b>	
✓ <b>Transport</b>	Road transport (non-urban)		110.55
<b>Agriculture, natural resources and rural development</b>	Irrigation		10.15
	Rural flood protection		5.30
	Rural water supply services		23.00
		<b>Total</b>	<b>149.00</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	Adaptation (\$ million)	27.00
Environmentally sustainable growth (ESG)	Eco-efficiency	Mitigation (\$ million)	3.00
	Global and regional transboundary environmental concerns	CO <sub>2</sub> reduction (tons per annum)	1,261
		Climate Change impact on the Project	Medium
<b>4. Drivers of Change</b>	<b>Components</b>	<b>Gender Equity and Mainstreaming</b>	
Governance and capacity development (GCD)	Civil society participation	Effective gender mainstreaming (EGM)	✓
Knowledge solutions (KNS)	Application and use of new knowledge solutions in key operational areas		
	Knowledge sharing activities		
Partnerships (PAR)	Civil society organizations		
	Implementation		
Private sector development (PSD)	Public sector goods and services essential for private sector development		
<b>5. Poverty and SDG Targeting</b>		<b>Location Impact</b>	
Geographic Targeting	Yes	Rural	High
Household Targeting	No	Urban	Low
SDG Targeting	Yes		
SDG Goals	SDG1, SDG6, SDG8, SDG9, SDG10, SDG13		
<b>6. Risk Categorization:</b>	Low		
<b>7. Safeguard Categorization</b>	<b>Environment: B</b>	<b>Involuntary Resettlement: B</b>	<b>Indigenous Peoples: B</b>
<b>8. Financing</b>			
<b>Modality and Sources</b>		<b>Amount (\$ million)</b>	
<b>ADB</b>		<b>149.00</b>	
Sovereign Project (Concessional Loan): Ordinary capital resources		97.00	
Sovereign Project (Regular Loan): Ordinary capital resources		52.00	
<b>Cofinancing</b>		<b>0.00</b>	
None		0.00	
<b>Counterpart</b>		<b>54.52</b>	
Government		54.52	
<b>Total</b>		<b>203.52</b>	



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 the proposed loans to the Socialist Republic of Viet Nam for the Basic Infrastructure for Inclusive Growth in the North Central Provinces Sector Project.

2. The provincially managed, multisector project will promote inclusive economic growth in four north central provinces (NCPs): Ha Tinh, Nghe An, Quang Binh, and Quang Tri. The NCPs encompass 35,296 square kilometers, had a population of 5.8 million in 2015, and have high rates of rural poverty. The project will benefit about 1 million people through the implementation of locally prioritized basic infrastructure subprojects, including (i) upgrading district roads; (ii) improving productive and business infrastructure such as (a) rural domestic water supply schemes (RDWS), (b) coastal defenses and flood protection, (c) a river port, and (d) irrigation reservoirs; and (iii) establishing provincial public asset management systems.<sup>1</sup>

## II. THE PROJECT

### A. Rationale

3. Robust economic growth has been the key driver of poverty reduction in Viet Nam. Growth of the country's gross domestic product (GDP) has been among the world's fastest, averaging an annual 6% from 2010 to 2015. While starting from a lower base, the regional GDP of the NCPs grew at 15% annually in the same period. In 2015, the national GDP per capita reached \$2,215, while in the NCPs it ranged from \$1,210 in Nghe An to \$1,933 in Ha Tinh.<sup>2</sup> GDP growth in Ha Tinh is attributed to investments in the construction of economic zones, seaport development, and the steel industry, which is now generating industrial output and employment. In Nghe An, agriculture modernization has increased dairy and beef output. In Quang Binh and Quang Tri, large-scale wood processing for chip export is transitioning to value added production of fiberboards.

4. The NCPs are located at the convergence of the north–south and east-west land transport systems, and are the shortest distance from the eastern seacoast to the western border with the Lao People's Democratic Republic (Lao PDR). NCPs benefit from access to the sea used by one-third of global shipping lines, and processed with rich resources including lucrative fisheries with annual stocks estimated at 600,000 tons, and significant oil and gas reserves. The seacoast provides tourism potential and export logistic efficiency, linking to the Red River Delta in the north and the Mekong Delta in the south. The NCPs have five border gates with the Lao PDR, providing access deep into the Greater Mekong Subregion (GMS) particularly through the GMS East–West Economic Corridor.

5. The NCPs' location provides opportunities for investment in processing and industrial production. The seacoast enables the NCPs to develop (i) an offshore fisheries industry with an allowable annual catch valued at \$0.2 billion, where 85% of fish processing is done by women; (ii) an aquaculture industry covering 28,000 hectares with about 110,000 fish farms; and (iii) a diversified tourism industry employing 40,000 people and generating \$0.34 billion in returns. Trade logistics, industrial investment, increased urbanization, and human resource development will underpin structural changes in the economies of the NCPs, with flow-on benefits including

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<sup>1</sup> The Asian Development Bank (ADB) provided the project preparatory Technical Assistance to the Socialist Republic of Viet Nam for the Basic Infrastructure for Inclusive Growth in the Northeast Provinces Sector Project (TA 8957-VIE).

