



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

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Project Number: 41444-024  
October 2015

## Proposed Loan for Additional Financing Socialist Republic of Viet Nam: Second Northern Greater Mekong Subregion Transport Network Improvement Project

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Asian Development Bank

## CURRENCY EQUIVALENTS

(as of 6 October 2015)

Currency unit	–	dong (D)
D1.00	=	\$0.000044
\$1.00	=	D22,477

## ABBREVIATIONS

ADB	–	Asian Development Bank
AFLAR	–	Agency for Land Acquisition and Resettlement
CEMP	–	contractor’s environmental management plan
CSC	–	construction supervision consultant
EMP	–	environmental management plan
GMS	–	Greater Mekong Subregion
IEE	–	initial environmental examination
km	–	kilometer
Lao PDR	–	Lao People’s Democratic Republic
MOT	–	Ministry of Transport
PAM	–	project administration manual
PMU1	–	Project Management Unit 1
REMDP	–	resettlement and ethnic minority development plan
SDR	–	special drawing right

## NOTE

In this report, “\$” refers to US dollars.

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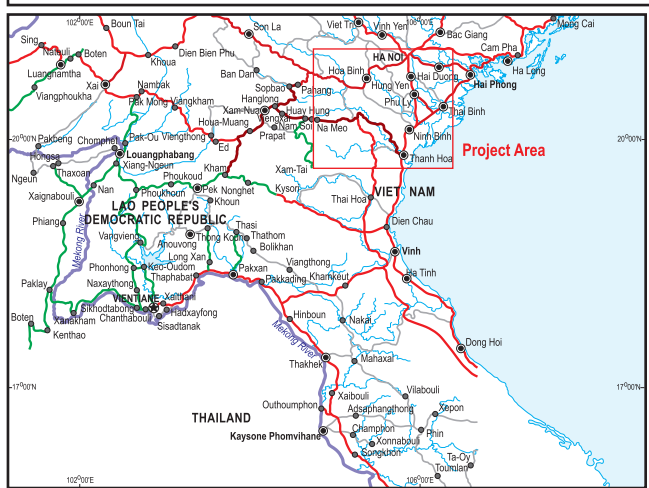
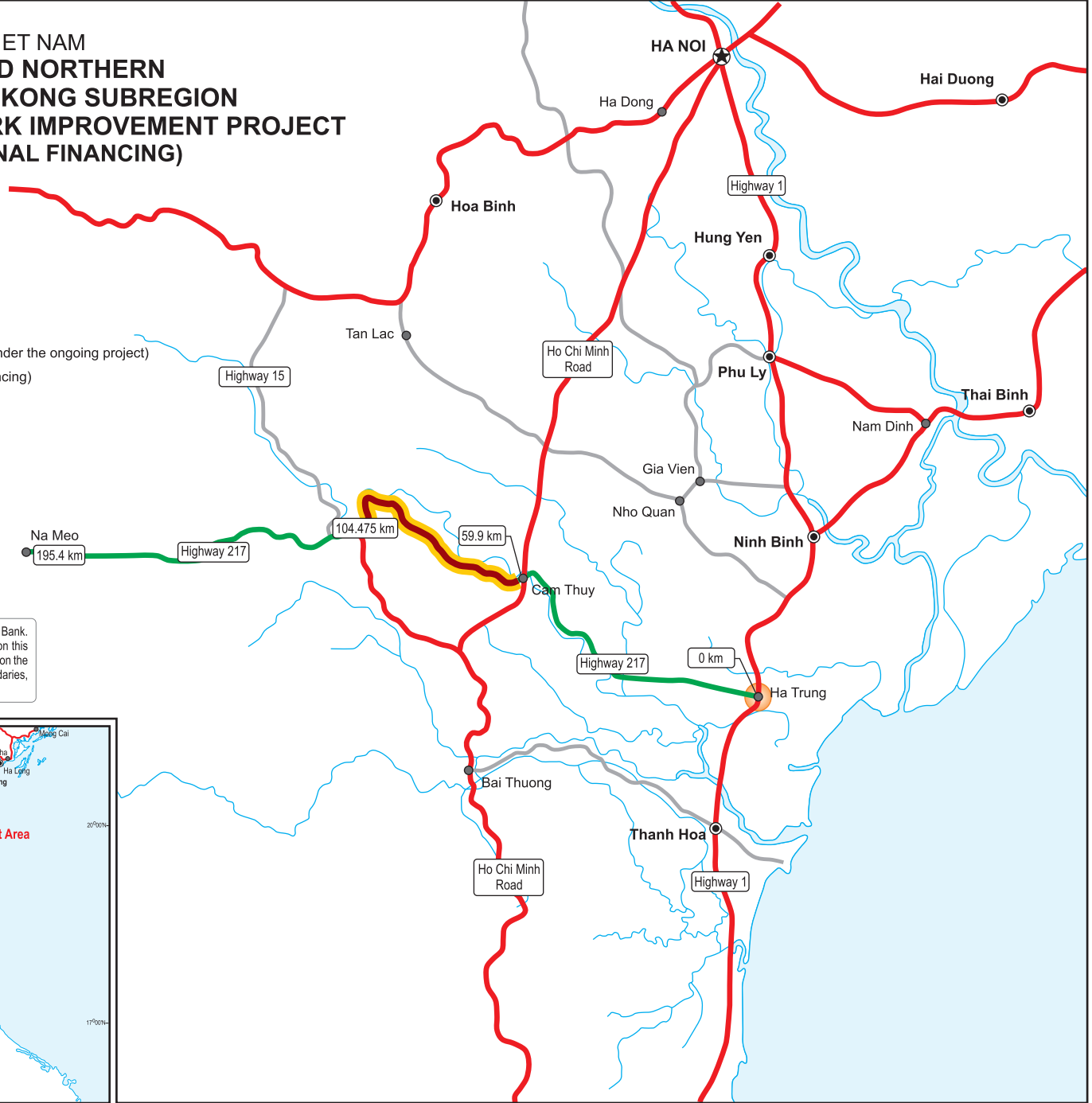
## PROJECT AT A GLANCE

