



## Periodic Financing Request Report

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Project Number: 41414-063  
MFF Number: 0053-VIE  
May 2016

### Socialist Republic of Viet Nam: Greater Mekong Subregion Ben Luc–Long Thanh Expressway Project (Tranche 2)

This document is being disclosed to the public in accordance with ADB's Public Communications Policy 2011.

Asian Development Bank

## **CURRENCY EQUIVALENTS**

(as of 26 April 2016)

Currency unit – dong (D)

D1.00 = \$0.000045

\$1.00 = D22,302

## **ABBREVIATIONS**

ADB	–	Asian Development Bank
BLLT	–	Ben Luc–Long Thanh
cm	–	centimeter
EIA	–	environmental impact assessment
EMP	–	environmental management plan
FAM	–	facility administration manual
GMS	–	Greater Mekong Subregion
ha	–	hectare
HCMC	–	Ho Chi Minh City
JICA	–	Japan International Cooperation Agency
km	–	kilometer
LAR	–	land acquisition and resettlement
LIBOR	–	London interbank offered rate
MFF	–	multitranche financing facility
MOT	–	Ministry of Transport
PFR2	–	second periodic financing request
PMU	–	project management unit
ROW	–	right-of-way
VEC	–	Vietnam Expressway Corporation

## **NOTE**

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

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## TRANCHE AT A GLANCE

<b>1. Basic Data</b>		<b>Project Number:</b> 41414-063	
<b>Project Name</b>	GMS Ben Luc-Long Thanh Expressway - PFR 2	<b>Department /Division</b>	SERD/SETC
<b>Country Borrower</b>	Viet Nam, Socialist Republic of State Bank of Viet Nam	<b>Executing Agency</b>	Vietnam Expressway Corporation
<b>2. Sector</b>	<b>Subsector(s)</b>	<b>ADB Financing (\$ million)</b>	
✓ Transport	Urban roads and traffic management		286.00
		<b>Total</b>	<b>286.00</b>
<b>3. Strategic Agenda</b>	<b>Subcomponents</b>	<b>Climate Change Information</b>	
Inclusive economic growth (IEG)	Pillar 1: Economic opportunities, including jobs, created and expanded	Climate Change impact on the Project	High
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)	Organizational development	No gender elements (NGE)	✓
Partnerships (PAR)	Implementation Regional organizations		
<b>5. Poverty Targeting</b>		<b>Location Impact</b>	
Project directly targets poverty	No	Rural	Low
		Urban	High
<b>6. Risk Categorization:</b>	Complex		
<b>7. Safeguard Categorization</b>	Environment: A Involuntary Resettlement: A Indigenous Peoples: C		
<b>8. Financing</b>			
<b>Modality and Sources</b>		<b>Amount (\$ million)</b>	
<b>ADB</b>		<b>286.00</b>	
Sovereign MFF-Tranche (Loan): Ordinary capital resources		286.00	
<b>Cofinancing</b>		<b>517.60</b>	
Japan International Cooperation Agency - Loan		517.60	
<b>Counterpart</b>		<b>48.30</b>	
Government		48.30	
<b>Total</b>		<b>851.90</b>	
<b>9. Effective Development Cooperation</b>			
Use of country procurement systems		No	
Use of country public financial management systems		No	

## TRANCHE AT A GLANCE

Date of Receipt by ADB of PFR: 25 September 2015

Tranche Number: 2

### 10. Country Operations Business Plan

**CPS**

<http://www.adb.org/documents/viet-nam-country-partnership-strategy-2012-2015>

**COBP**

<http://www.adb.org/sites/default/files/institutional-document/34059/files/cobp-vie-2014-2016.pdf>

### 11. Tranche Summary

The Project constructs a 57.1 km expressway between Ben Luc and Long Thanh in the south of Ho Chi Minh City (HCMC), which is a short link of the Greater Mekong Subregion (GMS) Southern Economic Corridor. The project expressway is divided into a western section (21.14 km), a middle section (10.71 km), and an eastern section (25.25 km). For the expressway construction, ADB finances the western and eastern sections, and Japan International Cooperation Agency (JICA) finances the middle section. The project was estimated to cost \$1.608 billion at appraisal, inclusive of local taxes, contingencies, and financing charges during development. Tranche 2 in the amount of \$286 million will cover construction of the eastern section of the expressway.

**Impact:** increased competitiveness of regional economy along GMS Southern Economic Corridor in the Southern Viet Nam and the GMS countries.

**Outcome:** a more efficient and safer movement of goods and people in the greater HCMC area.

**Outputs:** (i) The project will increase the density of the HCMC road network, enhance connectivity between the eastern and western regions of HCMC, and improve the project management and financial management capacity of Vietnam Expressway Corporation (VEC). Under Tranche 2, the eastern section of the project expressway will be built. The entire expressway is expected to be completed in the middle of 2019, with operation scheduled for 2020.

**Implementation Arrangements:** Vietnam Expressway Corporation will be the executing agency.

**Project Readiness:** Land acquisition and resettlement for the entire Project section are being carried out. VEC has prepared bidding documents for the civil works and is ready to start procurement under Tranche 2.

