



Report and Recommendation of the President to the Board of Directors

Project Number: 46443-004
November 2015

Proposed Loan Socialist Republic of Viet Nam: Second Greater Mekong Subregion Corridor Towns Development Project

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 27 October 2015)

Currency unit	–	dong (D)
D1.00	=	\$0.00004
\$1.00	=	D22,285

ABBREVIATIONS

ADB	–	Asian Development Bank
EMP	–	environmental management plan
EIRR	–	economic internal rate of return
GMS	–	Greater Mekong Subregion
IEE	–	initial environmental examination
km	–	kilometer
m ³ /day	–	cubic meter per day
O&M	–	operation and maintenance
PMU	–	project management unit
PRC	–	People's Republic of China
PPC	–	People's Provincial Committee
SLEDP	–	Strategic Local Economic Development Plan

NOTE

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

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PROJECT AT A GLANCE

1. Basic Data		Project Number: 46443-004	
Project Name	Second Greater Mekong Subregion Corridor Towns Development Project	Department /Division	SERD/SEUW
Country Borrower	Viet Nam, Socialist Republic of Socialist Republic of Viet Nam	Executing Agency	People's Committee
2. Sector		ADB Financing (\$ million)	
✓ Water and other urban infrastructure and services	Subsector(s) Other urban services		25.75
	Renovation and protection of cultural heritage		9.20
	Urban flood protection		28.25
	Urban sewerage		36.80
		Total	100.00
3. Strategic Agenda		Climate Change Information	
Inclusive economic growth (IEG)	Pillar 2: Access to economic opportunities, including jobs, made more inclusive	Adaptation (\$ million)	3.15
Environmentally sustainable growth (ESG)	Urban environmental improvement	Climate Change impact on the Project	High
Regional integration (RCI)	Pillar 4: Other regional public goods		
4. Drivers of Change		Gender Equity and Mainstreaming	
Governance and capacity development (GCD)	Institutional development	Effective gender mainstreaming (EGM)	✓
Knowledge solutions (KNS)	Knowledge sharing activities		
Private sector development (PSD)	Public sector goods and services essential for private sector development		
5. Poverty Targeting		Location Impact	
Project directly targets poverty	No	Rural	Low
		Urban	High
6. Risk Categorization:	Low		
7. Safeguard Categorization	Environment: B	Involuntary Resettlement: B	Indigenous Peoples: B
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		100.00	
Sovereign Project loan: Asian Development Fund		100.00	
Cofinancing		0.00	
None		0.00	
Counterpart		21.67	
Government		21.67	
Total		121.67	
9. Effective Development Cooperation			
Use of country procurement systems		Yes	
Use of country public financial management systems		No	

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 Second Greater Mekong Subregion Corridor Towns Development Project.¹

2. The project will support the Government of Viet Nam in enhancing the competitiveness of Bac Giang, Mong Cai, and Sa Pa towns, located along the North–South Economic Corridor, one of the three Greater Mekong Subregion (GMS) economic corridors.² The project will improve urban services in the three towns through improved wastewater management, upgrading of urban roads and drainage, riverbank protection, and enhancement of urban public space. The project will enhance climate resilience and support economic competitiveness, equity and the environment, as outlined in the Asian Development Bank (ADB) Urban Operational Plan.³

II. THE PROJECT

A. Rationale

3. The six GMS countries are geographically contiguous and form an important cluster of economic activity.⁴ Although their respective level of economic development varies widely, the urban development trajectories of the GMS countries are increasingly similar. Key drivers of urban development and regional integration include the Association of Southeast Asian Nations Economic Community (anticipated in 2015), increased domestic and international migration within the region, the economic rise of People's Republic of China (PRC), significant improvements in road transformation and connectivity, the spread of and improvements in cell phone and internet coverage, and the great potential and growing demand for tourism and related activities. The three economic corridors defined under the GMS framework form a network of important routes that connect some of the largest cities in the GMS, including Ha Noi, Ho Chi Minh City, Bangkok, Phnom Penh, Kunming, and Nanning.⁵

4. This project in Viet Nam, together with the projects in Cambodia and Lao People's Democratic Republic, represent the second phase of the GMS Corridor Towns Development Project in these countries, which supported urban development along the East–West Economic Corridor and the Southern Economic Corridor.⁶ The focus on developing towns along economic corridors aims to maximize the benefits of increased trade and traffic flows, so as to strengthen

¹ The design and monitoring framework is in Appendix 1.

² ADB provided project preparatory technical assistance for the Second Greater Mekong Subregion Corridor Towns Development Project (TA 8425-REG).

³ ADB. 2012. *Urban Operational Plan, 2012–2020*. Manila.