<b>1. Basic Data</b>		<b>Project Number: 41444-024</b>	
<b>Project Name</b>	Second Northern Greater Mekong Subregion Transport Network Improvement (Additional Financing)	<b>Department /Division</b>	SERD/SETC
<b>Country Borrower</b>	Viet Nam, Socialist Republic of Socialist Republic of Viet Nam	<b>Executing Agency</b>	Ministry of Transport
<b>2. Sector</b>	<b>Subsector(s)</b>	<b>ADB Financing (\$ million)</b>	
✓ <b>Transport</b>	Road transport (non-urban)		71.13
		<b>Total</b>	<b>71.13</b>
<b>3. Strategic Agenda</b>	<b>Subcomponents</b>	<b>Climate Change Information</b>	
Inclusive economic growth (IEG)	Pillar 2: Access to economic opportunities, including jobs, made more inclusive	Climate Change impact on the Project	Medium
Environmentally sustainable growth (ESG)	Environmental policy and legislation		
Regional integration (RCI)	Pillar 1: Cross-border infrastructure		
<b>4. Drivers of Change</b>	<b>Components</b>	<b>Gender Equity and Mainstreaming</b>	
Governance and capacity development (GCD)	Institutional development	Effective gender mainstreaming (EGM)	✓
<b>5. Poverty Targeting</b>		<b>Location Impact</b>	
Project directly targets poverty	No	Regional	High
<b>6. Risk Categorization:</b>	Complex		
<b>7. Safeguard Categorization</b>	Environment: B Involuntary Resettlement: A Indigenous Peoples: B		
<b>8. Financing</b>			
<b>Modality and Sources</b>		<b>Amount (\$ million)</b>	
<b>ADB</b>		<b>71.13</b>	
Sovereign Project loan: Asian Development Fund		71.13	
<b>Cofinancing</b>		<b>0.00</b>	
None		0.00	
<b>Counterpart</b>		<b>6.72</b>	
Government		6.72	
<b>Total</b>		<b>77.85</b>	
<b>9. Effective Development Cooperation</b>			
Use of country procurement systems		No	
Use of country public financial management systems		No	

VIET NAM  
**SECOND NORTHERN  
 GREATER MEKONG SUBREGION  
 TRANSPORT NETWORK IMPROVEMENT PROJECT  
 (ADDITIONAL FINANCING)**

-  National Capital
-  Provincial Capital
-  City/Town
-  Proposed Flyover (Additional Financing)
-  ADB-Financed Road Project (sections under the ongoing project)
-  Proposed Road Project (Additional Financing)
-  National Road
-  Paved Provincial Road
-  River

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



## I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed loan to the Socialist Republic of Viet Nam for the additional financing of the Second Northern Greater Mekong Subregion (GMS) Transport Network Improvement Project.<sup>1</sup>

2. The Second Northern GMS Transport Network Improvement Project aims to provide more efficient transport across the Lao PDR–Viet Nam border and on the project road sections of the GMS Northeastern Corridor through the provinces of Thanh Hoa in northern Viet Nam and Houaphanh in northeastern Lao PDR.<sup>2</sup> It includes two components: (i) improvement of 196 kilometers (km) of Highway 217 in Viet Nam and 143 km of routes 6, 6A, and 6B in the Lao PDR to all-weather status, and (ii) improvement of road safety on these road sections.<sup>3</sup>

## II. THE PROJECT

### A. Rationale

3. The GMS Northeastern Corridor (encompassing Nanning in Guangxi Province, People's Republic of China; Ha Noi and Thanh Hoa in Viet Nam; Louangphabang, the Lao People's Democratic Republic [Lao PDR]; and Bangkok, Thailand) is one of the corridors identified in the GMS Transport Sector Strategy Study.<sup>4</sup> Many of the roads in the GMS corridor have been improved, including the sections of the corridor in northeastern Lao PDR and northern Viet Nam under the current project, to maximize the economic potential of the GMS Northeastern Corridor and to provide the northern Lao PDR with year-round access to seaports.

4. The current project was approved on 25 November 2010. As part of the Viet Nam portion of the current project, the Asian Development Bank (ADB) approved the loan in the amount of SDR47,450,000 (equivalent to \$75 million) from its Special Funds resources. The loan became effective on 7 June 2011, with a closing date of 31 December 2016.<sup>5</sup>

5. The current project is performing well. The implementation is on track.<sup>6</sup> Cumulative contract awards were 85.6% and disbursements 41.0% as of 7 October 2015. Disbursements are expected to increase by the end of 2015, as high-value pavement works commenced in September 2015. The current implementation schedule to complete the physical works by June 2016 appears to be achievable, and the need for a loan closing date extension is not foreseen. With regard to safeguards, the resettlement plans and environmental management plan (EMP) have been implemented without major issues. Lapses in the EMP implementation are being addressed through agreed remedial actions such as water spraying and installation of mesh net to entrap dust in crashing plant and providing personal protective equipment to construction workers. The government has been tracking grievances, and there are currently no unresolved grievances.