### 12. Significant Developments in the MFF and Previous Tranches

The first tranche in the amount of \$350 million from ADB ordinary capital resources (OCR) finances (i) civil works for the western section of the expressway, (ii) VEC's laboratory equipment, (iii) consulting services for project supervision, external audit, and external environmental monitoring, and (iv) VEC's administration costs. The Tranche 1 components remain unchanged. Since the project implementation was delayed because of insufficient allocation of the counterpart funds in 2012 and 2013, the loan closing date was extended from 31 December 2017 to 30 June 2019.

Tranche 1 involves five civil works contract packages for construction of western section of the project expressway and two equipment packages for VEC's laboratory. All civil works packages have been awarded. The two equipment packages were cancelled, because VEC's subsidiary company owns laboratory equipment.

Tranche 1 requires four consulting services. All packages have been awarded. The project supervision consultant for ADB-funded section was mobilized in April 2015 to start with the baseline survey for the project performance monitoring and evaluation. The external environmental monitoring consultant was mobilized in October 2014 to monitor compliance by the contractors with the environmental impact assessment cleared by ADB. The external resettlement monitoring consultant, funded by the technical assistance loan (Loan 2460-VIE), for the preparation of the project, was mobilized in April 2013 to monitor the land acquisition and resettlement activities in compliance with the resettlement plan cleared by ADB. The external monitoring consultants also review quarterly progress reports by the project supervision consultant for ADB-funded section and JICA-funded section. The contract for external auditing consulting services contract was awarded in May 2015 to prepare annual auditing reports.

JICA cofinances \$635.0 million, including (i) three civil works contract packages for the middle section of the expressway; (ii) facilities for the entire length of the expressway such as operation and maintenance system, toll collection system, information and communication system, weigh station, and intelligent transport system; and (iii) project supervision consulting services for the middle section. Two civil works packages have been awarded, and the civil works have started.

### 13. Milestones

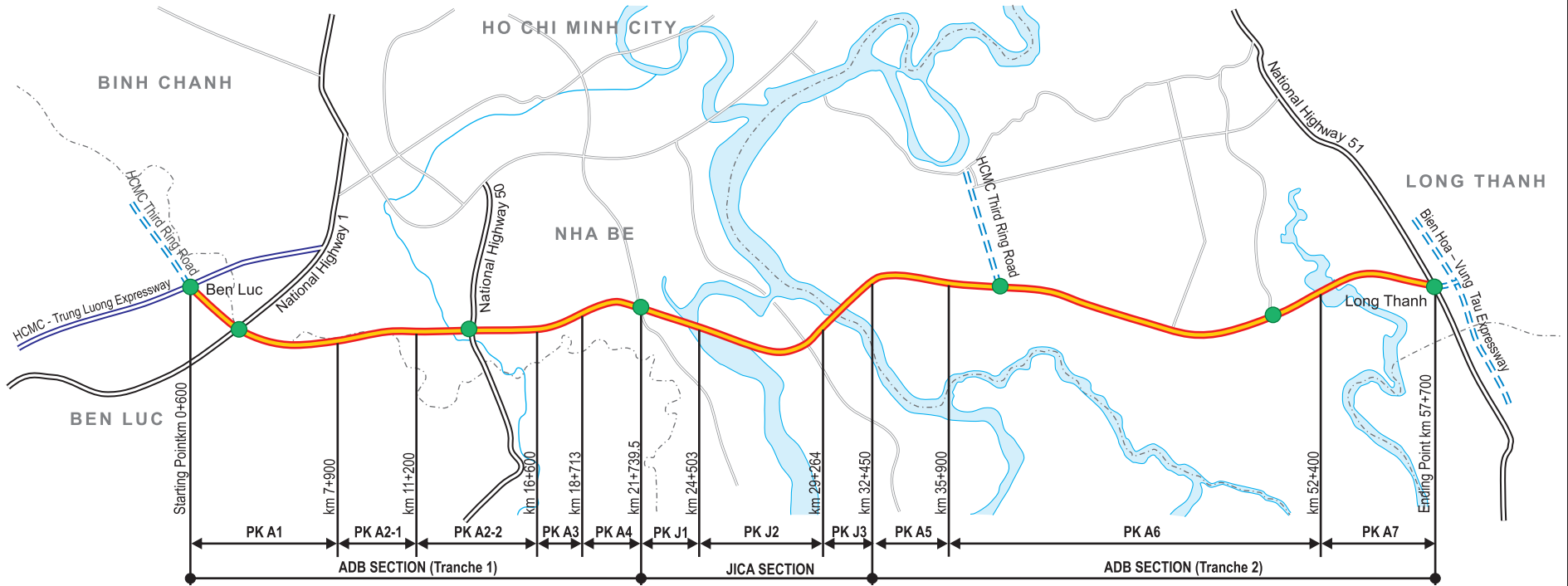
Estimated Approval	Estimated Effectiveness	Estimated Completion <sup>a</sup>
20 May 2016	31 October 2016	30 June 2020

### 14. Linked Documents

	Required Document	Disclosure Date
(i) Environment	EIA - Environmental Impact Assessment	22 October 2010
Weblink:	<a href="http://www.adb.org/projects/documents/gms-ben-luc-long-thanh-expressway-project-environmental-impact-assessment-board-a">http://www.adb.org/projects/documents/gms-ben-luc-long-thanh-expressway-project-environmental-impact-assessment-board-a</a>	
(ii) Involuntary resettlement	Updated RPs	14 September 2014
Weblink:	<a href="http://www.adb.org/projects/41414-043/main">http://www.adb.org/projects/41414-043/main</a>	
(iii) Indigenous peoples		
Weblink:		

<sup>a</sup> For Tranches, this refers to the financial closing date.