<sup>2</sup> Government of Viet Nam. General Statistics Office. 2015. *Statistical Yearbook of Vietnam*. Hanoi.

opportunities to modernize production through the adoption of technology and the movement of labor into, and the use of land for, higher productivity functions.

6. Although generally strong, economic growth in the NCPs has been uneven. In 2015, the poverty rate averaged 7% nationwide and 13% in the NCPs, where rates averaged 5% in the urban areas and 29% in the rural areas, reflecting limited rural integration with the drivers of economic growth. The population, economy, and infrastructure of the NCPs face increased vulnerability to climate risks, as their location is exposed to extreme weather events.<sup>3</sup> By 2035, the NCPs are predicted to have Viet Nam's highest increase in annual mean temperature at 1.7%, with annual rainfall increasing by 20%, along with drastic seasonal variation. By 2040, these effects, combined with sea levels rising by as much as 0.2 meters and storm surges increasing by about another 0.5 meters, will put the NCPs at high risk of seawater flooding and inundation.

7. Economic development in the NCPs is constrained by low quality and fragmented infrastructure coverage. The NCPs have high transport costs resulting from weak interdistrict linkages, with poor rural road conditions leading to high vehicle operating costs. Inadequate basic infrastructure decreases competitiveness and business investment, and increases exposure to natural disasters, resulting in livelihood vulnerabilities and high costs for repair, reconstruction, and adaptation. Groundwater contaminated with naturally occurring heavy metals leaves many NCP communities without potable water causing illness and reduced incomes. Inadequate coastal defenses lead to dangerous flooding events and soil salinization, while insufficient docking facilities increase costs for fishing and tourist enterprises. Aging and deteriorating reservoirs are unsafe, are vulnerable to climate change impacts, while reducing irrigation and RDWS coverage. Weak asset management in the NCPs has led to uninformed infrastructure management decisions, lessening returns on investments and reducing sustainability.

8. The project will help the NCPs counter development constraints through the reduction of physical and economic fragmentation and manage the impact of climate change by investing in basic infrastructure, including:

- (i) roads that connect (a) rural production areas, remote communities, and tourist sites to higher order transport nodes and economic hubs; and (b) the eastern seacoast to the north–south transport arterials and to the Lao PDR border gates;
- (ii) productive basic infrastructure that will (a) attract private business investment by reducing costs and risks; and (b) secure inhabited, agricultural, industrial, or environmentally sensitive areas against extreme weather events and climate change trends; and
- (iii) effective provincial infrastructure asset management to optimize returns and the sustainability of infrastructure investments.

9. The project aligns with the government's (i) Socio-Economic Development Plan 2016–2020, which prioritizes domestic market expansion, promotes exports, and lifts Viet Nam's competitiveness;<sup>4</sup> (ii) Transport Development Strategy, which emphasizes corridor development and provincial and rural connectivity;<sup>5</sup> (iii) National Target Program on new rural development with

<sup>3</sup> Government of Viet Nam, Ministry of Natural Resources and Environment. 2016. *Climate Change and Sea Level Rise Scenarios for Viet Nam: Summary for Policymakers*. Hanoi.

<sup>4</sup> Government of Viet Nam, National Assembly of Viet Nam. 2016. *Five-Year Socio-Economic Development Plan from 2016–2020*. Resolution No. 142/2016/QH13. Hanoi.

<sup>5</sup> Government of Viet Nam. 2009. *Approving Adjustments to the Transport Development Strategy up to 2020 with a Vision Toward 2030*. Prime Minister's Decision No. 35/QD-TTg. Hanoi.



targets for rural access, water resource development, and aquaculture and agricultural value chains;<sup>6</sup> and (iv) Master Plan on Socio-Economic Development of the Central Viet Nam's Northern and Coastal Region through 2020, which prioritizes connecting regions and building an urban network linked to special economic zones, industrial clusters, border gate economic zones, trading and service centers, and rural residential nodes.<sup>7</sup> A critical element of the master plan is the reliance on an integrated and connected infrastructure system that moves goods and services efficiently among producers, processors, and markets.

10. The project supports the three pillars of the Asian Development Bank's (ADB) country partnership strategy, 2016–2020 for Viet Nam:<sup>8</sup> (i) promotion of job creation and competitiveness by improving physical connectivity, supporting commerce and employment creation, enhancing business environments, and increasing productivity; (ii) inclusive infrastructure and service delivery through diversifying economic opportunities, broadening access to essential social services, and livelihood opportunities for rural people, with emphasis on working with provincial governments to upgrade and maintain public assets including basic infrastructure; and (iii) improving environmental sustainability and climate change response by integrating climate-proofing measures into infrastructure investments.