6. The civil works under the current project scope include (i) improvement of the road

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

<sup>2</sup> ADB. 2010. *Report and Recommendation of the President to the Board of Directors: Proposed Loan, Grant, and Administration of Loan to the Lao People's Democratic Republic and the Socialist Republic of Viet Nam for the Second Northern Greater Mekong Subregion Transport Network Improvement Project*. Manila (Loan 2703).

<sup>3</sup> ADB. 2008. *Technical Assistance to Viet Nam for Preparing the Second Northern Greater Mekong Subregion Network Improvement Project*. Manila.

<sup>4</sup> ADB. 2006. *GMS Transport Sector Strategy Study*. Manila.

<sup>5</sup> As of 7 October 2015, the loan amount is \$67.65 million due to the fluctuation of the SDR–dollar exchange rate.

<sup>6</sup> Summary of Project Performance (accessible from the list of linked documents in Appendix 2).

section from km 104.475 (Ba Thuoc) to km 195.4 (Na Meo border crossing), including new bypasses in Cam Thuy and Eo Le bridge at km 38.4 with approach roads; and (ii) pavement repair and resurfacing from km 0 (Ha Trung city) to Ba Thuoc. As the road conditions between km 59.9 (Cam Thuy) and Ba Thuoc have significantly deteriorated during 2011–2015 due to increased traffic volume (coming from Na Meo, Ha Noi, and Ho Chi Minh City) and vehicle overloading, in May 2014 the Government of Viet Nam requested ADB to consider providing additional financing for full-scale improvement of the road section from Cam Thuy to Ba Thuoc rather than simple repair as originally planned.

7. The fact-finding mission conducted by ADB in March 2015 assessed that the overall project will enhance the outcome of the current project by delivering a technically sound road section from Cam Thuy to Ba Thuoc with higher design speed. This additional financing will provide (i) wider lanes to meet the increased traffic flow, (ii) strengthened pavement structure to carry more loads, (iii) better road alignment to avoid the flood-prone areas, (iv) safer bridges, and (v) improved drainage facilities. The mission and the government agreed to eliminate traffic congestion and improve road safety by constructing a new flyover at the intersection at km 0, where Highway 217 intersects with Highway 1.

8. In addition to road improvement, the additional financing will support the effort of the Ministry of Transport (MOT) to control the overloading on the national road network and to strengthen road maintenance management through (i) reviewing existing governing procedures to control the overloading; (ii) purchasing weigh scales and providing on-the-job training for MOT staff on the use and maintenance of such equipment; (iii) (after completing the current project) piloting control of overloading on the improved Na Meo–Ba Thuoc road section to prevent premature deterioration; (iv) strengthening the governing procedures based on the findings from the pilot demonstration; and (v) monitoring the maintenance works that have been provided for the completed road sections under the current project, and proposing a future road maintenance program for the Na Meo–Ha Trung corridor as a whole.

9. **Eligibility of additional financing.** The additional financing meets the eligibility criteria for additional financing as the project is (i) technically feasible, economically viable, and financially sound based on the due diligence assessments; (ii) accorded high priority by the government based on its approval of the project outline in June 2015; (iii) consistent with the transport development objectives of the current project as it will enhance the outcome and outputs of the current project; and (iv) consistent with the country partnership strategy, 2012–2015 for Viet Nam, which aims to enhance transport connectivity in GMS countries.<sup>7</sup> Additional financing is a suitable modality, since scaling up the originally planned minor maintenance to major repair works will result in financing requirements exceeding the original financial allocation. The additional financing allows ADB to respond effectively to the change in circumstances the government is facing in implementing the current project. This additional financing will complement the MOT's effort to sustain its road network by delivering a better approach and work process to control overloading and provide good road services through the provision of regular maintenance on the completed road section as discussed in para 8.

10. This first additional financing for the project is included in the country operations business plan, 2015–2017 for Viet Nam, and was identified during a project review mission in 2014.<sup>8</sup>

11. **Improved readiness.** It is planned that the detailed design and construction supervision

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<sup>7</sup> ADB. 2012. *Country Partnership Strategy: Viet Nam, 2012–2015*. Manila.

<sup>8</sup> ADB. 2014. *Country Operations Business Plan: Viet Nam, 2015–2017*. Manila.

(DDCS) consultants under the current project will (i) prepare detailed design of the project road sections, (ii) finalize the draft bidding documents for civil works and the request for proposal for consulting services for construction supervision, and (iii) assist in the updating and implementation of the resettlement and ethnic minority development plan (REMDP) using the unallocated amount of the loan proceeds under the Second Northern Greater Mekong Subregion Transport Network Improvement Project. This is consistent with the objective of ADB's policy on additional financing to promote efficiency gains through timely and seamless transition from project preparation to implementation.<sup>9</sup>

12. A retroactive financing request by the government was approved on 28 August 2015 to ensure timely commencement of civil works in April 2016. Government funds of up to \$14.2 million, the equivalent of 20% of the proposed ADB loan, can be used to finance eligible expenditure related to land acquisition and resettlement, and advances to civil works contractors and construction supervision consultants (CSCs) to be engaged under the project.

## **B. Impact and Outcome**

13. The impact and outcome statements for the overall project will remain unchanged since the additional financing will help the current project achieve its development objective. The impact will be increased international trade on the GMS Northeastern Corridor. The outcome will be efficient transport across the Lao PDR–Viet Nam border and on the project road sections of the GMS Northeastern Corridor.