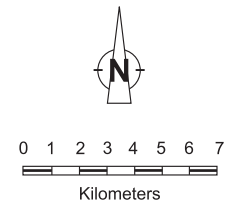
VIET NAM  
**GREATER MEKONG SUBREGION**  
**BEN LUC–LONG THANH EXPRESSWAY PROJECT (TRANCHE 2)**



- Interchange
- Project Expressway
- Expressway in operation
- - - Planned Expressway
- National Highway
- Other Road
- ~ River
- - - District Boundary

Boundaries are not necessarily authoritative.

ADB - Asian Development Bank  
 HCMC - Ho Chi Minh City  
 JICA - Japan International Cooperation Agency  
 PK - Package



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. BACKGROUND

1. The Greater Mekong Subregion Ben Luc–Long Thanh Expressway Project constructs a 57.1-kilometer (km) expressway in the south of Ho Chi Minh City (HCMC) as a short link of the Greater Mekong Subregion (GMS) Southern Economic Corridor. The starting point of the project expressway is an interchange with the existing HCMC–Trung Luong expressway in Ben Luc, and the ending point is an interchange with National Highway 51 in Long Thanh. The project expressway will be constructed with four lanes. It is divided into a western section (21.14 km), a middle section (10.71 km), and an eastern section (25.25 km). The Asian Development Bank (ADB) finances the western and eastern sections, and the Japan International Cooperation Agency (JICA) finances the middle section. The executing agency is the Vietnam Expressway Corporation (VEC), which was established under the Ministry of Transport (MOT) to develop the national expressway network in Viet Nam. The project expressway will be tolled and operated by VEC.

2. A multitranche financing facility (MFF) was approved for \$636 million on 14 December 2010 to fund the project.<sup>1</sup> In response to the government's periodic financing request, Tranche 1 was approved for \$350 million on 22 December 2010 to finance the western section of the expressway. The loan and project agreements for Tranche 1 were signed on 5 May 2011 and became effective on 1 December 2011.

3. On 25 September 2015, ADB received the second periodic financing request (PFR2) from the government, for \$286 million, to finance the eastern section of the project expressway. Since the bidding documents for the civil works under Tranche 2 were finalized, the government submitted the PFR2 to ensure timely availability of financing.

4. The project expressway is a high priority of the government. In January 2010, the Prime Minister of Viet Nam approved a master plan for the national north–south expressways along the eastern coast of Viet Nam, including the project expressway. The total length of the national north–south expressways is 1,941 km. With financial assistance from ADB, JICA, and the World Bank, 35% was already operational as of April 2016.

5. This report has been prepared to provide Management with the project team's assessment of MFF implementation, and to describe the salient features of the investment proposed in PFR2. The project team worked closely with the government and VEC. Due diligence of the draft PFR2 was conducted, which enabled the government's submission of the signed PFR2 letter and annexes.

## II. ASSESSMENT OF IMPLEMENTATION

6. The first tranche of up to \$350 million from ADB's ordinary capital resources finances (i) the civil works for the western section of the expressway, (ii) VEC's laboratory equipment, (iii) consulting services for project supervision, external audit, and external environmental monitoring, and (iv) VEC's administration costs. Since project implementation was delayed because of insufficient allocation of counterpart funds in 2012 and 2013, the loan closing date was extended from 31 December 2017 to 30 June 2019.

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<sup>1</sup> ADB. 2010. *Report and Recommendation of the President to the Board of Directors on a Proposed Multitranche Financing Facility to Socialist Republic of Viet Nam for Greater Mekong Subregion Ben Luc–Long Thanh Expressway Project*. Manila.

7. Tranche 1 involves five civil works contract packages for construction of the western section of the project expressway and two equipment packages for VEC's laboratory. All civil works packages have been awarded. The two equipment packages were cancelled, because VEC's subsidiary company owns laboratory equipment. Tranche 1 requires four consulting services. All packages have been awarded. The project supervision consultant for the ADB-funded section was mobilized in April 2015 to start with the baseline survey for project performance monitoring and evaluation. The external environmental monitoring consultant was mobilized in October 2014 to monitor compliance by the contractors with the environmental impact assessment (EIA) cleared by ADB. The external resettlement monitoring consultant, funded by a technical assistance loan for the preparation of the project,<sup>2</sup> was mobilized in April 2013 to monitor the land acquisition and resettlement (LAR) activities in compliance with the resettlement plan cleared by ADB. The external monitoring consultants also review the quarterly progress reports by the project supervision consultants for the ADB- and JICA-funded sections. The contract for external auditing consulting services was awarded in May 2015 to prepare the annual auditing reports.

