



SUMMARY PROCEDURE

FOR OFFICIAL USE ONLY

R116-15
23 October 2015

Proposed Loan
Second Greater Mekong Subregion Corridor Towns
Development Project
(Lao People's Democratic Republic)

1. The Report and Recommendation of the President (RRP: LAO 46443-003) on the proposed loan to the Lao People's Democratic Republic for the Second Greater Mekong Subregion Corridor Towns Development Project is circulated herewith.
2. This Report and Recommendation should be read with *Country Operations Business Plan: Lao People's Democratic Republic, 2015–2017*, which was circulated to the Board on 10 December 2014 (DOC.IN.434-14).
3. In the absence of any request for discussion and in the absence of a sufficient number of abstentions or oppositions (which should be communicated to The Secretary by the close of business on 13 November 2015), the recommendation in paragraph 38 of the paper will be deemed to have been approved, to be so recorded in the minutes of a subsequent Board meeting. Any notified abstentions or oppositions will also be recorded in the minutes.

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Report and Recommendation of the President to the Board of Directors

Project Numbers: 46443-003
October 2015

Proposed Loan Lao People's Democratic Republic: Second Greater Mekong Subregion Corridor Towns Development Project

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 6 October 2015)

Currency unit	–	kip (KN)
KN1.00	=	\$0.00012
\$1.00	=	KN8,145

ABBREVIATIONS

ADB	–	Asian Development Bank
ASEAN	–	Association of Southeast Asian Nations
EIRR	–	economic internal rate of return
EMP	–	environmental management plan
GMS	–	Greater Mekong Subregion
IEE	–	initial environmental examination
km	–	kilometer
Lao PDR	–	Lao People's Democratic Republic
LAR	–	land acquisition and resettlement
MPWT	–	Ministry of Public Works and Transport
NSEC	–	North–South Economic Corridor
O&M	–	operation and maintenance
PAM	–	project administration manual
PCU	–	project coordination unit
PIU	–	project implementation unit
PRC	–	People's Republic of China
SDR	–	special drawing right
SLEDP	–	strategic local economic development plan

NOTES

- (i) The fiscal year (FY) of the Government of the Lao People's Democratic Republic ends on 30 September. "FY" before a calendar year denotes the year in which the fiscal year ends, e.g., FY2015 ends on 30 September 2015.
- (ii) In this report, "\$" refers to US dollars.

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PROJECT AT A GLANCE

1. Basic Data		Project Number: 46443-003	
Project Name	Second Greater Mekong Subregion Corridor Towns Development Project	Department /Division	SERD/SEUW
Country Borrower	Lao People's Democratic Republic Lao People's Democratic Republic	Executing Agency	Ministry of Public Works and Transport
2. Sector		ADB Financing (\$ million)	
✓ Water and other urban infrastructure and services	Subsector(s) Other urban services		4.00
	Renovation and protection of cultural heritage		10.85
	Urban flood protection		16.60
	Urban solid waste management		5.55
		Total	37.00
3. Strategic Agenda		Climate Change Information	
Inclusive economic growth (IEG)	Pillar 2: Access to economic opportunities, including jobs, made more inclusive	Adaptation (\$ million)	1.00
Environmentally sustainable growth (ESG)	Urban environmental improvement	Climate Change impact on the Project	Medium
Regional integration (RCI)	Pillar 4: Other regional public goods		
4. Drivers of Change		Gender Equity and Mainstreaming	
Governance and capacity development (GCD)	Institutional development	Effective gender mainstreaming (EGM)	✓
Knowledge solutions (KNS)	Knowledge sharing activities		
Partnerships (PAR)	Official cofinancing Regional organizations		
Private sector development (PSD)	Public sector goods and services essential for private sector development		
5. Poverty Targeting		Location Impact	
Project directly targets poverty	No	Regional	High
6. Risk Categorization:	Low		
7. Safeguard Categorization	Environment: B Involuntary Resettlement: B Indigenous Peoples: C		
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		37.00	
Sovereign Project loan: Asian Development Fund		37.00	
Cofinancing		10.00	
ASEAN Infrastructure Fund		10.00	
Counterpart		5.00	
Government		5.00	
Total		52.00	
9. Effective Development Cooperation			
Use of country procurement systems		Yes	
Use of country public financial management systems		Yes	