## **C. Outputs**

14. The project output statement will remain unchanged. The expected outputs of the overall project will be (i) the project components of the GMS Northeastern Corridor in Viet Nam and the Lao PDR are improved, and (ii) road safety on the project road sections of Northeastern Corridor is improved. Through the additional financing under output 1, (i) the road section from Cam Thuy to Ba Thuoc will be improved, and (ii) a new flyover and approach roads in Ha Trung will be constructed. Through the additional financing under output 2, (i) a road safety audit will be undertaken on the project road sections, and (ii) 12 communes along the project road sections will increase their awareness on traffic rules and regulations. The overall project will support an HIV/AIDS and human trafficking awareness and prevention program, and enable women to participate in implementation and monitoring of the project activities.

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

15. The overall project is estimated to cost \$175.25 million and be adequate to cover the cost for the original and extended project investments. The revised investment plan is in Table 1. The detailed cost estimates for the project to be financed by each financier are in the project administration manual (PAM).<sup>10</sup>

<sup>9</sup> ADB. 2011. Additional Financing. *Operations Manual*. OM H5/BP. Manila.

<sup>10</sup> Project Administration Manual (accessible from the list of linked documents in Appendix 2).



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

Item	Current Amount <sup>a</sup>	Additional Financing <sup>b</sup>	Total
<b>A. Base Cost<sup>c</sup></b>			
1. Civil works	64.50	44.26	108.76
2. Project management unit and other costs	0.80	0.79	1.59
3. Consultants	7.50	3.14	10.64
4. Land acquisition and resettlement	3.30	15.80	19.10
5. Unexploded ordnance clearance	0.60	0.37	0.97
<b>Subtotal (A)</b>	<b>76.70</b>	<b>64.36</b>	<b>141.06</b>
<b>B. Contingencies<sup>d</sup></b>			
1. Physical	7.60	6.44	14.04
2. Price	11.20	5.21	16.41
<b>Subtotal (B)</b>	<b>18.80</b>	<b>11.65</b>	<b>30.45</b>
<b>C. Financing Charges During Implementation<sup>e</sup></b>			
1. Interest during implementation	1.90	1.84	3.74
<b>Total (A+B+C)</b>	<b>97.40</b>	<b>77.85</b>	<b>175.25</b>

<sup>a</sup> Refers to the original amount. Includes taxes and duties of \$10.2 million financed from government resources.

<sup>b</sup> Includes taxes and duties of \$4.46 million related to road civil works and consulting services to be financed from government resources in cash contribution. Transportation and insurance costs may be financed by the Asian Development Bank (ADB) loan. ADB will fully finance land acquisition and resettlement, including \$1.75 million for relocation of the public utilities (inclusive of \$0.15 million in taxes and duties).

<sup>c</sup> In mid-2015 prices.

<sup>d</sup> Physical contingencies computed at 10% of base costs. Price contingencies computed for foreign exchange costs and local currency costs based on the annual rates in the table below; includes provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

Annual Rate	2015	2016	2017	2018	2019	2020	2021
Foreign currency	0.3%	1.5%	1.4%	1.5%	1.5%	1.5%	1.5%
Local currency	5.5%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%

<sup>e</sup> Includes interest charges for ADB loan computed at 2% per annum during the project implementation period.

Source: Asian Development Bank estimates.

16. The government has requested a loan in various currencies equivalent to SDR50,440,000.00 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 2.0% per annum during the grace period and thereafter, and such other terms and conditions set forth in the loan agreement.

17. The financing plan is in Table 2. The additional loan will largely finance road civil works and consulting services; resettlement and land acquisition costs, including the taxes and duties related to relocation of the public utilities; a portion of contingencies; and interest during construction.<sup>11</sup> The government will finance unexploded ordnance clearance, recurrent costs for Project Management Unit 1 (PMU1) of the MOT, a portion of contingencies, and taxes and duties of \$4.46 million for road civil works and consulting services. The government will also finance future funding shortfalls that may occur during the implementation of the project, in addition to costs shown in the financing plan.

<sup>11</sup> The amount of taxes and duties meets the criteria for eligibility of expenditures under ADB financing, as (i) the amount is within the threshold identified in the country partnership strategy, 2012–2015 for Viet Nam; (ii) the amount will not represent an excessive share of the proposed project investment plan; (iii) the taxes and duties apply to the ADB-financed civil works for relocation of the public utilities; and (iv) the financing of such taxes and duties is material and relevant to the success of the project. ADB. 2012. Cost Sharing and Eligibility of Expenditures for ADB Financing. *Operations Manual*. OM H3/BP. Manila.

**Table 2: Financing Plan**

<b>Source</b>	<b>Current<sup>a</sup></b>		<b>Additional Financing</b>		<b>Total</b>	
	<b>Amount</b> (\$ million)	<b>Share of</b> <b>Total (%)</b>	<b>Amount</b> (\$ million)	<b>Share of</b> <b>Total (%)</b>	<b>Amount</b> (\$ million)	<b>Share of</b> <b>Total (%)</b>
Asian Development Bank Special Funds resources (loan)	75.0	77.0	71.13	91.4	146.13	83.4
Government	22.4	23.0	6.72	8.6	29.12	16.6
<b>Total</b>	<b>97.4</b>	<b>100.0</b>	<b>77.85</b>	<b>100.0</b>	<b>175.25</b>	<b>100.0</b>

<sup>a</sup> Refers to the original amount.

Source: Asian Development Bank estimates.

## **E. Implementation Arrangements**

18. The existing implementation arrangements remain unchanged. The MOT will be the executing agency. PMU1 will serve as the implementing agency for project activities, and the Agency for Land Acquisition and Resettlement under Thanh Hoa Provincial People's Committee (AFLAR) will be the implementing agency for the REMDP. PMU1 will be supported by the CSCs.