8. The overall project performance rating for Tranche 1 is *potential problem* because of an unsatisfactory rating for the disbursement criteria, while the project obtains satisfactory ratings for the other four criteria. As of 4 April 2016, Tranche 1 has achieved \$241.06 million of contract awards and \$40.70 million in disbursement. The slow disbursement is the result of insufficient allocation of counterpart funds and late procurement of the civil works packages. The advance payments for the awarded civil works packages have already been made and the disbursement is expected to increase as the civil works progress. Completion of the civil works in the western section is expected in late 2018.

9. JICA cofinances \$635.0 million to cover (i) three civil works contract packages for the middle section of the expressway, including two long-span bridges; (ii) facilities along the entire expressway, such as operation and maintenance system, toll collection system, information and communication system, weigh station, and intelligent transport system; and (iii) project supervision consulting services for the middle section. The three civil works packages have been awarded and the civil works have started already because this section numbers fewer affected households than the western section; the LAR has been completed. Completion of the civil works in the middle section is expected by late 2019.

10. The government counterpart funds required are \$337.0 million to finance (i) LAR along the entire expressway, (ii) works to clear unexploded ordnance along the entire expressway, and (iii) the local taxes that will be imposed on the JICA cofinancing components. The government encountered severe difficulty in securing the counterpart funds in 2012 and 2013. After meetings between ADB and senior government officials, the government agreed to allocate a sufficient amount of the counterpart funds to the project. The estimated LAR cost is \$181.8 million, of which VEC had received \$113.3 million from the government as of December 2015. VEC has requested MOT to allocate \$48.7 million to carry out LAR in 2016, of which \$22.9 million, \$9.8 million, and \$16.0 million are to be used for LAR for the western, middle, and eastern section of the expressway in 2016.

11. The project's safeguard categorizations are A for environment and involuntary resettlement, and C for indigenous peoples. The EIA and resettlement plan, which cover all

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<sup>2</sup> ADB. 2008. *Report and Recommendation of the President to the Board of Directors on a Proposed Technical Assistance Loan and Technical Assistance Grants to the Socialist of Republic of Viet Nam for the GMS Ha Noi–Lang Son, GMS Ha Long–Mong Cai, and Ben Luc–Long Thanh Expressways Technical Assistance Project*. Manila.

sections of the project expressway, were prepared at the time of MFF processing to meet the requirements of ADB's Safeguard Policy Statement (2009) and cleared by ADB in 2010. The Safeguard Policy Statement applies to all sections, including that funded by JICA. The government and VEC assure compliance with the EIA and resettlement plan.

12. The EIA (i) covers all sections of the expressway; (ii) describes the environmental baseline conditions in the project area; and (iii) provides a comprehensive assessment of potential physical, biological, and socioeconomic impacts resulting from the construction and operation of the project. The environmental management plan (EMP) in the EIA specifies various mitigation and pollution control measures to minimize the anticipated negative impacts of project implementation. The EMP's environmental monitoring plan covers the preconstruction, construction, and operation of the project. VEC ensures compliance with the EMP by both ADB- and JICA-funded contractors. Based on the loan agreement, VEC, with assistance from the project supervision consultant, undertakes monthly monitoring of the contractors' environmental performance and compiles the results in quarterly environmental monitoring reports submitted to ADB. Such monitoring will be carried out throughout construction and during the first year of project operation. The external environmental monitoring consultant will submit the corresponding external monitoring reports simultaneously to ADB and VEC.

13. The resettlement plan, cleared by ADB in 2010, covers all sections of the project expressway. District-specific plans for all project-affected areas were updated based on the final project design and detailed measurement survey results, and accepted by ADB. The implementation of the updated plans is progressing well and assessed as being in compliance. In all, 3,520 households with 13,755 persons are economically and physically affected, of which 1,520 households will lose 10% or more of their productive resources, and 913 households will be physically displaced. Resettlement and relocation are progressing well and are almost completed in the western and middle sections. LAR started in the eastern section. While resettlement sites have been prepared for most locations, the vast majority of relocating households preferred to purchase replacement land themselves and self-relocate. The income restoration program is also progressing well. Program steering committees were established in all districts, and implementation has begun in all districts of HCMC and Long An Province. Affected persons were widely informed about income restoration and consulted on their preferences. A large proportion of eligible affected persons have registered for various activities, of which those related to farming prove most popular. Consultations and information disclosure during resettlement implementation is satisfactory. The practice of affected persons retaining a copy of their compensation assessment and decision for later reference has been applied consistently and is commended. The grievance redress mechanism is observed to be accessible and functioning well.