⁴ The GMS countries are Cambodia, the People's Republic of China (specifically Yunnan Province and Guangxi Zhuang Autonomous Region), Lao People's Democratic Republic, Myanmar, Thailand, and Viet Nam.

⁵ The three economic corridors are the North–South Economic Corridor, the East–West Economic Corridor, and the Southern Economic Corridor. See: ADB. 2011. *Greater Mekong Subregion Economic Cooperation Program Strategic Framework, 2012–2022*. Manila.

⁶ ADB. 2012. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Administration of Loan and Grants to: Kingdom of Cambodia for Greater Mekong Subregion Southern Economic Corridor Towns Development Project*. Manila (Loan 2983-CAM); ADB. 2012. *Report and Recommendation of the President to the Board of Directors: Proposed Loan, Grant, and Administration of Grant to the Lao People's Democratic Republic for the Greater Mekong Subregion East–West Economic Corridor Towns Development Project*. Manila (Loan 2931-LAO); ADB. 2012. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Administration of Grant to Viet Nam for the Greater Mekong Subregion Corridor Towns Development Project*. Manila (Loan 2969-VIE).

their competitiveness and catalyze wider economic growth in the region. The development of environmental infrastructure will promote green growth and climate resilience in these towns. The project supports the first four strategic thrusts of the GMS Strategic Framework, 2012–2022: (i) strengthening infrastructure linkages; (ii) facilitating cross-border trade, investment, and tourism; (iii) enhancing private sector participation and competitiveness; and (iv) developing human resources.⁷

5. The strategic location of the corridor towns provides the stimulus for increased trade and investment. Access to markets will provide many incentives for local economies in the hinterlands of the corridor towns. Given these development opportunities, and the rapid urban population growth and expansion in these areas, several corridor towns now face growing demands for urban infrastructure and essential support services, including Bac Giang, Mong Cai, and Sa Pa in Viet Nam along the North–South Economic Corridor.

6. Bac Giang is the administrative capital of Bac Giang Province, and located 50 kilometers (km) northeast of Ha Noi and 45 km from the Noi Bai International airport. In 2013 the city had a population of about 150,000, about half of which (72,000) was urban. Characteristics of the city that favor development and investment include its strategic location on key transport corridors that link population centers and ports and provide access to larger markets, principally in the PRC and within the Ha Noi capital region.

7. Mong Cai is a border town located in Quảng Ninh Province in northeastern Viet Nam; it is located opposite Dongxing town, in Guangxi Province of the PRC. The population of Mong Cai was about 95,000 people in 2013, of which some 56,000 were urban. The economy is typical of many border towns, with trade and services accounting for 71% of the town's gross domestic product in 2013. The economy and population are both expanding rapidly (population is expected to exceed 150,000 by 2020). Strategic economic investment is ongoing, including improvement of cross-border facilities with the PRC, and construction of an expressway connection to Hai Phong and Ha Noi. The potential designation of a Mong Cai Economic Zone will increase the town's economic competitiveness. Despite the vibrant economy, investment in essential environmental infrastructure and services is insufficient.

8. Sa Pa is a small town located about 35 km from Lao Cai City in Lao Cai Province in northwestern Viet Nam. The town's population numbered about 54,000 in 2013, with an urban population of almost 15,000. Sa Pa is an international tourist destination and highland agricultural area, where strategic corridor investments in transport infrastructure are placing increasing development pressures on the high-quality mountain landscapes and cultural diversity of the predominantly ethnic minority population. Tourism has increased rapidly following the opening of the Ha Noi–Lao Cai expressway in 2014, providing both the opportunity and challenge to urgently address deficiencies in basic urban infrastructure and green city planning to secure a sustainable future for the town.

9. **Lessons.** Key lessons from completed or ongoing ADB-financed projects in urban development, including the first phase of the GMS Corridor Towns Development Project in Viet Nam, are: (i) civic participation and demand-driven development activities enhance the sense of local ownership; (ii) capacity building is a long-term effort requiring proper planning, adequate targeting, and up-front implementation; (iii) institutional and policy reform should be based on realistic assessments of timing, resource requirements, and political will; (iv) financial cost

⁷ ADB. 2011. *The Greater Mekong Subregion Economic Cooperation Program Strategic Framework, 2012–2022*. Manila.

recovery is critical to project sustainability; (v) streamlined approaches to procurement and contract packaging ensure effective implementation; and (vi) strong executing agency leadership and adequate selection of project staff with clearly defined roles and responsibilities are crucial for effective implementation. Transport and trade connections with nearby cities and regions are also critical for overall project success. The project is responsive to these lessons; it has a strong capacity development component, optimizes the value of community involvement, adopts a business-like approach to revenue collection and operation and maintenance (O&M), and includes studies to explore issues (e.g., relating to connectivity). Executing agencies will also receive start-up support on ADB procedures upon project commencement.