19. The CSCs will (i) supervise quality of civil works; (ii) monitor the implementation of the contractors' EMPs (CEMP) (para. 36); (iii) undertake monitoring, evaluation, and reporting of project performance; (iv) complete the activities discussed in para. 8; and (v) implement, evaluate, and report on the HIV/AIDS prevention and anti-trafficking program, community-based road safety awareness program, and gender action plan.

20. About 507 person-months of inputs will be required, comprising about 53 person-months of international consultant inputs and about 454 person-months of national consultant inputs. PMU1 will recruit the consulting firm according to ADB's Guidelines on the Use of Consultants (2013, as amended from time to time) using the quality- and cost-based selection method, with a quality-cost ratio of 80:20 and following the full technical proposal procedure.

21. PMU1 will engage an independent financial auditor by using least-cost selection method, and a monitoring agency for resettlement, and other consulting services (financed by government funds) by using government procedure. PMU1 will consult and seek concurrence from ADB on the terms of reference and draft contract to be used for engaging an external monitoring agency.

22. PMU1 will use ADB's Procurement Guidelines (2015, as amended from time to time), and procure two contract packages for road improvements (with two lots) and flyover construction using the international competitive bidding method, and five contract packages for utility relocation using national competitive bidding. The proposed review method and procurement procedure are in the procurement plan.

23. Use of loan funds for land acquisition and resettlement will require establishment of subaccounts in project districts in Thanh Hoa Province. The fund flow and cash flow arrangements are included in the PAM (footnote 9). AFLAR will be responsible for administering and monitoring loan funds for land acquisition and resettlement in accordance with ADB's *Loan Disbursement Handbook* (2015, as amended from time to time).

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	August 2016–December 2018			
Estimated completion date	December 2018 (loan account closing date: 30 June 2019)			
Management				
(i) Oversight body	State Bank of Viet Nam, Chair and Members			
(ii) Executing agency	Ministry of Transport			
(iii) Key implementing agencies	PMU1 (for implementing outputs 1 and 2); Agency for Land Acquisition and Resettlement under Thanh Hoa Provincial People's Committee (for implementing the resettlement and ethnic minority development plan.			
(iv) Implementation unit	PMU1 with 12 staff at 308 Minh Khai, Hai Ba Trung, Ha Noi			
Procurement	International competitive bidding	Two contracts (one for road improvements [with two lots], and one for flyover construction)	\$44.260 million	
	National competitive bidding	Five contracts for utility removal and relocation	\$1.750 million	
Consulting services	Quality- and cost-based selection for construction supervision	53 person-months of international consultant inputs; 454 person-months of national consultant inputs	\$3.140 million	
	Least-cost selection for external auditing	50 person-months	\$0.110 million	
	Government procedure for (i) external monitoring agency for resettlement; and consultants for undertaking: (ii) an appraisal of the detailed design; (iii) final statement audit; and (iv) an external audit of construction quality			\$0.107 million
				\$0.030 million \$0.062 million \$0.103 million
Retroactive financing and/or advance contracting	Advance contracting for recruitment of consultants and procurement of civil works. Retroactive financing up to \$14.2 million, the equivalent of 20% of the loan for land acquisition and resettlement, and advances to civil works contractors and consultants incurred before loan effectiveness (but not earlier than 12 months before loan signing).			
Disbursement	The loan proceeds will be disbursed in accordance with ADB's <i>Loan Disbursement Handbook</i> (2015, as amended from time to time), with detailed arrangements agreed between the government and ADB.			

ADB = Asian Development Bank; PMU = Project Management Unit 1.  
Source: Asian Development Bank.

### III. DUE DILIGENCE

#### A. Technical

25. Under the current project, the DDCS consultants completed geological and hydrological surveys and studies. Based on the results, they suggested climate change resilient measures (i) adjusting the road alignment in some sections to avoid flood-prone areas, and (ii) using a higher gradient on the paved shoulder of road sections passing through residential areas to allow for water drainage to side ditches. These measures are compatible with the local conditions and will enable the completed road sections to remain open to users and traffic in all weather conditions.

#### B. Economic and Financial

26. **Economic.** All works under the additional financing are viable; the average economic internal rate of return is 14.9%, and the net present value is \$12.5 million at a 12% discount rate.

The upgrading of the segment of Highway 217 from Cam Thuy to Ba Thuoc will provide a better road surface and allow higher speeds, which will reduce travel times and vehicle operating costs, and account for an overall 24% reduction in travel costs. Traffic on this segment already reaches 7,700 vehicles a day in 2015 (85% motorcycles), and would exceed the current road capacity before 2020. The new interchange at Ha Trung will reduce crash risks at the junction. It will also improve traffic flows, preventing degradation of service on Highway 217 and Highway 1, which is the country's main road artery (above 20,000 vehicles per day at Ha Trung). Compared with a without project scenario, the interchange will save up to 10 minutes of travel time per trip for all Highway 217 and Highway 1 vehicles. Additional benefits from the avoidance of potential future flooding on Highway 217 and better safety were not included in the quantitative analysis, but would improve the economic merit of the project.

27. **Financial.** The project is nonrevenue generating. Financial analysis assessed the MOT's financial capacity to maintain the project, confirming that it can cover the recurrent costs to sustain the project. As part of the overall road sector reform process, the government established a Viet Nam National Road Maintenance Fund in 2012, financed from vehicle registration fees and budgetary allocations. During 2013–2014, the fund's revenue increased from D6.9 trillion to D8.0 trillion. Since 2012, the government has been providing routine and periodic maintenance for 35,509 km of national roads. In October 2014, the Thanh Hoa Provincial Department of Transport awarded a contract to repair six segments of the road section from km 0 to Cam Thuy. Further, the Viet Nam National Road Maintenance Fund is expected to increase by improving the collection of vehicle registration fees and increasing budgetary allocations to meet the maintenance needs for national roads, including the Na Meo–Ha Trung road corridor, and thus expected to ensure its long-term sustainability.