14. The loan and project covenants and undertakings in the framework financing agreement are generally complied with, although VEC did not receive sufficient counterpart funds for the LAR activities under Tranche 1 (para. 10). While financial transactions from the government to VEC did occur in 2012 and 2013, VEC failed to submit the project auditing documents for these years to ADB. The project auditing documents for 2014 were submitted to ADB without delay. In line with the undertakings in the framework financing agreement regarding institutional development in the transport sector, (i) MOT restructured its internal organization in 2012 to strengthen its institutional capacity; (ii) MOT developed a road asset management system; (iii) the Ministry of Finance and MOT introduced an earmarked road management fund in 2012 by using revenues from the vehicle tax to finance road maintenance works; (iv) MOT has the authority to decide on investors of expressway projects and expressway developers, including VEC, which are required to propose investments in expressways; (v) MOT released ownership

of its state-owned contractors and they were fully privatized in 2015, and also proceeded with VEC's equitization in 2015; and (vi) MOT encourages adoption of cost-effective designs and new technologies for highway construction and operation. As a result of improved financial management capacity, VEC obtained privileges exempting from repayment of concessional loans such as Asian Development Fund loans through negotiations with the government.

### **III. PERIODIC FINANCING REQUEST**

#### **A. Impact and Outcome**

15. As well as Tranche 1, Tranche 2 will partly support the whole project impact, which is to increase the competitiveness of the regional economy along the GMS Southern Economic Corridor in southern Viet Nam and the neighboring GMS countries. By expanding access to markets, facilitating the movements of goods and people, and contributing to connectivity improvements in the GMS, the project will promote sustainable economic growth and regional cooperation. The outcome of the project will be more efficient and safer movements of goods and people in the greater HCMC area (Appendix 1).

#### **B. Outputs**

16. The project outputs are increased density of the HCMC road network, enhanced connectivity between the eastern and western regions of HCMC, and improved project management and financial management capacity of VEC. Under Tranche 2, the eastern section of the project expressway will be built. The entire expressway is expected to be completed by the end of 2019, with operation scheduled for 2020.

#### **C. Investment and Financing Plans**

17. Tranche 2 is estimated to cost \$851.9 million, including taxes and duties of \$68.5 million (Table 1).

18. The government has requested a loan of \$286 million from ADB's ordinary capital resources to help finance the project. The loan will have a 30-year term, including a grace period of 7 years, an annual interest rate determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility, a commitment charge of 0.15% per year (interest and other charges during construction to be capitalized in the loan), and such other terms and conditions as are set forth in the draft loan and project agreements. The loan will also finance interest during construction and recurrent costs.<sup>3</sup>

19. The financing plan for the project is in Table 2. As the Government counterpart funding is about 21% of the total project cost, ADB's financing covers all of the local taxes imposed on ADB-financed civil works, consulting services, VEC's laboratory, and VEC's incremental administration costs in the amount of \$45.1 million. This is only 2.8% of the total project cost. Similarly, under Tranche 2, ADB will finance 100% of the civil works for the eastern section, consulting services, and VEC's incremental administration costs, including all the local taxes amounting to \$20.2 million. All consulting services required for the project have been engaged under Tranche 1. The loan proceeds in the consulting service and VEC's incremental administration cost categories of Tranche 2 will be used after loan proceeds of Tranche 1 in the same categories run out.

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<sup>3</sup> The ADB loan may finance transportation and insurance costs.

**Table 1: Tranche 2 Investment Plan**  
(\$ million)

Item	Amount
<b>A. Base Cost<sup>a</sup></b>	
1. Civil works	570.2
2. Expressway facilities	60.2
3. Consulting services	19.5
4. VEC's incremental administration costs	3.2
<b>Subtotal (A)</b>	<b>653.0</b>
<b>B. Contingencies<sup>b</sup></b>	<b>150.2</b>
<b>C. Financing Charges During Implementation<sup>c</sup></b>	<b>48.6</b>
<b>Total (A+B+C)</b>	<b>851.9</b>

VEC = Vietnam Expressway Corporation.

<sup>a</sup> In mid-2015 prices and inclusive of local taxes. ADB's financing covers all the local taxes, imposed on ADB-financed civil works and consulting services, and VEC's incremental administration costs, amounting to \$20.2 million.

<sup>b</sup> Physical contingencies computed at 5%. Price contingencies computed based on the annual rate 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 portion	0.3%	1.5%	1.4%	1.5%	1.5%	1.5%	1.5%
Local currency portion	2.5%	4.0%	5.0%	5.0%	5.0%	5.0%	5.0%

<sup>c</sup> Includes interest and commitment charges. Interest during construction for the Asian Development Bank (ADB) loan has been computed at the 5-year forward London interbank offered rate plus a spread of 0.5%. The maturity premium is 0.20%. Commitment charges for an ADB loan are 0.15% per year to be charged on the undisbursed loan amount.

Source: Asian Development Bank.

**Table 2: Financing Plan**

Source	Tranche 1 Amount (\$ million)	Share of Tranche 1 Total (%)	Tranche 2 Amount (\$ million)	Share of Tranche 2 Total (%)	Total Amount (\$ million)	Share of Total (%)
ADB	350.0	46.3	286.0	33.6	636.0	39.5
JICA <sup>a</sup>	117.4	15.5	517.6	60.7	635.0	39.5
Government <sup>b</sup>	288.7	38.2	48.3	5.7	337.0	21.0
<b>Total</b>	<b>756.1</b>	<b>100.0</b>	<b>851.9</b>	<b>100.0</b>	<b>1,608.0</b>	<b>100.0</b>

ADB = Asian Development bank, JICA = Japan International Cooperation Agency.