10. **Related policies and strategies.** The project is aligned with government policies, including (i) the Socio-economic Development Strategy, 2011–2020 and the associated Socio-economic Development Plan; and (ii) other relevant national policies and strategies, including the Green Growth Strategy and Draft Action Plan, the Climate Change Strategy and Action Plan, and the National Program on Urban Development in 2011–2020.⁸ The Socio-economic Development Plan is the main element of Viet Nam’s strategic plan with a focus on (i) linking urban and rural centers, (ii) improving urban planning and management, (iii) developing small and medium-sized towns and cities, and (iv) developing economic corridors by building economic nodes. Prosperous urban centers located in economic corridors are central to economic progress; this project can contribute through provision of essential environmental infrastructure and urban investments.

11. The project is in line with the ADB country partnership strategy for Viet Nam; ADB’s Urban Operational Plan; the GrEEEn Cities Approach, which has been piloted in several cities in Indonesia, Malaysia, Myanmar, Thailand, and Viet Nam; ADB’s Water Operational Plan; the GMS Strategic Framework; and the GMS Regional Investment Framework Implementation Plan, 2014–2018.⁹ The towns under this project were selected and prioritized under the GMS Regional Investment Framework. As part of project preparation, strategic local economic development plans (SLEDPs)—which present the medium-term strategy, planning, and investment plan for each town—have been prepared. The SLEDPs are based on technical assessments of potential investments in economic development, the environment, equity, and good governance, as well as extensive stakeholder consultations and discussions. The SLEDPs are intended to enhance existing provincial development and master plans and anchor these to the regional GMS context, and will be refined and endorsed during project implementation.

⁸ Government of Viet Nam, Ministry of Planning and Investment. 2011. *Socio-economic Development Strategy, 2011–2020*. Ha Noi; Government of Viet Nam, National Assembly. 2011. *Socio-economic Development Plan, 2011–2015*. Ha Noi; Government of Viet Nam. 2012. *No. 1659/QD-TTg: Decision on the Approval of the National Program on Urban Development in period of 2011–2020*. Ha Noi; Government of Viet Nam. 2012. *No. 1393/QD-TTg: Decision on the Approval of the National Green Growth Strategy, 2012–2020*. Ha Noi; Government of Viet Nam, Ministry of Planning and Investment. 2014. *Draft National Action Plan on Green Growth in the period of 2012–2020*. Ha Noi; Government of Viet Nam. 2012. *No. 1474/QD-TTg: Decision on Promulgation of National Action Plan on Climate Change in the Period of 2012–2020*. Ha Noi.

⁹ ADB. 2012. *Country Partnership Strategy: Viet Nam, 2012–2015*. Manila; ADB. 2013. *Urban Operational Plan, 2012–2020*. Manila; S.C. Sandhu and R. N. Singru. 2014. *Enabling GrEEEn Cities: An Operational Framework for Integrated Urban Development in Southeast Asia. ADB Southeast Asia Working Paper Series*. No. 9. Manila: Asian Development Bank; ADB. 2012. *Water Operational Plan, 2011–2020*. Manila; ADB. 2011. *The Greater Mekong Subregion Economic Cooperation Program Strategic Framework, 2012–2022*. Manila; ADB. 2015. *Greater Mekong Subregion Regional Investment Framework Implementation Plan, 2014–2018*. Manila.

B. Impact and Outcome

12. The impact of the project will be aligned with the government's Socio-economic Development Strategy, 2011–2020, i.e., economic, sociocultural, and environmental development in the three towns of Bac Giang, Mong Cai, and Sa Pa towns improved, contributing to making Viet Nam a modern industrial country by 2020. The outcome of the project will be improved urban services in the three participating towns.

C. Outputs

13. Outputs of the project are (i) SLEDPs and Sa Pa Green City Action Plan developed, (ii) priority urban infrastructure investments implemented, (iii) institutional capacities for managing public investments strengthened, and (iv) community awareness of project activities and environmental sustainability improved. The priority investments in each town are as follows.

14. **Bac Giang.** The project will finance wastewater collection and treatment, drainage, and urban roads in Bac Giang, including (i) a 10,000 cubic meter per day (m^3/day) extension of the city's only existing wastewater treatment plant and improvements to four ponds to provide wastewater services, with free house connections, to about 2,100 households comprising some 8,585 people (about 12% of the urban population); (ii) new, improved pumping stations in two locations (combined capacity of 135,000 m^3/day), and dredging of canals, to protect Bac Giang from periodic flooding due to stormwater; and (iii) construction of 3.2 km of priority urban roads and a bridge across the Thuong River.