### C. Governance

28. Existing procurement, financial management, and governance mechanisms will remain unchanged. As a result of having undertaken several ADB-financed projects in the past, including the current project, the MOT has extensive experience and a detailed understanding of ADB's procurement and financial management policies and procedures. Additionally, the MOT has adequate procurement and financial management capacity. It will continue to use the grievance redress mechanism and project website established under the current project.<sup>12</sup> ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government, MOT, and PMU1. Government risks related to financial management are low, and this additional financing will follow established requirements within the current project. The specific policy requirements and supplementary measures are described in the PAM.

### D. Poverty and Social

29. The project area encompasses poor areas in Viet Nam. The overall project expects to directly benefit about 444,000 residents in the project areas (Ba Thuoc, Cam Thuy, and Ha Trung) and indirectly benefit Thanh Hoa Province's population of 3.4 million. Poverty rates in 2014 were 18.26% in Ba Thuoc, 12.03% in Cam Thuy, and 6.2% in Ha Trung. Based on the government's poverty line of D400,000 per head per month in rural areas and D500,000 per head per month in urban areas, Ba Thuoc is one of the 62 poorest districts in Viet Nam. The poor households in the project areas tend to be from ethnic groups and/or have sick, disabled, or elderly family members who are unable to work.

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<sup>12</sup> Project Management Unit 1–Ministry of Transport. <http://pmu1.vn>

30. The project will reduce poverty in the project areas by improving economic opportunities for local producers, including women, through improved access to markets for their products (chicken, ducks, beef, pigs, rice, and bamboo). The improved road sections will give the residents, including the poor, better access to public facilities such as hospitals, schools, and people's committee buildings, where social services are provided. Women, in particular, will benefit from the improved access to maternal health services. The reduced travel times and transport costs will increase household incomes. The project is categorized as effective gender mainstreaming and, through the implementation of the gender action plan, will ensure equal job opportunities and equal pay for equal work at construction sites. It includes targets for the participation of women as community facilitators and as unskilled laborers at construction sites.

31. Some negative social effects are also possible. However, they will be mitigated through project interventions. All project areas are affected by high rates of HIV infection compared to the national rate of 0.2%: Cam Thuy town's is 1.2%, Ba Thuoc district's is 1.08%, and Ha Trung district's is 0.4%. Improved infrastructure development (road and hydropower plant) and increased migrants have contributed to the high prevalence rate. To address the risk of higher rates of HIV/AIDS transmission and the trafficking of women and children resulting from the sudden influx of construction workers, the project will implement an HIV/AIDS prevention and anti-trafficking program targeting 80% of the construction workforce and the affected communities using an ethnic minority-friendly approach, as the majority of the targeted communities are from ethnic groups.

32. The improved road connection, combined with community users' limited adherence of traffic regulations, may cause more road accidents. Thus, the project will use community elders and women as facilitators in a community-based road safety awareness program focusing on ethnic groups and vulnerable groups.

## **E. Safeguards**

33. The project's social and environmental impacts have been classified as category A for involuntary resettlement, B for environment, and B for indigenous peoples under ADB's Safeguard Policy Statement (2009).

34. **Involuntary resettlement and indigenous peoples.** About 1,500 households will be affected. Of these, an estimated 76 households will be required to relocate, while 105 households may lose a significant amount of paddy land due to the proposed flyover in Ha Trung district and the proposed realignment in Cam Thuy town and Ba Thuoc district. The ethnic groups found in the project areas are Dao, Kinh, Mong, Muong, and Thai. Project impacts with respect to ethnic minorities are mostly related to land acquisition and resettlement impacts. An REMDP has been prepared based on the preliminary design of the project road sections to address potential impacts and risks, and it will be updated following completion of the detailed design. The eligibility of land acquisition and resettlement for ADB financing was determined through a due diligence assessment and it was concluded that all requirements had been met in terms of (i) the expected productive nature of land to be acquired, (ii) the suitability of land market conditions, (iii) the adequacy of administrative arrangements to promote the transparent and efficient transfer of funds, (iv) the risk profile of the transaction, and (v) the soundness of the monitoring and evaluation arrangements.<sup>13</sup> The capacity of staff involved in resettlement updating, implementation, and monitoring will continue to be strengthened by providing the

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<sup>13</sup> Due Diligence for Use of Loan Funds for Land Acquisition and Resettlement (accessible from the list of linked documents in Appendix 2).

necessary safeguards training during project implementation. The project will engage an external monitoring agency to monitor social safeguards activities and report on a semiannual basis to PMU1 and ADB. All social monitoring reports will be uploaded on the ADB website.

35. The AFLAR, in its capacity as the implementing agency for REMDP, will monitor (i) the use of loan funds for land acquisition and resettlement by the project districts, and (ii) the liquidation of any amount paid from subaccounts in accordance with ADB's *Loan Disbursement Handbook* and detailed arrangements agreed between the government and ADB.

36. **Environment.** Potential environmental impacts could be more manageable because the project area has a relatively flat terrain unlike the ongoing project which is situated in a mountainous area. This makes it easier to find suitable spoils disposal sites while reducing the requirements for slope protection and stabilization. The adverse environmental impacts will come largely during construction from dust and noise, surface runoff, erosion, traffic and utility disruptions, potential occupational and community health and safety risks, and disposal of excavated materials. An EMP detailing mitigation measures and monitoring activities was prepared as part of the initial environmental examination (IEE) to avoid or reduce anticipated negative impacts. The EMP also requires each contractor to prepare a CEMP that will include the following subplans on: (i) waste management and spoil disposal; (ii) materials management; (iii) drainage management; (iv) erosion control; (v) temporary transport management; (vi) utilities and irrigation reprovisioning; (vii) noise and dust control; and (viii) worker and public safety. To ensure that project execution complies with the EMP, it will be included in the tender documents and civil works contracts. Each contractor will be required to submit its CEMP before work begins at the sites.