<sup>a</sup> JICA provided the first loan in the amount of 14,093,000,000 yen (\$117.4 million equivalent) in 2011, the second loan in the amount of 31,328,000,000 yen (\$261.1 million equivalent) in 2015, and is expected to provide subsequent loans thereafter. The first loan is cofinanced with Tranche 1 and the second and expected subsequent loans are cofinanced with Tranche 2. JICA's no-objection was obtained on 9 October 2015.

<sup>b</sup> The government provides counterpart fund for land acquisition and resettlement along the entire expressway section under Tranche 1. The land acquisition and resettlement cost for the Tranche 2 section is estimated to be \$35.7 million.

Source: Asian Development Bank.

## D. Implementation Arrangements

20. Implementation arrangements are summarized in Table 3 and described in detail in the updated facility administration manual (FAM) (Appendix 4). VEC, as the project executing agency, implements the project under the oversight of MOT. VEC has established the Ben Luc–Long Thanh project management unit (BLLT-PMU) as the focal point for project coordination, and communication with ADB and other relevant agencies of the borrower. The BLLT-PMU also (i) carries out the procurement activities, (ii) implements the ADB-cleared EIA and the updated resettlement plans accepted by ADB, (iii) supervises the consultants and contractors under the project, (iv) prepares the necessary documentations for the withdrawal of loan proceeds, and (v) prepares periodic reports to ADB.

**Table 3: Implementation Arrangements**

Aspects	Arrangements
Implementation period	March 2016–December 2019
Loan closing date	30 June 2020
Project management	
(i) Oversight body	Ministry of Transport (Chair) Deputy minister (Members) Deputy directors general of Planning and Investment Department; International Relations Department; Environment Department; Finance and Accounting Department; Infrastructure Department; and Transport Construction Quality Control and Management Bureau
(ii) Executing agency	Vietnam Expressway Corporation
(iii) Key implementing agency	Ben Luc–Long Thanh project management unit
(iv) Project implementation unit	20–25 staff, (1 director, 2 deputy directors, 10–15 engineers for highway, structure, and bridge, 3–4 resettlement specialists, 1–2 environmental specialists, and 1–2 accountants)
Procurement	ICB (works)   3 contracts   \$ 209.7 million
Retroactive financing and/or advance contracting	Advance action for procurement and retroactive financing for eligible expenditures—incurred before loan effectiveness but not earlier than 12 months before signing of loan agreement—for up to 20% of Tranche 2 loan amount are allowed.
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 upon between the government and ADB.

ADB = Asian Development Bank, ICB = international competitive bidding.

Source: Asian Development Bank.

21. All works and consulting services to be financed out of the proceeds of the ADB loan will be subject to and governed by ADB's Procurement Guidelines (2015, as amended from time to time) and ADB's Guidelines on the Use of Consultants (2013, as amended from time to time). The project supervision consultant and the external environmental monitoring consultant engaged under Tranche 1, and the external resettlement monitoring consultant engaged under associated technical assistance project (para. 7) will also supervise the civil works and monitor compliance with the EIA and updated resettlement plans for the eastern section.

22. VEC's incremental administration costs eligible for ADB financing comprise (i) salary; per diem for field visits, meetings, and workshops; and travel costs of BLLT-PMU staff; (ii) project management cost for staff at VEC headquarters; and (iii) vehicles, maintenance, office equipment, communication, water, and electricity for the VEC offices. VEC maintains separate records for the incremental administration costs, and submits to ADB (i) an annual operating plan, projected financial statements, anticipated debt obligations, and estimated incremental administration costs—to be estimated based on an acceptable standard costing method for charging incremental costs to the project—3 months before the referred fiscal year starts; and (ii) an audited statement in the annual audit of accounts confirming that the services charged were duly provided to the project.

### **E. Project Readiness**

23. Tranche 2 includes three civil works contract packages (A5, A6, and A7), and each contract cost is estimated at over \$10 million (Appendix 9). After all bidding documents following

international competitive bidding and single-stage, two-envelope procedures had been reviewed by ADB, VEC invited bidders for the civil works packages in March 2016.

#### **F. Advance Contracting and Retroactive Financing**

24. Issuance of the notices to proceed for the civil works contracts is expected in late 2016, before Tranche 2 is anticipated to become effective. Therefore, advance contracting and retroactive financing are requested for Tranche 2. ADB will retroactively finance VEC's eligible expenditures—incurred before loan effectiveness but not earlier than 12 months before signing of the loan agreement—for up to 20% of the Tranche 2 loan amount.