15. **Mong Cai.** In Mong Cai, the project will finance wastewater collection and treatment, drainage, and riverbank protection. This will include (i) construction of a sewer system and two wastewater treatment plants (the first in Mong Cai, with a combined capacity of 12,000 m^3/day) to provide wastewater services (with free house connections) to about 1,850 households comprising some 6,855 people (about 12% of the urban population); and new, improved pumping stations (combined capacity of 18,000 m^3/day), and dredging of canals, to protect Mong Cai from periodic flooding; and (ii) riverbank protection works on both sides of the Ka Long River, and dredging of priority areas for flood protection (including the main city center) and improved shipping access.

16. **Sa Pa.** In Sa Pa, the project will finance wastewater collection and treatment, urban roads, town center enhancement, and a green city action plan. This will include (i) construction of two sewer systems and two wastewater treatment plants (the first in Sa Pa, with a combined capacity of 7,500 m^3/day) to provide wastewater services (with free house connections) to about 1,040 households comprising some 4,260 people (about 30% of the urban population); (ii) improvements to the town center public area and streets, including surfacing and landscaping of 2.1 km of streets, repaving of 10,250 square meters of pedestrian area and undergrounding of cables; (iii) building or upgrading of 14.4 km of priority roads; and (iv) preparation of a Green City Action Plan for Sa Pa.

17. In addition, the project will also finance consultancy services that include implementation support, detailed design, construction supervision, and capacity building. Capacity building will include refinement and finalization of the SLEDPs, strengthening of institutional capacity for managing public investments, and improving community awareness of project activities and environmental sustainability. Incremental administration costs for project administration, which includes annual audits, will also be financed.

D. Investment and Financing Plans

18. The project is estimated to cost \$121.67 million (Table 1).

Table 1: Project Investment Plan
(\$ million)

Item	Amount
A. Base Cost^a	
1. Bac Giang wastewater improvements	8.51
2. Bac Giang stormwater improvements	7.38
3. Bac Giang urban roads	14.13
4. Mong Cai wastewater and stormwater improvements	17.23
5. Mong Cai riverbank protection	12.34
6. Sa Pa urban roads	9.60
7. Sa Pa wastewater and drainage	11.52
8. Sa Pa town center enhancement	7.91
9. Sa Pa green city action plan	1.00
10. Consultancy services ^b	6.22
11. Incremental administration cost ^c	3.37
Subtotal (A)^d	99.22
B. Contingencies^e	17.48
C. Financing Charges During Implementation^f	4.97
Total (A+B+C)	121.67

Note: Numbers may not sum precisely because of rounding.

^a Includes taxes and duties of \$10.27 million, and land acquisition and resettlement costs of \$2.54 million. Taxes and duties are to be financed by the government through exemptions.

^b Consulting services include capacity building (\$1.54 million), detailed design and construction supervision (\$3.57 million) and project implementation support consultants (\$1.11 million).

^c Including salaries; travel expenses; office expenses (including utilities); equipment (e.g., computer, copier, camera, telephone, and GPS); insurance; workshops; training and seminars (including venue rental, per diem, honorarium, transport, workshop materials, translation costs, and lodging costs for participants); and annual audits.

^d Base cost in April 2015 prices.

^e Physical contingency is 6.2% for civil works, equipment and materials, and land acquisition; and 0% for other costs. Price contingency is based on foreign inflation rates of 0.3% in 2015, 1.5% in 2016, 1.4% in 2017 and 1.5% from 2018 and onwards; and local inflation rates of 2.5% in 2015, 4% in 2016 and 5% from 2017 and onwards.

^f Interest during implementation has been computed at 2% per year and will be capitalized under the Asian Development Bank loan.

Source: Asian Development Bank estimates.

19. The government has requested a loan in various currencies equivalent to SDR70,848,000 from ADB's Special Funds resources to help finance the project. 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 agreement. The borrower shall ensure that the proceeds of the loan are relented to each executing agency—up to 20% to Bac Giang People's Provincial Committee (PPC), up to 20% to Lao Cai PPC, and up to 50% to Quang Ninh PPC.

20. The financing plan is presented in Table 2.

Table 2: Financing Plan
(\$ million)

Source	Amount	Share of Total (%)
Asian Development Bank—Special Funds resources (loan)	100.00	82.2
Government of Viet Nam	21.67	17.8
Total	121.67	100.0

Source: Asian Development Bank estimates.

E. Implementation Arrangements

21. The PPCs of Bac Giang, Lao Cai, and Quang Ninh are the executing agencies and will oversee project activities in each of the three towns. Additionally, the PPC in Bac Giang Province is designed as the lead executing agency to coordinate among all PPCs on project implementation and reporting.