37. During updating of the IEE in January 2015, public consultations began with stakeholders, such as local residents, road users, roadside business owners, locally elected representatives, and local government officials; the consultations will continue until the project's detailed design has been finalized. The issues and concerns raised by these stakeholders have been addressed in the IEE and EMP. The executing agency and PMU1 will be assisted by CSCs in monitoring the environmental performance of contractors, and will submit semiannual environmental monitoring reports to ADB, which will be uploaded on ADB's website. The CSCs will also conduct capacity-building activities with PMU1 on environmental management and monitoring, including workshops, orientations, and on-the-job training.

38. ADB's preliminary screening identified the project as medium risk for climate change. A separate climate change risk assessment undertaken by the government identified project areas that are vulnerable to climate change.<sup>14</sup> Increased rainfall and higher temperatures in these areas could affect soil moisture dynamics and cause flooding, hence, climate change-resilient measures, including side drainages, slope stabilization, and road realignment to avoid flood-prone areas, have been considered.

## **F. Risks and Mitigating Measures**

39. Major risks identified at appraisal of the current project included the following: (i) safeguard policies not implemented adequately, (ii) premature damage to the project road from overloaded vehicles, (iii) project roads not maintained adequately, and (iv) corruption. Since the ADB loan, under the project, will finance land acquisition and resettlement, the following additional risks are considered: (i) distortions to the land market as an efficient means

<sup>14</sup> Climate Change Risk Vulnerability Assessment (accessible from the list of linked documents in Appendix 2).

of acquiring land, (ii) misuse of loan proceeds intended for land acquisition and resettlement, and (iii) inappropriate monitoring and evaluation of use of ADB loan funds.

40. The overall risk assessment of the project is medium. The integrated benefits and impacts of the project are expected to outweigh the costs and thus the project will have a positive impact. To mitigate all the risks in para. 39, the project will (i) engage an international environmental consultant to help support (a) the full implementation of mitigating measures, and (b) the inclusion in CEMPs of the location and description of proposed soil disposal sites and batching plants, and the various submanagement plans on unsuitable soils and waste management, air quality and noise, water quality, traffic management, and public and worker safety; and (ii) contribute to controlling the overloading and budgeting of annual provisions for road maintenance. Specific to the risks related to the use of loan funds for land acquisition and resettlement (para. 39), the following related mitigation measures have been identified: (i) the project will engage a qualified and certified appraiser to conduct the replacement cost survey; (ii) the affected persons will be fully informed about market conditions, prevailing land values, and their right to have access to the project's grievance redress mechanism (GRM); (iii) an accountant in PMU1 will be responsible for administering and monitoring the use of loan funds; (iv) administrative procedures and a list of supporting documents required by ADB and the government were discussed during the workshop on "Use of Loan Funds for Resettlement" held in September 2015; (v) the GRMs that have been established in Cam Thuy and Ba Thuoc will be strengthened (a GRM in Ha Trung has yet to be established); and (v) the project will engage an external monitoring agency to carry out its own monitoring and assessment.

#### **IV. ASSURANCES**

41. The government has assured ADB that implementation of the project shall conform to all applicable ADB policies, including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in detail in the PAM and loan documents.

42. The government has agreed with ADB on certain covenants for the project, which are set forth in the loan agreement.

#### **V. RECOMMENDATION**

43. 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 SDR50,440,000.00 to the Socialist Republic of Viet Nam for the additional financing of the Second Northern Greater Mekong Subregion Transport Network Improvement Project, from ADB's Special Funds resources, with an interest charge at the rate of 2.0% per annum during the grace period and thereafter, for a term of 25 years, including a grade period of 5 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement presented to the Board.

Takehiko Nakao  
President

26 October 2015

## REVISED DESIGN AND MONITORING FRAMEWORK

<b>Impact the Project is Aligned with:<sup>a</sup></b>			
<b>Current project</b> Increased international trade on the GMS Northeastern Corridor.			
<b>Overall project</b> Unchanged.			
<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>			
<b>Current project</b> Efficient transport across the Lao PDR–Viet Nam border and on the project road sections of the GMS Northeastern Corridor	<p><b>Current project</b> Truck traffic across the border increases from 100 trucks per day in 2009 to 220 trucks per day in June 2016</p> <p>Travel time on project road sections decreases (hours) by June 2016</p> <ol style="list-style-type: none"> <li>Route 6 (Vieng Xai-Nam Soi) from 1:50 to 1:30</li> <li>Route 6A from 2:15 to 1:30</li> <li>Route 6B from 1:00 to 0:40</li> <li>Na Meo to km 104.475 (Ba Thuoc) from 3:40 to 2:35</li> <li>Km 104.475 (Ba Thuoc) to Ha Trung from 2:40 to 2:00</li> </ol>	<p>MOT and MPWT traffic statistics</p> <p>Survey reports by project supervision consultants</p>	Overloaded vehicles damage the project road sections (unchanged)
<b>Overall project</b> Unchanged	<p><b>Overall project</b> Truck traffic across the border increases from 100 trucks per day in 2009 to 220 trucks per day by December 2018</p> <p>By 2019, travel time on project road sections on Highway 217 decreased:</p> <ol style="list-style-type: none"> <li>Na Meo to km 104.475 (Ba Thuoc), from 3:40 to 2:35</li> <li>Km 104.475 (Ba Thuoc) to Ha Trung, from 3:00 to 2:00</li> </ol>	<p>Monitoring reports by Frontier military station at Na Meo, Viet Nam</p> <p>Survey reports by CSC</p>	



Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
<p><b>Outputs</b> <b>Output 1</b> <b>Current project</b> The project components of the GMS Northeastern Corridor in Viet Nam and the Lao PDR are improved</p> <p><b>Overall project</b> Unchanged</p>	<p><b>Current project</b> Physical completion of 143 km of routes 6, 6A, and 6B in the Lao PDR and 196 km of Highway 217 in Viet Nam to all-weather status by June 2016</p> <p>15% of unskilled laborers are women by June 2015</p> <p><b>Overall project</b> Physical completion of 196 km of Highway 217 in Viet Nam to all-weather status, including improvements to the following road sections: a. Na Meo to km 104.475 (Ba Thuoc) by June 2016 b. Km 59.9 (Cam Thuy) to 104.475 (Ba Thuoc) and a flyover in Ha Trung by December 2018</p> <p>15% of unskilled laborers are women by December 2018</p>	<p>MOT and MPWT road condition survey report</p> <p>Project supervision consultants reports</p> <p>MOT road condition survey report</p> <p>CSC progress reports</p>	<p>Corruption negatively impacts quality of civil works (unchanged)</p>
<p><b>Output 2</b> <b>Current project</b> Road safety on the project road sections of Northeastern Corridor is improved</p> <p><b>Overall project</b> Unchanged</p>	<p><b>Current project</b> Road accidents per vehicle–km on routes 6, 6A, 6B, and 1C in the Lao PDR and Highway 217 in Viet Nam reduced by 15% by June 2016</p> <p>At least 50% of community facilitators in the community-based road safety campaign are women by June 2016</p> <p><b>Overall project</b> Road accidents per vehicle–km on Highway 217 in Viet Nam reduced by 15% by December 2018</p> <p>At least 50% of paid</p>	<p>Viet Nam Ministry of Public Security Traffic Police Department and the Lao PDR Houaphanh Department of Public Works and Transport</p> <p>Project supervision consultants' report</p> <p>National Road Safety Committee, Viet Nam</p> <p>CSC progress reports</p>	

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks								
	community facilitators in the community-based road safety campaign are women by December 2018										
<p><b>Key Activities with Milestones</b> (Overall Project)</p> <p><b>1. Corridor components improved</b></p> <p>1.1 Award civil works contracts by Q3 2016 (changed)</p> <p>1.2 Complete civil works contracts by Q4 2018 (changed)</p> <p>1.3 Complete recruitment of CSCs by Q3 2016 (changed)</p> <p>1.4 Complete clearance of unexploded ordnance by Q3 2016 (changed)</p> <p>1.5 Satisfactorily implement resettlement and ethnic minority development plan by Q3 2017 (changed)</p> <p>1.6 Complete gender action plan by Q4 2018 (changed)</p> <p>1.7 Complete HIV/AIDS awareness and prevention of human trafficking program by Q4 2018 (changed)</p> <p><b>2. Road safety improved</b></p> <p>2.1 Complete post-construction road safety audit by Q4 2018 (added)</p> <p>2.2 Carry out road safety awareness campaign by Q4 2018 (changed)</p>											
<p><b>Inputs</b></p> <table border="1" data-bbox="293 842 1370 968"> <thead> <tr> <th data-bbox="293 842 802 873">Asian Development Bank (Loan)</th> <th data-bbox="862 842 1370 873">Government</th> </tr> </thead> <tbody> <tr> <td data-bbox="293 873 802 905">\$75,000,000 (current)</td> <td data-bbox="862 873 1370 905">\$22,400,000 (current)</td> </tr> <tr> <td data-bbox="293 905 802 936">\$71,130,000 (additional)</td> <td data-bbox="862 905 1370 936">\$6,720,000 (additional)</td> </tr> <tr> <td data-bbox="293 936 802 968">\$146,130,000 (overall)</td> <td data-bbox="862 936 1370 968">\$29,120,000 (overall)</td> </tr> </tbody> </table>				Asian Development Bank (Loan)	Government	\$75,000,000 (current)	\$22,400,000 (current)	\$71,130,000 (additional)	\$6,720,000 (additional)	\$146,130,000 (overall)	\$29,120,000 (overall)
Asian Development Bank (Loan)	Government										
\$75,000,000 (current)	\$22,400,000 (current)										
\$71,130,000 (additional)	\$6,720,000 (additional)										
\$146,130,000 (overall)	\$29,120,000 (overall)										
<p><b>Assumptions for Partner Financing</b></p> <p>None.</p>											

CSC = construction supervision consultant, GMS = Greater Mekong Subregion, km = kilometer, Lao PDR = Lao People's Democratic Republic, MOT = Ministry of Transport, MPWT = Ministry of Public Works and Transport.

<sup>a</sup> Asian Development Bank. 2010. *Report and Recommendation on the President to the Board of Directors: Proposed Loan, Grant, and Administration of Loan to the Lao People's Democratic Republic and the Socialist Republic of Viet Nam for the Second Northern Greater Mekong Subregion Transport Network Improvement Project*. Manila.

Source: Asian Development Bank.

### **LIST OF LINKED DOCUMENTS**

<http://www.adb.org/Documents/RRPs/?id=41444-024-3>

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

### **Supplementary Documents**

14. Due Diligence for Use of Loan Funds for Land Acquisition and Resettlement
15. Climate Change Risk Vulnerability Assessment