11. **Value added by ADB assistance.** The project's strength reflects ADB's value addition beyond financing in helping the government to design and implement priority public investments. ADB continues to engage in policy dialogue with the government and development partners, in key sectors covered by the project, enhancing selectivity and coordination. ADB is supporting Viet Nam's integration into the GMS and the project will develop areas linking to the GMS North–South Economic Corridor, creating integration among economic growth locations and impoverished rural areas.<sup>9</sup> It will deliver synergies with current ADB capacity building initiatives for agricultural competitiveness, public sector management and road safety.<sup>10</sup> ADB's Viet Nam Resident Mission has considerable experience and capacity to assist the government to overcome implementation challenges, having recently administered projects in the NCPs such as the ADB-financed Emergency Rehabilitation of Calamity Damage Project and the Integrated Rural Development Sector Project in the Central Provinces.<sup>11</sup>

12. **Lessons from ADB's experience.** The project draws on lessons learned from ADB operations, including the need to improve: (i) basic infrastructure and connectivity for economic growth, business competitiveness and integration of rapidly developing areas with disadvantaged regions; (ii) government ownership through early engagement in project design and management; (iii) sustainability by including operation and maintenance (O&M) and climate change

<sup>6</sup> Government of Viet Nam. 2011. *Issuing the List of the National Target Programs—Phase 2016–2020*. Prime Minister's Decision No. 1600/QD-TTg. Hanoi.

<sup>7</sup> Government of Viet Nam. *Official Gazette*. 2013. Decision No. 1114/ QD-TTg of July 9, 2013, Approving the Master Plan on Socio-Economic Development of the Central Viet Nam's Northern and Coastal Region through 2020. Hanoi.

<sup>8</sup> ADB. 2016. *Country Partnership Strategy: Viet Nam, 2016–2020—Fostering More Inclusive and Environmentally Sustainable Growth*. Manila. The project is included in 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> ADB. 2017. *Technical Assistance to the Socialist Republic of Viet Nam for Enhancing Agricultural Competitiveness in Viet Nam*. Manila; ADB. 2015. *Technical Assistance to the Socialist Republic of Viet Nam for Capacity Building for Project Management Unit Professionalization*. Manila; ADB. 2015. *Technical Assistance (TA9017-REG) for Unlocking Innovation in Development-Scaling Up Innovative Road Safety Operations*. Manila.

<sup>11</sup> ADB. 2006. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Socialist Republic of Viet Nam for the Emergency Rehabilitation of Calamity Damage Project*. Manila; and ADB. 2007. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Technical Assistance Grant to the Socialist Republic of Viet Nam for Integrated Rural Development Sector Project in the Central Provinces*. Manila.

considerations into investment strategies; and (iv) project readiness to avoid delays and increase implementation efficiency.

## B. Impact and Outcome

13. The project is aligned with the following impact: socioeconomic development of Ha Tinh, Nghe An, Quang Binh, and Quang Tri provinces accelerated.<sup>12</sup> The project will have the following outcome: service delivery in the NCPs improved.<sup>13</sup>

## C. Outputs

14. **Output 1: Transport infrastructure improved.** The project will upgrade and construct about 214 kilometers of district roads, which will improve connectivity and transport access to more than 900,000 beneficiaries. The climate-resilient roads will integrate productive rural and remote areas to locations driving economic growth. The road designs will include traffic-calming measures to reduce vehicular velocity at critical sections, such as near schools and hospitals, and safety programs for vulnerable road users.

15. **Output 2: Productive infrastructure for business development improved.** This output will benefit about 340,000 people through the construction, upgrade, rehabilitation, or stabilization of (i) two RDWS to provide potable water to households currently dependent upon contaminated groundwater; (ii) coastal and river defenses—including dikes, embankments, and canals—to protect lives, public and private property, and businesses from extreme weather, aggravated by climate change; (iii) one river port to enhance fish processing and improve tourism logistics; and (iv) a reservoir that provides irrigation and agricultural support infrastructure to enhance production such as the lining of canals and improving rural access and mobility.<sup>14</sup>

16. **Output 3: Decentralized public asset management processes established.** This output will support the implementation of the national decentralized public asset management program.<sup>15</sup> The NCPs will procure and operate asset management systems for roads, RDWSs, and irrigation to minimize life cycle costs and transition to efficient O&M of provincial assets. The systems will include indicators and tools to allow monitoring of annual O&M budgets and improve value-for-money decisions.

## D. Summary Cost Estimates and Financing Plan

17. The project is estimated to cost \$203.5 million (Table 1). Detailed cost estimates by expenditure category and by financier are included in the project administration manual (PAM).<sup>16</sup> The investment supports civil works on roads and business support infrastructure, along with the

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<sup>12</sup> Prime Minister. 2012. *Decision No.1786/QD-TTG dated 27 November 2012 approving the socio-economic development master plan of Ha Tinh province through 2020, with vision to 2050*. Hanoi; Prime Minister. 2015. *Decision No.620/QD-TTG dated 12 May 2015 approving the socio-economic development master plan of Nghe An province through 2020*. Hanoi; Prime Minister. 2011. *Decision No.952/QD-TTG dated 23 June 2011 approving the socio-economic development master plan of Quang Binh province through 2020*. Hanoi; Prime Minister. 2011. *Decision No.321/QD-TTG dated 02 March 2011 approving the socio-economic development master plan of Quang Tri province through 2020*. Hanoi.