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on (i) a proposed loan funded by the Special Funds resources (the A-loan) of the Asian Development Bank (ADB), and (ii) a proposed loan funded through the participation of the Association of Southeast Asian Nations (ASEAN) Infrastructure Fund (the B-loan), both to the Lao People's Democratic Republic (Lao PDR) for the Second Greater Mekong Subregion Corridor Towns Development Project.¹

2. The project will support the Government of the Lao PDR in enhancing the competitiveness of two towns, Houayxay and Luang Namtha, which are located along the North–South Economic Corridor (NSEC), one of the three main economic corridors in the Greater Mekong Subregion (GMS).² The project will result in improved urban services in the two towns through solid waste management improvement, urban roads and drainage upgrades, riverbank protection, river port upgrades, urban renewal, and urban recreation provision. The project will enhance climate resilience and will be in line with ADB's "3Es" of economy, environment, and equity, as outlined in its Urban Operational Plan.³

II. THE PROJECT

A. Rationale

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

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

¹ The design and monitoring framework is in Appendix 1.

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

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

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

⁵ The three economic corridors are the NSEC, the East–West Economic Corridor, and the Southern Economic Corridor. ADB. 2011. *GMS Economic Cooperation Program Strategic Framework, 2012–2022*. Manila.

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

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

5. Towns along (i) the Southern Economic Corridor, which links Thailand to southern Viet Nam through Cambodia; and (ii) the NSEC, with one branch that links the Lao PDR to the PRC, Thailand, and Myanmar, and another branch that links Ha Noi to Kunming and Nanning in the PRC, are well positioned to serve as dynamic centers of investment and economic growth.⁸ The strategic location of the corridor towns provides the stimulus for increased trade and investment. Access to markets will provide many incentives for local economies in the hinterlands of the corridor towns. Given these development opportunities, and with the rapid growth of the urban population and expansion of urban areas, several corridor towns are now facing demands for urban infrastructure and essential support services, including Houayxay and Luang Namtha in the Lao PDR along the NSEC.

6. Houayxay is a medium-sized town and the administrative capital of Bokeo Province in the northwestern part of the Lao PDR; it is close to the country's border with Myanmar and Thailand. With a population of about 68,000 in 2013, the town has been growing steadily as a center for commercial activities in the province, with an expanding economy where growth is linked to cross-border activities, tourism, logistics, and small-scale industries. The town serves as a river port and transfer point for tourists and goods traveling to the northern uplands of the Lao PDR and to Thailand.

7. Luang Namtha town is the administrative capital of Luang Namtha Province in the northwestern part of the Lao PDR bordering the PRC and Myanmar. Luang Namtha town, with a population of about 55,000 in 2013, is strategically located near the border with the PRC. Located in one of the poorest provinces in the Lao PDR, the local economy continues to rely largely on the agriculture sector. The town continues to see growth in the tourism sector due to its proximity to the Nam Ha Biodiversity Conservation Area and the upgrading of its airport in 2008. Continued growth is expected in ecotourism, small-scale industries, and agroprocessing.

8. **Lessons learned.** Among the key lessons learned from completed or ongoing ADB-financed projects in urban development, including the first phase of the GMS Corridor Towns Development Project in the Lao PDR, are: (i) civic participation and demand-driven development activities enhance the sense of local ownership; (ii) capacity building requires proper planning, adequate targeting, and up-front implementation; (iii) institutional and policy reform should be based on realistic assessments of timing, resource requirements, and political will; (iv) financial cost recovery is critical to project sustainability; (v) streamlined approaches to procurement and contract packaging secure effective project implementation; and (vi) strong executing agency leadership, adequate selection of project staff with clearly defined roles and responsibilities, and capacity and training on ADB procedures and required submissions are crucial for effective implementation. These lessons are closely aligned with the project, which has a strong capacity development component, optimizes the value of community involvement, and adopts a business plan approach to revenue collection and operation and maintenance (O&M). Executing agencies will also receive start-up support on ADB procedures upon project commencement.

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

⁸ The East-West Economic Corridor links Lao PDR, Myanmar, Thailand and Viet Nam.

9. **Related policies and strategies.** The project conforms with government policies and strategies, including the Seventh Five-Year National Socio-Economic Development Plan and other relevant national policies and strategies.⁹ In particular, the project is set within the context of a policy framework where the provincial and municipal authorities will incrementally assume the main role for planning and implementation.