### **IV. DUE DILIGENCE**

#### **A. Economic and Financial**

25. The economic assessment carried out in 2010 was updated by ADB in 2015 (Appendix 6). The project's updated economic internal rate of return is 25.2%, which indicates economic viability. The traffic demands were analyzed using JICA's computer-based traffic assignment model and traffic data, and forecast for the target years of 2020, 2030, 2040. The model covers (i) the existing major roads and highways in the HCMC metropolitan area; (ii) the project expressway; and (iii) roads, highways, and expressways planned in the target years. A toll rate of D1,500/km (equivalent to \$0.07/km) for passenger cars is used, rather than the D1,000/km used in the previous assessment, reflecting toll regimes set for other expressways in operation. The economic benefits in terms of savings in vehicle operation cost and travel time were estimated by comparing the with-project and without-project cases. The traffic assignment model illustrates that the project expressway clearly attracts traffic from more congested, slower, and less developed parts of the road network in HCMC.

26. Similarly, ADB updated the financial assessment (Appendix 7). The update results in a financial internal rate of return of 3.2% for the project. Since the project's weighted average cost of capital is estimated to be 1.2%, the project is financially viable. The updated assessment shows that VEC's financial performance is expected to generally comply with the financial loan covenants, e.g., debt service coverage ratio higher than 1.2 and debt–equity ratio better than 90:10 from 2020.

#### **B. Governance**

27. A financial management assessment of VEC concludes that VEC has sufficient financial management capacity and adequate financial management arrangements in place for project implementation.

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

29. VEC will publicly disclose on its website information on how loan proceeds are being used, presenting (i) procurement contract awards, including for each contract (a) list of participating bidders, (b) name of the winning bidder, (c) basic details on bidding procedures adopted, (d) amount of contract awarded, (e) list of goods and/or services purchased, (f) intended and actual utilization of loan proceeds under each contract; and (ii) internal and external resettlement reports. The website will be updated within 2 weeks from (i) each contract

award, (ii) each submission of environmental and resettlement reports to be prepared by external monitoring agencies, and (iii) each submission of VEC's internal quarterly environment and resettlement reports.

30. ADB's procurement-related review report published in October 2012 identified the following issues with VEC's procurement: (i) a lack of due diligence during prequalification of contractors and evaluation of bids, (ii) changes in bid evaluation criteria without ADB approval, (iii) flawed evaluation of bidders' cash flow, (iv) insufficient basis in assessing compliance with bid requirements, and (v) inaccurate evaluation in selecting consultants.<sup>4</sup> ADB has since strengthened the review of procurement and consultant recruitment under ADB-funded projects involving VEC, and increased the procurement and anticorruption capacity of the executing agencies in Viet Nam's transport sector that receive large volumes of ADB assistance. To safeguard the proposed project financing, ADB will continue to exercise enhanced due diligence of contract management actions and on-site work by reviewing all contractual changes and adjustments in advance, and by fielding frequent review missions that comprise staff with contract management expertise.

### **C. Poverty, Social, and Gender Dimensions**

31. Official data of the Ministry of Labor, Invalids and Social Assistance suggest current poverty rates of 4.90% in HCMC, 2.95% in Dong Nai, and 3.68% in Long An. Compared with the national urban poverty rate of 3.7% and the national rural poverty rate of 12.7%, poverty rates in the project areas are very low. The project may not have a direct poverty reduction impact on people living in poverty, because expressways are intended to serve long-distance traffic and do not necessarily benefit local communities directly. However, the project will improve the investment climate for labor-intensive and export-orientated economic growth, which will be the project's most important indirect impact on the people living in poverty. HCMC is home to the most diversified economic enterprises in Viet Nam. Since the mid-1980s, HCMC has been able to absorb large numbers of relatively unskilled labor, most importantly young rural women who constitute 56.5% of the rural–urban migrant workforce in HCMC, especially in the textile, garment, and footwear industries. Quick-moving commodities to export markets are a comparative advantage, contributing to economic development and indirectly to poverty alleviation.

32. VEC will incorporate the following provisions and budgets in all the project contracts to the effect that contractors shall (i) comply with Viet Nam's applicable labor laws and related international treaty obligations, and do not employ child labor; (ii) provide safe working conditions, and water and separate sanitation facilities for male and female workers; (iii) provide equal wages to male and female workers for work of equal value; (iv) provide day-care services for female construction workers; and (v) carry out the HIV, illicit drugs, and human trafficking prevention program at the construction campsites.

### **D. Safeguards**

33. ADB has helped build VEC's capacity for safeguard activities through the ADB-financed Noi Bai–Lao Cai Highway Project and HCMC–Long Thanh–Dau Giay Expressway Construction Project. The safeguard categorizations for Tranche 2 are A for environment, A for involuntary resettlement, and C for indigenous people. Due diligence carried out for construction activities

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<sup>4</sup> ADB. 2012. *Project Procurement-Related Review Report Loans 2391 and 2392(SF)-VIE: GMS: Kunming–Hai Phong Transport Corridor—Noi Bai–Lao Cai Highway Project*. Manila.



shows that the civil works contractors for the western and middle sections generally comply with the EMP (Appendix 10).<sup>5</sup> The contractors have implemented measures to rectify noncompliance issues identified during due diligence, such as those pertaining to waste disposal, excavated soil disposal, noise, and dust. Updated resettlement plans for the entire project expressway were prepared under Tranche 1 and are being implemented. They were disclosed to the affected people and on ADB's website. Periodic reviews of their implementation assessed it to be in compliance with the involuntary resettlement requirements (Appendix 11).<sup>6</sup> The government has committed to provide adequate funds to ensure LAR implementation in compliance with the resettlement plans.