22. The implementing agencies will be the City People's Committees in Bac Giang and Mong Cai, and the Lao Cai Department of Planning and Investment, with project management units (PMUs) established in each implementing agency. The PMU in Bac Giang will be responsible for consultant selection for project implementation and management support and coordinate between the project cities and central government agencies for project implementation. Each PMU will hire consultants for detailed design, construction supervision, and capacity development, and carry out procurement for their respective civil works and goods contracts. The executing agency in Lao Cai will be responsible for consultant selection for Sa Pa green city action plan preparation. A project coordination unit established within Bac Giang PMU will support day-to-day coordination and liaising among the three PMUs. Project steering committees will be established in each province and chaired by a PPC vice chair, with representatives from key provincial and city governments and other relevant agencies or entities. The implementation arrangements are summarized in Table 3.

Table 3: Implementation Arrangements

Aspects	Arrangements		
Implementation period	January 2016–December 2020		
Estimated completion date	31 December 2020 (Estimated loan closing date: 30 June 2021)		
Management	One project steering committee per town, consisting of PPC vice chair (chair), with representatives from key provincial and city government agencies		
(i) Oversight body	Bac Giang PPC, Quang Ninh PPC, and Lao Cai PPC		
(ii) Executing agency	Bac Giang PPC		
(iii) Lead executing agency	Bac Giang City People's Committee, Mong Cai City People's Committee, and Lao Cai Department of Planning and Investment		
(iv) Implementing agency	Project director, deputy project director, municipal engineer, civil engineer, environment specialist, resettlement specialist, social development specialist, architect and/or urban designer, urban planner, procurement specialist, finance specialist or accountant, and secretary		
(v) Project management unit (within implementing agency)	Additional staff, as required, e.g., office administrator, cashier, translator, driver		
(vi) Project coordination unit (within Bac Giang PPC)	International competitive bidding	2 contracts	\$23.24 million
	National competitive bidding	9 contracts	\$62.84 million
	All procurement under the ADB loan in accordance with ADB's Procurement Guidelines (2015, as amended from time to time).		
Consulting services	Project implementation support consultants ^a	119 person-months	\$1.11 million
	Sa Pa Green City Action Plan ^a	68 person-months	\$1.00 million
	Other consulting firms and individual consultants, using government procedures ^b	934 person-months	\$5.11 million
Advance contracting	The executing agencies have asked for advance contracting of project implementation support consultant. Advance action does not commit ADB to subsequent project approval.		
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, PPC = People's Provincial Committee.

^aQuality- and cost-based selection, 90:10, full technical proposal. ADB-funded consultants will be recruited in accordance with ADB Guidelines on the Use of Consultants (2013, as amended from time to time).

^bThese will be financed through counterpart financing and include detailed design and construction supervision (3 contracts, 640 person-months, \$3.57 million) and capacity building (3 contracts, 294 person-months, \$1.54 million).

Source: Asian Development Bank.

III. DUE DILIGENCE

A. Technical

23. The subprojects were selected for the provision of basic environmental services. This will be achieved through improved wastewater management (all three towns), urban roads upgrading (Bac Giang and Sa Pa), drainage upgrading (all three towns), riverbank protection (Mong Cai), and town center enhancement (Sa Pa). The choices reflect the priorities accorded by the government and were selected through the application of criteria to support economic competitiveness, equity, and the environment (para. 2). They are technically feasible and employ civil works and O&M technology that can be managed by provincial and municipal authorities. Climate-resilient design has been ensured, including, for example, using elevated facility foundations, use of berms and bunds, and sufficient drainage for wastewater treatment plants (Bac Giang and Mong Cai); an increase in the pumping capacity for stormwater pumps (Bac Giang); grading, surfacing; and increasing lateral drainage of roads to handle flood levels (Bac Giang and Sa Pa); and increasing the height of riverbank protection (Mong Cai). Appropriate capacity building and training are included in the project design.

24. The project recognizes the weak institutional capacity of the provincial and municipal authorities to plan and manage urban infrastructure, and deliver essential urban services. This will be addressed through targeted training and institutional capacity building.

B. Economic and Financial

25. An economic analysis was undertaken to determine the viability of the subproject components, using the economic internal rate of return (EIRR) as the indicator. The base case results indicate that all components are economically viable with an estimated EIRR exceeding the assumed economic opportunity cost of capital of 12%. The computed EIRR is 15%–21% for Bac Giang, 14%–19% for Mong Cai, and 15% for Sa Pa. All subprojects were generally viable under adverse scenarios, including a 10% increase in capital or O&M costs, and a 10% reduction or 1-year delay in benefits.¹⁰

26. A financial analysis was conducted for each city's revenue and nonrevenue-generating subprojects to confirm the sustainability of the investment.¹¹ It established that sufficient counterpart funds for the investment components will be available for all towns. None of the public entities involved in the operation of the respective project components (e.g., sanitation or road maintenance) is corporatized. All are government sector units, and none have separate accounts. Therefore a financial internal rate of return has not been calculated. The tariffs collected for the revenue generating components (e.g., wastewater) currently do not fully cover O&M costs, but will be adjusted over time to meet these requirements. Additional funding (if needed to meet full O&M costs) will be allocated and made available by the provincial governments, a commitment that has been covenanted in the loan agreement.