<sup>13</sup> The design and monitoring framework is in Appendix 1.

<sup>14</sup> Some people will benefit from both outputs 1 and 2.

<sup>15</sup> ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Programmatic Approach, Policy-Based Loans, and Technical Assistance Grant for Subprogram 1 to the Socialist Republic of Viet Nam for the Improving Public Expenditure Quality Program*. Manila.

<sup>16</sup> Project Administration Manual (accessible from the list of linked documents in Appendix 2).

necessary equipment, design and construction supervision, and project management, including safeguards and due diligence for additional subprojects.

**Table 1: Summary Cost Estimates**  
(\$ million)

Item	Amount <sup>a</sup>
<b>A. Base Cost<sup>b</sup></b>	
1. Transport infrastructure improved	133.1
2. Productive infrastructure for business development improved	32.3
3. Decentralized public asset management processes established	2.0
4. Project management	6.4
<b>Subtotal (A)</b>	<b>173.8</b>
<b>B. Contingencies<sup>c</sup></b>	<b>25.5</b>
<b>C. Financial Charges During Implementation<sup>d</sup></b>	<b>4.2</b>
<b>Total (A+B+C)</b>	<b>203.5</b>

<sup>a</sup> Includes taxes and duties of \$16.4 million to be financed by the government.

<sup>b</sup> In Q3 2017 prices, exchange rate as of 15 October 2017.

<sup>c</sup> Physical contingencies calculated at 10.0% for civil works and equipment. Price contingencies calculated at an average of 1.5% on foreign exchange costs and 5.0% on local currency costs; includes provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

<sup>d</sup> Interest during construction has been calculated at a rate of 2.0% per year for the concessional ordinary capital resources loan and at the 5-year (2018–2023) US dollar fixed swap rate plus an effective contractual spread of 0.5% and a maturity premium of 0.10% for the regular OCR loan. Commitment charges for the regular OCR loans are 0.15% per year to be charged on the undisbursed loan amount.

Source: Asian Development Bank estimates.

18. The government has requested (i) a concessional loan of \$97,000,000 and (ii) a regular loan of \$52,000,000 both from ADB's ordinary capital resources, to help finance the project. The concessional loan will have a 25-year term, including a grace period of 5 years; an interest rate of 2% per year during the grace period and thereafter; and such other terms and conditions set forth in the loan and project agreements. The regular loan will have a 25-year term, including a grace period of 6 years; an annual interest rate determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility; a maturity premium of 0.10%; a commitment charge of 0.15% per year (the interest and other charges during construction to be capitalized in the loan); and such other terms and conditions set forth in the loan and project agreements. Based on the straight-line method, the average maturity is 12.75 years.

19. The loans will finance infrastructure works, construction supervision, and independent audit. The government will (i) make portions of the proceeds of the concessional and regular loans available to the NCPs through budget allocation, and (ii) relend the balance of the proceeds of the loans to the NCPs under respective onlending agreements, all upon terms and conditions satisfactory to ADB.

20. The government will provide \$54,521,310 equivalent to assist in the implementation of the project, including all detailed designs, project management, land acquisition and resettlement costs, consulting services for loan implementation, and taxes and duties.

21. The project's sector modality meets ADB criteria: (i) the project supports the implementation of multisector development plans, notably the Master Plan on Socio-Economic Development of the Central Viet Nam's Northern and Coastal Region through 2020; (ii) the NCPs are assessed to have the institutional capacity to implement the plans with additional support from the project; and (iii) the infrastructure sustainability policies will be strengthened.

22. The summary financing plan is in Table 2.

**Table 2: Summary Financing Plan**

<b>Source</b>	<b>Amount (\$ million)</b>	<b>Share of Total (%)</b>
Asian Development Bank		
Ordinary capital resources (regular loan)	52.00	25
Ordinary capital resources (concessional loan)	97.00	48
Government	54.52	27
<b>Total</b>	<b>203.52</b>	<b>100</b>

Source: Asian Development Bank estimates.

23. The climate change scenarios indicate a high risk to the project outcome but subproject design will incorporate adaptations to mitigate the risk level to *medium*.<sup>17</sup> Additional climate change costs will be quantified within the subproject detailed designs. The climate adaptation measures follow the government's project construction and implementation procedures. Climate mitigation is estimated to cost \$3 million and climate adaptation is estimated to cost \$27 million, both 100% financed by ADB.