34. About 12.5 hectares (ha) of mangroves within the right-of-way (ROW) in the eastern section were originally registered as a protected forest under the management of the Protected Forest Management Unit of Long Thanh District in Dong Nai Province. The province decided to hand over the ROW to VEC on 28 November 2013. Its resettlement committee approved compensation for the mangroves and the Protected Forest Management Unit de-protected the mangroves within the ROW on 18 December 2013. Compensation was paid to the Long Thanh District People's Committee on 3 January 2014. The province pruned the mangroves in the ROW in April 2014, without notice to VEC. In response to ADB's request, VEC engaged a mangrove specialist in May 2015 to assess the damage to the mangroves and prepared an environmental corrective action plan.

35. The ADB-approved EIA states that the estimated area of mangrove forest to be cleared for the viaduct construction in the eastern section would be about 1 ha. However, according to estimates by the detailed design consultant engaged under the associated technical assistance project (footnote 2), about 9.1 ha of mangroves will be affected by the construction of the viaduct, although only about 0.9 ha will be permanently cleared to make room for the viaduct piers; the remaining 8.2 ha will be used temporarily for access roads and construction yards. The construction plan proposed by VEC for the viaduct in the eastern section provides that (i) VEC will carry out mangrove replantation equivalent to 12.5 ha in vacant areas of the Long Thanh protected forest; (ii) no further mangrove areas will be cleared; (iii) temporary access roads and construction yards may be established only within ROW, and their total area shall not be more than 8.2 ha; and (iv) after completion of civil works, the hydrological condition along the ROW will be restored to allow regrowth of mangrove stands. It is considered that the proposed environmental corrective action plan will adequately manage the impacts on mangroves during the construction phase.

36. The climate risk associated with the project is rated high, as indicated by the preliminary climate risk screening. The study on climate change and sea-level rise for the entire project concluded that the main climate change impact in the region is sea-level rise. Predictions by the Ministry of Natural Resources and Environment in 2009 suggest that the sea level in the Mekong Delta region will rise by 30 centimeters (cm) in 2030, 50 cm in 2050, and 75 cm–100 cm in 2100.<sup>7</sup> Even given the prediction for 2100, the project expressway will not be affected by the rising sea level because the design specifies an embankment height that is 1 meter higher than the high-water level predicted for 2036 (Appendix 12).

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<sup>5</sup> VEC's due diligence report in July 2015 covers only civil works contract for the middle section, because there was no major construction activity in the western section then. ADB missions reviewed compliance of the contractors for the western and middle sections with EMP in December 2015 and March 2016.

<sup>6</sup> VEC's due diligence report was prepared in April 2015. ADB missions reviewed implementation of LAR in November 2015 and March 2016.

<sup>7</sup> Environmental Impact Assessment (accessible from <http://www.adb.org/Documents/RRPs/?id=41414-02-3>).

**E. Risks and Mitigating Measures**

37. Major risks and mitigating measures are summarized in Table 4 (Appendix 13). These project risks can be reduced and controlled by advance and proactive actions, strategic management of project implementation, frequent meetings with the central government and provincial people’s committee, training of VEC staff, and close monitoring of social and environmental safeguards.

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

<b>Risks</b>	<b>Mitigating Measures</b>
Insufficient allocation of counterpart funds	Close contact with the Ministry of Transport to confirm timely provision of counterpart funds
Delays in land acquisition and resettlement	Frequent meetings with VEC and People’s Committee of Dong Nai Province
Delays in start and completion of civil works	Advance contracting and procurement advisory for VEC staff, frequent review missions
Environmental impacts of the civil works on environmentally sensitive areas	Provision of environmental management component in civil works contracts, and close monitoring of compliance with the approved environmental impact assessment and management plans
Unsatisfactory performance of project supervision consultant and civil works contractors	Provision of appropriate qualification criteria in request for proposal and bidding documents, and frequent review missions during the contract periods

VEC = Vietnam Expressway Corporation.  
Source: Asian Development Bank.

**F. Risk Categorization**

38. Tranche 2 is categorized as complex because (i) the total investment cost is over \$200 million and (ii) safeguard categorization is A for environment and involuntary resettlement.

**V. ASSURANCES AND CONDITIONS**

39. The government and VEC 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 FAM and loan documents. The government and VEC have agreed with ADB on certain covenants for the project, which are set forth in the loan and project agreements. In addition to the standard conditions for loan effectiveness, the following condition for disbursement is incorporated in the legal documents—the subsidiary loan agreement between the government and VEC will have been executed and be binding on the parties.

**VI. RECOMMENDATION**

40. On the basis of the approval by ADB’s Board of Directors for the provision of loans under the multitranches financing facility in an aggregate principal amount not exceeding \$636,000,000 to the Socialist Republic of Viet Nam for the Greater Mekong Subregion Ben Luc–Long Thanh Expressway Project, it is recommended that the President approve the proposed tranche as described in para. 18 and such other terms and conditions as are substantially in accordance with those set forth in the draft loan and project agreements for the proposed tranche.