C. Governance

27. The three executing agencies have implemented international development partner-financed projects, but all will receive start-up support on ADB procedures. Capacity development and training will be provided to the PMUs on financial and procurement

¹⁰ Economic Analysis (accessible from the list of linked documents in Appendix 2).

¹¹ Financial Analysis (accessible from the list of linked documents in Appendix 2)

management and fund disbursement. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government of Viet Nam and the Bac Giang PPC, Quang Ninh PPC, and Lao Cai PPC. The specific policy requirements and supplementary measures are described in the project administration manual.¹²

D. Poverty and Social

28. Based on the poverty and social analysis, the project is classified as general intervention.¹³ The overall project social impacts are expected to be positive, with expected improvements to the quality of life of people in the three towns. The project will result in improved climate-resilient infrastructure in each town that benefits all inhabitants, including the urban poor and other vulnerable groups. The affordability of sanitation services will not be a concern because house connections are included in the project cost and will be provided at no charge. Proposed wastewater tariffs have been assessed as affordable for low-income groups. Riverbank protection in Mong Cai will improve flood protection for the project-affected people, their homes, and their property. Poor and vulnerable households located in low-lying, flood-prone areas and who lack basic environmental sanitation will benefit the most.

29. The projects are categorized as effective gender mainstreaming. The gender analysis concluded that women in the subproject areas are at potential risk of not realizing the full potential of project benefits and opportunities if gender issues concerning women's employment opportunities and sector representation in decision making are not mainstreamed in project activities. Accordingly, a gender action plan has been prepared that aims to (i) ensure gender issues are mainstreamed in project planning and implementation, (ii) address specific impacts and risks that may affect women differently or disproportionately compared to men, and (iii) enhance women's participation in project benefits.

E. Safeguards

30. **Social safeguards.** The project is classified as safeguard category B for involuntary resettlement. Two resettlement plans, one for Bac Giang and one for Mong Cai, have been prepared for components that will trigger land acquisition and resettlement impacts. A combined resettlement and indigenous peoples plan (Resettlement and Ethnic Minority Development Plan) has been prepared for Sa Pa—indigenous peoples safeguards are triggered (category B), but limited to land acquisition and resettlement.¹⁴

31. A total of 16.46 hectare of land will be acquired, affecting 659 households or about 2,788 affected persons. Three households (15 persons) will require physical relocation, 21 households will experience loss of more than 10% of income-generating assets, 1 household will lose all its production land, and 28 will have their remaining agricultural areas rendered too small for continued cultivation. Other impacts include partial loss of land and of graves. The land acquisition and resettlement cost (\$2.54 million) will be provided through counterpart financing. All affected households are entitled to compensation and rehabilitation assistance. Income restoration (cash assistance and skills training) will be provided to severely affected and vulnerable households.

¹² Project Administration Manual (accessible from the list of linked documents in Appendix 2).

¹³ Summary Poverty Reduction and Social Strategy and Gender Action Plan (accessible from the list of linked documents in Appendix 2).

¹⁴ Resettlement Plan: Bac Giang; Resettlement Plan: Mong Cai; and Resettlement and Ethnic Minority Development Plan: Sa Pa (accessible from the list of linked documents in Appendix 2).

32. **Indigenous peoples.** For the Sa Pa subproject, indigenous peoples safeguards are triggered but limited to land acquisition; a resettlement and ethnic minority development plan has been prepared in accordance with the requirements of the ADB Safeguard Policy Statement (2009). The indigenous peoples safeguard category is B.

33. **Environment safeguards.** The project is classified as category B for the environment in accordance with the ADB Safeguard Policy Statement. One initial environmental examination (IEE) and three environmental management plans (EMPs) (one per town) have been prepared.¹⁵ The proposed subprojects are not expected to cause irreversible adverse environment impacts. Mitigation measures for identified impacts related to siting, design, construction, and operation have been incorporated in the EMPs. In addition, it is recommended that the potential impacts of climate change and natural hazards (e.g., flooding and earthquakes) on the project be integrated into the design and engineering stage as part of the IEE assessment whenever feasible, practical, and appropriate. At the detailed design stage, the IEE and EMPs will be updated and finalized.

34. The final EMPs will form part of the contract bidding documents and be incorporated in the works contracts. Environmental considerations during design, and allocation of sufficient funding for O&M will help mitigate potential adverse impacts during operation. Effective environmental monitoring during implementation will be ensured by including budget and institutional arrangements for EMP implementation and monitoring. EMP implementation will be ensured by a designated environment officer in the project coordination unit, whose responsibilities are detailed in the EMPs.