## E. Implementation Arrangements

24. The implementation arrangements are summarized in Table 3 and described in detail in the PAM.

**Table 3: Implementation Arrangements**

<b>Aspects</b>	<b>Arrangements</b>		
Implementation period	March 2018–March 2023		
Estimated completion date	31 March 2023		
Estimated loan closing date	30 September 2023		
<b>Management</b>			
(i) Oversight body	Each NCP will have a provincial steering committee		
(ii) Executing agency	Each NCP's provincial people's committee		
(iii) Key implementing agencies	Each NCP's planning and investment department		
(iv) Implementation unit	Each NCP's project management unit (each with 16 to 23 staff) with support from the interprovincial coordination unit		
Procurement	NCB	32 contracts	\$141.80 million
Consulting services	QCBS	4 contracts, 992 person-months	\$2.76 million
	FBS	4 contracts, 20 person-months	\$0.20 million
	Government procedures	53 contracts (government financed)	\$7.00 million
Advance contracting	Advance actions include preparation of (i) eight subproject feasibility studies; (ii) detailed engineering design and loan implementation consultant recruitment up to contract signing; and (iii) project performance monitoring system.		
Disbursement	The loan proceeds will be disbursed following ADB's <i>Loan Disbursement Handbook</i> (2017, as amended from time to time) and detailed arrangements agreed by the government and ADB.		

ADB = Asian Development Bank, FBS = fixed budget selection, NCB = national competitive bidding, NCP = north central province, QCBS = quality- and cost-based selection.

Source: Asian Development Bank.

25. The provincial people's committee (PPC) at each of the NCPs will be the executing agency. Each PPC will chair a provincial steering committee to address project-related coordination, negotiations, and discussions.<sup>18</sup> The Department of Planning and Investment in

<sup>17</sup> Climate Risk and Vulnerability Assessment (accessible from the list of linked documents in Appendix 2).

<sup>18</sup> Project Agreement (accessible from the list of linked documents in Appendix 2).

each NCP will be the implementing agency and will establish a project management unit (PMU). The PMU will be legally registered entities that can sign contracts with consultants, contractors, and suppliers, and will be assisted by loan implementation consultants. The Quang Tri PMU will establish a small unit to aggregate reports from all NCPs and coordinate with ADB.

26. Project readiness will be enhanced by the (i) preparation of eight subproject feasibility studies and a screened and prioritized list of 24 potential additional subprojects;<sup>19</sup> (ii) recruitment of detailed engineering design and loan implementation consultants who will sign the contracts upon loan effectiveness;<sup>20</sup> and (iii) intensive training for the PMUs for key operational tasks, including establishing the project performance monitoring system.

### III. DUE DILIGENCE

#### A. Technical

27. The project preparation determined that the required engineering and construction skills is within the capacity of Viet Nam's private sector and following official Viet Nam standards prepared: (i) feasibility studies for the four representative subprojects including: (a) three road subprojects using traffic forecasts and economic development trends for design choices; and (b) one RDWS subproject comprising two subnetworks. The preliminary RDWS designs are based on projected demands to 2030; and (ii) guidelines for integrating climate-resilient measures into the subproject designs.<sup>21</sup>

#### B. Economic and Financial

28. The economic internal rate of return of the three representative road subprojects ranges from 12% to 15%. The RDWS representative subproject is an extension of the Ha Tinh municipal water supply network with northern and southern subnetworks. The estimated economic internal rate of return is 13% for the northern subnetwork and 11% for the southern subnetwork. Sensitivity analysis indicates that all representative subprojects are relatively insensitive to adverse changes. The road subprojects will remain feasible despite reductions in benefit streams of 10%, or increases in capital costs of 10%. The RDWS subproject will remain feasible when benefit streams decrease by 10%, or capital costs increase by 10%. Water costs are affordable and are estimated at about 1% of average household income.

29. The RDWS financial analysis indicates that the tariff rates are sufficient to recover operating costs. Over the project life, the operating expense ratios are about 88% for the northern and 97% for the southern networks. However, for the road subproject, there is a risk that the NCPs may not provide adequate O&M resources as they depend heavily on transfers from the central government. To enhance the road subprojects' sustainability, output 3 will assist in the management of provincial infrastructure assets. Loan agreements include covenants committing the government to provide adequate O&M resources for project investments.

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<sup>19</sup> Additional Subprojects Screening Report (accessible from the list of linked documents in Appendix 2).

<sup>20</sup> Loan proceeds will be used to recruit design consultants. ADB. 2012. *Report and Recommendation of the President to the Board of Directors: Proposed Technical Assistance Loan to the Socialist Republic of Viet Nam for the Project Preparation and Start-Up Support Facility*. Manila.

<sup>21</sup> The project availed of the Project Readiness Improvement Trust Fund during preparation to improve project readiness and integrate climate change design measures into the detailed engineering design. ADB. 2016. *Project Readiness Improvement Trust Fund*. Manila.

### C. Governance

30. The financial management risk is *high* based on the detailed assessment of the executing and implementing agencies because of capacity and systems constraints in their accounting, staffing, auditing, and control systems.<sup>22</sup> Extensive mitigation measures have been captured in a financial management action plan, including providing training, staffing, accounting systems, and external audit arrangements; and are included as a loan covenant in the loan agreement. All procurement of goods and civil works and recruitment of consultants to be financed by the ADB loans will 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, which are acceptable to ADB, will be applied for packages procured using national competitive bidding and shopping procedures.

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

### D. Poverty, Social, and Gender

32. The NCPs have a population that is 82% rural. Poverty rates in the NCPs vary from 11% in Ha Tinh to 15% in Quang Tri, and can reach as high as 90% in remote ethnic communities who are 10% of the total population.<sup>23</sup> Rural people in the NCPs often have limited access to markets and employment. Improving basic infrastructure will enhance the urban-rural development linkages, investment in industrial processing, and expansion of coastal- and nature-based tourism which are pulling labor out of rural households, diversifying income, and reducing poverty. The communication and participation plan and the gender action plan (GAP) provide guidance to engage project stakeholders appropriately in project activities and decisions. The PMUs will cooperate with the communities in (i) organizing public consultations, (ii) monitoring design and implementation, and (iii) creating a grievance redress mechanism.

33. **Gender.** The project is classified *effective gender mainstreaming*. Gender analysis reveals women have fewer opportunities to participate in public decision-making and have less access to information, training, and employment. Improved basic infrastructure will enable women to participate and benefit in the expanded economic opportunities and social services. The project's GAP promotes (i) equal project participation and benefits among women and men; (ii) reduction in gender inequalities and social risks; (iii) increased representation of women in decision-making bodies; (iv) enhanced voice and collective action for women; and (v) collection and use of sex-disaggregated data.<sup>24</sup>

### E. Safeguards

34. In compliance with ADB's Safeguard Policy Statement (2009), the project's safeguard categories are as follows.<sup>25</sup> The NCP PPCs and ADB have agreed on the project's safeguard categories and measures. ADB's safeguard due diligence, GAP, appropriate community consultations and implementation resources, are included in all representative subproject feasibility studies, which are models for all additional subproject feasibility studies. ADB will only

<sup>22</sup> Financial Management Assessment (accessible from the list of linked documents in Appendix 2).

<sup>23</sup> Summary Poverty Reduction and Social Strategy (accessible from the list of linked documents in Appendix 2).

<sup>24</sup> Gender Action Plan (accessible from the list of linked documents in Appendix 2).

<sup>25</sup> ADB. Safeguard Categories. <https://www.adb.org/site/safeguards/safeguard-categories>.

finance subprojects that are classified *category B* or *C* for all safeguards. For all of the representative subprojects, the safeguard measures concerning environment, indigenous peoples and involuntary resettlement safeguards have been complied and publicly disclosed.

35. **Environment (category B).** The NCP PPCs and ADB have agreed upon an environmental assessment and review framework.<sup>26</sup> The road works are limited to upgrades within the existing or newly established right-of-way and environmental impacts will be minor and temporary. They will not infringe on protected or environmentally sensitive areas and will require only simple mitigation measures such as proper management of construction camps or storage of building materials. Each initial environmental examination for the four representative subprojects includes an environmental management plan with appropriate mitigation measures.

36. **Involuntary resettlement (category B).** The NCP PPCs and ADB have agreed upon a combined resettlement and ethnic minority development framework, through which resettlement and ethnic minorities development plans were prepared for all representative subprojects and publicly disclosed.<sup>27</sup> The plans are supported by public consultation and information disclosure. The only impacts will be minor land acquisition and compensation for roadside trees, crops, or small structures within the right-of-way for which compensation, allowances, operation and administration, surveys, monitoring, and reporting will be financed from the government's counterpart funds. The impacts will be monitored, evaluated, and reported semiannually to ADB by the PPCs.

37. **Indigenous peoples (category B).** Impacts on indigenous peoples, referred to as ethnic minorities in Viet Nam, are overwhelmingly positive since the subprojects aim for the economic and social improvement of the total population. The project will not cause physical displacement from traditional or customary lands, nor will it negatively impact the identity, culture, or customary livelihood systems of the ethnic minorities. The resettlement and ethnic minority development framework will be used to ensure the inclusion of ethnic minorities into project benefits. The resettlement and ethnic minorities development plans include mitigation measures to address impacts, institutional capacity development programs, and a grievance redress mechanism.

## F. Summary of Risk Assessment and Risk Management Plan

38. Significant risks and mitigating measures are summarized in Table 4 and described in detail in the risk assessment and risk management plan.<sup>28</sup>

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

<b>Risks</b>	<b>Mitigation Measures</b>
Premature asset deterioration.	DEDs will be based upon robust estimates for traffic increases and other asset loading stresses. O&M cost will be estimated for each subproject, and each executing agency will commit to a corresponding O&M budgetary allocation. The asset management system will strengthen long term sustainability through better allocation of O&M resources.
Climate change intensifies floods and droughts.	All subprojects will be assessed for climate change impacts during feasibility study with appropriate measures to be included in the DED.
Weak financial, management and procurement systems.	Financial management: Regular financial management capacity training, strong LIC's technical support, and the inclusion of a specific covenant in the loan agreement. Appropriate user tariffs will be calculated during feasibility study and will

<sup>26</sup> Environmental Assessment and Review Framework (accessible from the list of linked documents in Appendix 2).

<sup>27</sup> Resettlement Framework: Resettlement and Ethnic Minority Development Framework (accessible from the list of linked documents in Appendix 2).