35. Climate change projections and climate change impacts on the project are discussed in the climate vulnerability and risk assessment section of the IEE. The cost of climate change adaptation is estimated to be \$3.15 million, or about 3% of the ADB loan. Public consultations were conducted through formal and informal group discussions in October 2014 and January–February 2015 and will be ongoing during implementation. Grievance redress mechanisms have been established in synergy with social safeguards. In compliance with ADB requirements, the safeguard documents have been posted on ADB’s website.

36. Resettlement and environment documents have been prepared in consultation with local communities and are in accordance with the ADB SPS and Viet Nam’s laws and regulations. The documents have been endorsed, approved, and posted on the ADB website. A grievance redress mechanism will help to facilitate resolution of complaints regarding project performance. The resettlement plans, IEE, and EMPs will be updated and disclosed after detailed design and cleared by ADB prior to contract awards. The project towns have demonstrated a high level of commitment to environmental and social safeguards, and have allocated their own resources for land acquisition and resettlement. Implementation arrangements include designated responsibilities for safeguards monitoring.

F. Risks and Mitigating Measures

37. The integrated benefits and impacts from the project are expected to outweigh the costs. The overall risk is assessed as medium. Major risks and mitigating measures are summarized in Table 4 and described in detail in the risk assessment and risk management plan.¹⁶

¹⁵ Initial Environmental Examination (accessible from the list of linked documents in Appendix 2).

¹⁶ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

Table 4: Summary of Risks and Mitigating Measures

Risks	Mitigating Measures
Lack of capacity for project management	Support and training provided by the PISC.
Potential irregularities in procurement and financial management	Support and training provided by project implementation and capacity development consultants. Disbursement condition requires that an accounting and finance specialist be in place prior to disbursement.
Lack of financial sustainability due to non-cost recovery tariffs	Capacity building provided for sustainable O&M of the new facilities as well as on tariff setting and financial management. Provincial governments will cover funding gap if tariff revenues are insufficient.
Delay in project start-up and implementation	Support for project start-up activities provided under project preparatory TA, including for advance action on recruitment of the PISC.
Potential presence of UXO causes safety issues and delays	Surveys to identify potential UXO contamination will be undertaken.
Potential archeological finds could cause delays	Measures and recommendations identified in initial environmental examinations.

O&M = operation and maintenance, PISC = project implementation support consultant, TA = technical assistance, UXO = unexploded ordnance.

Source: Asian Development Bank.

IV. ASSURANCES AND CONDITIONS

38. The government of Viet Nam and the PPCs of Bac Giang, Lao Cai, and Quang Ninh 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 project administration manual and loan documents.

39. The government of Viet Nam and the PPCs of Bac Giang, Lao Cai, and Quang Ninh have agreed with ADB on certain covenants and disbursement conditions for the project, which are set forth in the loan agreement.

V. RECOMMENDATION

40. 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 SDR70,848,000 to the Socialist Republic of Viet Nam for the Second Greater Mekong Subregion Corridor Towns 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

9 November 2015

DESIGN AND MONITORING FRAMEWORK

Impact the Project is Aligned with			
Economic, sociocultural, and environmental development in the three towns of Bac Giang, Mong Cai, and Sa Pa, improved, contributing to making Viet Nam a modern, industrial country. (Socio-economic Development Strategy, 2011–2020.) ^a			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Risks
Outcome Improved urban services in the three participating towns	By 2021: a. 19,700 people served by new and improved wastewater collection and treatment facilities in three towns b. 19,900 households with reduced flood risk through improved flood management in 4,220 hectares in Bac Giang and Mong Cai c. 17.6 km of roads improved for better mobility and reduced travel times in Sa Pa and Bac Giang towns (2015 baselines for a–c: 0)	a–c. Construction records, project progress reports, end of project survey	Lack of capacity for project management Lack of financial sustainability due to non-cost recovery tariffs
Outputs 1. SLEDPs and Sa Pa GCAP developed	By 2016: 1a. SLEDPs endorsed by the participating provinces and towns (2015 baseline: Final draft SLEDPs completed) By 2020: 1b. GCAP for Sa Pa completed and endorsed by Sa Pa town and Lao Cai Province (2015 baseline: NA)	1a. Letter of endorsement from executing agency 1b. Letter of endorsement from executing agency	Potential irregularities in procurement and financial management Delay in project start-up and implementation Potential presence of UXO causes safety issues and delays Potential archeological finds could cause delays.
2. Priority urban infrastructure investments implemented	By 2020: 2a. At least 30% of unskilled laborers employed in subproject construction are women. At least 30% of staff employed in O&M are women. At least 75% of all unskilled laborers are of local origin. (Baseline: NA) 2b. Wastewater treatment capacity of 10,000 m ³ /day added in Bac Giang through construction of one new WWTP; improvements to four ponds. 2c. Wastewater treatment capacity of 12,000 m ³ /day added in Mong Cai through construction of two new WWTPs (8,000m ³ /day and 4,000m ³ /day)	2a. Contractor's records and progress monitoring reports 2b–2k. Construction records, subproject completion reports	