<sup>28</sup> Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

Risks	Mitigation Measures
	<p>be required for ADB subproject approval. RDWS management will be assigned to functioning water supply companies which will help increase the capacity to cover O&amp;M. Asset management systems for efficient resource allocation will be established.</p> <p>Procurement: Procurement plan uses NCB with fewer and larger procurement packages, master bidding documents have been prepared, and the LIC will provide procurement support.</p>
Reduced overall project scope.	Project readiness improved by the preparation of eight feasibility studies and 24 preliminary feasibility studies. Delays and price escalations addressed by a covenant requiring adequate and timely counterpart funding is included in the loan agreement.
Inadequate ADB project implementation experience.	PMUs will be staffed with necessary skill set and supported by LIC. ADB VRM will provide proactive implementation administrative support.

ADB = Asian Development Bank, DED = detailed engineering designs, LIC = loan implementation consultant, NCB = national competitive building, O&M = operation and maintenance, PMU = project management unit, RDWS = rural domestic water supply, VRM = Viet Nam Resident Mission.  
 Source: Asian Development Bank.

**IV. ASSURANCES AND CONDITIONS**

39. The government and all of the NCP PPCs have 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 PAM and loan documents. The government and the executing agencies have agreed with ADB on certain covenants for the project, which are set forth in the loan and project agreements. No withdrawal shall be made from the loan account until the onlending agreement between the government and the executing agencies has been duly completed.

**V. RECOMMENDATION**

40. I am satisfied that the proposed loans would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve

- (i) the loan of \$97,000,000 to the Socialist Republic of Viet Nam for the Basic Infrastructure for Inclusive Growth in the North Central Provinces Sector Project, from ADB’s ordinary capital resources, in concessional terms, with an interest charge at the rate of 2% per year 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; and
- (ii) the loan of \$52,000,000 to the Socialist Republic of Viet Nam for the Basic Infrastructure for Inclusive Growth in the North Central Provinces Sector Project, from ADB’s ordinary capital resources, in regular terms, with interest to be determined in accordance with ADB’s London interbank offered rate (LIBOR)-based lending facility; for a term of 25 years, including a grace period of 6 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



## DESIGN AND MONITORING FRAMEWORK

<b>Impact the Project is aligned with</b>			
Socioeconomic development of Ha Tinh, Nghe An, Quang Binh, and Quang Tri Provinces accelerated (Provincial socioeconomic development plans through 2020 with a vision to 2030, National Target Program on new rural development, and the Master Plan on Socio-Economic Development of the Central Viet Nam's Northern and Coastal Region through 2020) <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> Service delivery in NCPs improved	By 2024 a. Average annual PCU increased by 7.7% and movement of goods ton-km increased by 6.3% on improved roads (2016 baselines: 0.71 million PCU and 3.1 ton-km)  b. 10,100 households with 50% female beneficiaries, received clean water (2017 baseline: 0)  c. 44 communes consisting of 17,600 ha protected from flood and sea level rise (2017 baseline: 0)  d. Dock capacity increased to 17,000 tons of aquatic products per year (2017 baseline: 6,800 tons of aquatic products per year)  e. Asset management data for provincially owned road and irrigation infrastructure integrated into annual provincial reports and development plans (2017 baseline: 0)	a. PPMS, government and public transport operator statistics  b. PPMS, annual provincial public health reports  c. PPMS, PPC annual reports  d–e. Provincial annual reports and socioeconomic development plans	Premature asset deterioration due to: inadequate O&M, and, or climate change impacts  Cost escalation and reduction in overall project scope due to delays caused by counterpart funding not available as required
<b>Outputs</b> 1. Transport infrastructure improved	By 2023 1a. About 214 km of district roads upgraded (2017 baseline: 0)  1b. Traffic-calming measures implemented in all 25 road sections passing schools, markets, medical facilities, and administrative centers (2017 baseline: 0)	1a–c. PPMS and QPRs	Premature road deterioration due to narrow application of official Vietnamese traffic forecasting system and under-designed roads

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
2. Productive infrastructure for business development improved	<p>1c. 25 training programs, one for each road subproject, provided to vulnerable road users on each of the road subprojects, targeting women and children, with female road users accounting for 50% of participants (2017 baseline 0)</p> <p>2a. Two rural domestic water supply schemes consisting of about 403 km of pipelines constructed (2017 baseline: 0)</p> <p>2b. About 27 km of dikes, embankments, and canals constructed (2017 baseline: 0)</p> <p>2c. At least one dock upgraded to port type 1 standard and included washroom facilities dedicated for women's use (2017 baseline: unclassified port type)</p> <p>2d. At least one water reservoir upgraded for irrigation and domestic consumption (2017 baseline: 0)</p>	2a–d. PPMS and QPRs	<p>Water resources for RDWS impacted due to climate change droughts and floods</p> <p>Subproject service standards and scope reduced due to weak financial management including user cost recovery systems</p>
3. Decentralized public asset management processes established	<p>3a. Asset planning system for road infrastructure established and populated in each NCP (2017 baseline: 0)</p> <p>3b. Water supply asset planning with supporting databases for business management reporting for two water supply schemes completed (2017 baseline: 0)</p> <p>3c. Decentralized irrigation infrastructure asset management systems established in each NCP (2017 baseline: 0)</p>	3a–c. PPMS and QPRs	Weak financial management and procurement systems hamper effective asset management

<p><b>Key Activities with Milestones</b></p> <p><b>1. Transport infrastructure improved</b></p> <p>1.1 Prepare feasibility studies for four additional subprojects by March 2018 (PSD)</p> <p>1.2 Award contracts for representative subprojects by March 2019 (PSD)</p> <p>1.3 Award works contracts for additional priority subprojects by December 2019 (PSD)</p> <p>1.4 Prepare additional subproject DED using remaining funds by March 2020 (PSD)</p> <p>1.5 Award works contracts for final additional subprojects by December 2020 (PSD)</p> <p>1.6 Complete all construction by October 2022 (PSD)</p> <p><b>2. Productive infrastructure for business development improved</b></p> <p>2.1 Prepare feasibility studies for additional subprojects by March 2018 (PSD)</p> <p>2.2 Award works contracts for representative subprojects by March 2019 (PSD)</p> <p>2.3 Award works contracts for priority additional subprojects by December 2019 (PSD)</p> <p>2.4 Prepare additional subproject DED using remaining funds by March 2020 (PSD)</p> <p>2.5 Award works contracts for final additional subprojects by December 2020 (PSD)</p> <p>2.6 Complete all construction by October 2022 (PSD)</p> <p>2.7 Establish operation and maintenance capability by December 2022 (PSD)</p> <p><b>3. Decentralized public asset management processes established</b></p> <p>3.1 Implement road network asset planning systems by December 2022 (GCD)</p> <p>3.2 Implement rural water supply asset planning by December 2022 (GCD)</p> <p>3.3 Extend decentralized irrigation asset management by December 2022 (GCD)</p> <p><b>Project Management Activities</b></p> <p>Establish coordinating office and PMUs by January 2018</p> <p>Mobilize loan implementation consultants by March 2018</p> <p>Have PPMS functioning within 90 days of loan signing</p> <p><b>Inputs</b></p> <p>ADB ordinary capital resources</p> <p style="padding-left: 20px;">\$97.00 million (concessional loan)</p> <p style="padding-left: 20px;">\$52.00 million (regular loan)</p> <p>Government: \$54.52 million</p> <p><b>Assumptions for Partner Financing</b></p> <p>Not Applicable</p>
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ADB = Asian Development Bank, DED = detailed engineering design; GCD = governance and capacity development, ha = hectare, km = kilometer, NCP = north central province, PCU = passenger car unit, PMU = project management unit, PPC = provincial people's committee, PPMS = project performance monitoring system, PSD = private sector development, QPR = quarterly progress report.

<sup>a</sup> Prime Minister. 2012. *Decision No.1786/QD-TTG dated 27 November 2012 approving the socio-economic development master plan of Ha Tinh province through 2020, with vision to 2050*. Hanoi;

Prime Minister. 2011. *Decision No. 1600/QD-TTg Issuing the List of the National Target Programs—Phase 2016–2020*. Hanoi;

Prime Minister. 2015. *Decision No.620/QD-TTG dated 12 May 2015 approving the socio-economic development master plan of Nghe An province through 2020*. Hanoi;

Prime Minister. 2011. *Decision No.952/QD-TTG dated 23 June 2011 approving the socio-economic development master plan of Quang Binh province through 2020*. Hanoi;

Prime Minister. 2011. *Decision No.321/QD-TTG dated 02 March 2011 approving the socio-economic development master plan of Quang Tri province through 2020*. Hanoi;

Government of Viet Nam. *Official Gazette*. 2013. Decision No. 1114/ QD-TTg of July 9, 2013, Approving the Master Plan on Socio-Economic Development of the Central Viet Nam's Northern and Coastal Region through 2020. Hanoi.

Source: Asian Development Bank.

### **LIST OF LINKED DOCUMENTS**

<http://www.adb.org/Documents/RRPs/?id=49026-003-3>

1. Loan Agreement: Concessional Loan
2. Loan Agreement: Regular Loan
3. Project Agreement
4. Sector Assessment (Summary): Transport, Agriculture, Natural Resources, and Rural Development
5. Project Administration Manual
6. Contribution to the ADB Results Framework
7. Development Coordination
8. Economic and Financial Analysis
9. Country Economic Indicators
10. Summary Poverty Reduction and Social Strategy
11. Risk Assessment and Risk Management Plan
12. Gender Action Plan
13. Environmental Assessment and Review Framework
14. Resettlement Framework: Resettlement and Ethnic Minority Development Framework

### **Supplementary Documents**

15. Financial Management Assessment
16. Procurement Risk Assessment
17. Climate Risk and Vulnerability Assessment
18. Detailed Economic and Financial Analysis: Roads
19. Detailed Economic and Financial Analysis: Water Supply
20. Additional Subprojects Screening Report