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Risks
	<p>2d. Wastewater treatment capacity of 7,500 m³/day added in Sa Pa town through construction of two new WWTPs (5,000 m³/day in North East and 2,500 m³/day in South West)</p> <p>2e. 8,585 people in Bac Giang, 6,855 people in Mong Cai and 4,260 people in Sa Pa serviced by new and improved wastewater services</p> <p>2f. Stormwater pumping capacity increased by 153,000 m³/day in Bac Giang (135,000 m³/day) and Mong Cai (18,000 m³/day)</p> <p>2g. 5.2 km of improved drainage and 2.5 km of enhanced riverbank protection in Mong Cai</p> <p>2h. 3.2 km of road sections built or upgraded in Bac Giang</p> <p>2i. 14.4 km of roads upgraded in Sa Pa</p> <p>2j. 10,250 m² of pedestrian area paved or repaved in Sa Pa</p> <p>2k. 2.1 km of streets and alleys upgraded with improved urban facilities in Sa Pa (2015 baselines: 0)</p>		
3. Institutional capacities for managing public investments strengthened.	<p>By 2020:</p> <p>3a. At least 20 persons (30% female) trained in project management (Baseline: NA)</p> <p>3b. At least 100 persons (50% female) trained on gender aspects (Baseline: NA)</p> <p>3c. PMUs recruit at least 50% female staff, including at least 30% in decision-making positions (Baseline: NA)</p>	<p>3a. Project progress and completion reports, training manuals</p> <p>3b. Project progress and completion reports, training manuals</p> <p>3c. Government employment records</p>	
4. Community awareness on project activities and environmental sustainability improved	<p>By 2020:</p> <p>4a. At least 5 community awareness and dissemination campaigns in each project town covering environmental</p>	<p>4a. Attendance records, project progress and completion reports</p>	

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Risks
	sustainability and conservation themes conducted, with equal participation by men and women. (2015 baseline: 0). In Sa Pa, to include a campaign for protection of young ethnic minority women and youths against human trafficking.		
Key Activities with Milestones			
Output 1. Strategic local economic development plans and Sa Pa Green City Action Plan developed			
1.1 Endorsement of SLEDPs by participating provinces and towns (Q2 2016)			
1.2 Completion of GCAP for Sa Pa and endorsement by Sa Pa town and Lao Cai Province (Q4 2020)			
Output 2. Priority urban infrastructure investments implemented			
2.1 Completion of detailed engineering designs (Q4 2016)			
2.2 Completion of land acquisition and resettlement (Q4 2016)			
2.3 Bidding of civil works contracts (Q4 2017)			
2.4 Signing of civil works contracts (Q4 2017)			
2.5 Completion of civil works (Q4 2020)			
2.6 Conduct safeguards monitoring and reporting (Q1 2016 to Q4 2020)			
Output 3. Institutional capacities for managing public investments strengthened			
3.1. Formulate capacity building program (Q4 2016)			
3.2. Complete key training sessions and capacity-building activities (Q4 2018)			
Output 4. Community awareness on project activities and environmental sustainability improved			
4.1 Conclusion of community awareness and dissemination campaigns (Q4 2020)			
Inputs			
ADB: \$100,000,000 (loan)			
Government: \$ 21,670,000			
Assumptions for Partner Financing			
not applicable.			

GCAP = green city action plan, km = kilometer, m² = square meter, m³/day = cubic meter per day, NA = not applicable; PMU = project management unit; Q = quarter, SLEDP = strategic local economic development plan, UXO = unexploded ordnance; WWTP = wastewater treatment plant.

^a Government of Viet Nam, Ministry of Planning and Investment. 2011. *Socio-economic Development Strategy, 2011–2020*. Hanoi.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=46443-004-3>

1. Loan Agreement
2. Project Agreement
3. Sector Assessment (Summary): Water and Other Urban Infrastructure and Services
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 Environmental Examination
13. Resettlement Plan: Bac Giang Subproject
14. Resettlement Plan: Mong Cai Subproject
15. Combined Resettlement and Indigenous Peoples Plan (Resettlement and Ethnic Minorities Development Plan): Sa Pa Subproject
16. Risk Assessment and Risk Management Plan

Supplementary Documents

17. Summary of Investment Components
18. Participation Plan
19. Summary on Climate Change
20. Economic Analysis–Supplementary Tables