10. The project is in line with ADB's country partnership strategy, 2012–2016 for the Lao PDR; ADB's Urban Operational Plan, which encourages economic competitiveness of cities, green development, and inclusive growth (footnote 3); the GrEEEn Cities Approach, which has been piloted in several cities in Indonesia, Malaysia, Myanmar, Thailand, and Viet Nam; ADB's Water Operational Plan, 2011–2020; the GMS Strategic Framework (footnote 7); the GMS Urban Development Strategic Framework 2015–2022, and the GMS Regional Investment Framework Implementation Plan, 2014–2018.¹⁰ The towns under this project were selected and prioritized under the GMS Regional Investment Framework as towns that (i) are localized within the GMS economic corridors, and (ii) directly contribute to economic and urban development. As part of project preparation, strategic local economic development plans (SLEDPs), which present the medium-term strategy, planning, and investment plan for each town, have been prepared. The SLEDPs are based on assessments of potential investments in four dimensions (economic development, environment, equity, and good governance), and extensive consultations and discussions. The SLEDPs, which enhance existing provincial master plans and anchor these to the regional context of the GMS, will be refined and endorsed as part of the project.

B. Impacts and Outcome

11. The impacts will be aligned with the Seventh Five-Year National Socio-Economic Development Plan, 2011–2015 targets of maintaining economic growth, achieving poverty reduction targets, ensuring sustainable development, and supporting regional integration (footnote 9). The outcome will be improved urban services in Houayxay and Luang Namtha.

C. Outputs

12. The outputs of the project are (i) SLEDPs developed, (ii) priority urban infrastructure investments implemented, (iii) institutional capacities for managing public investments strengthened, and (iv) community awareness on project activities and environmental sustainability improved. The infrastructure investments in each town are based on local demand and match the priorities selected by the government.

13. In Houayxay, the project will finance solid waste management, urban roads and drainage, riverbank protection, a riverside road and walkway, river port rehabilitation, and an ecological park and recreation area. This will include (i) construction of a 2-kilometer (km) riverside walkway to provide enhanced access from the main urban area to the south of the town; (ii) construction of a 1-km riverside embankment for enhanced protection of the town

⁹ Government of the Lao PDR, Ministry of Planning and Investment. 2010. *Seventh Five-Year National Socio-Economic Development Plan, 2011–2015*. Vientiane. The Eighth Five-Year National Socio-Economic Development Plan, 2016–2020 is forthcoming, and will include balanced regional and local development as a key focus (outcome 1 and output 4).

¹⁰ ADB. 2011. *Country Partnership Strategy: Lao People's Democratic Republic, 2012–2016*. Manila; S. Sandhu and R. Singru. 2014. *Enabling GrEEEn Cities: An Operational Framework for Integrated Urban Development in Southeast Asia*. *ADB Southeast Asia Working Paper Series*. No. 9. Manila. Asian Development Bank; ADB. 2012. *Water Operational Plan, 2011–2020*. Manila; ADB. 2015. *Greater Mekong Subregion Urban Development Strategic Framework 2015-2022*. Manila; and ADB. 2015. *Greater Mekong Subregion Regional Investment Framework Implementation Plan, 2014–2018*. Manila.

center from flooding; (iii) rehabilitation of the river port to increase the number of trips made annually by big boats by an estimated 33% to 2,000; (iv) construction of a 36.5-hectare lakeside ecological park to provide recreation opportunities for residents and tourists; (v) restoration and upgrades of an existing dump site to a controlled landfill that will service 2,060 households comprising about 11,100 people (about 15% of the town's population); and (vi) construction and upgrade of 8.0 km of priority roads (including improvements to roadside drains) and 9.8 km of priority drainage channels, and rehabilitation of 2.8 km of wastewater drains.

14. In Luang Namtha, the project will finance solid waste management, urban drainage, urban village upgrade, urban recreation facilities, and construction of a bridge. This will include (i) restoration and upgrade of an existing dump site to a controlled landfill that will service 2,140 households comprising about 13,050 people (about one quarter of the town's population); (ii) upgrade of 12.8 km of priority roads from dirt roads to tar-sealed roads, and rehabilitation of wastewater ponds and 4.0 km of wastewater drains; (iii) improvement of 3.3 km of priority roads through construction of roadside drainage; (iv) upgrade of three facilities (community recreation park, sports hall, and night market) for sports and recreation opportunities for residents and tourists; and (v) construction of a bridge to allow for passage of heavy trucks over Nam Tha River.

15. In addition, the project will also finance consultancy services that include implementation support, detailed design, construction supervision, and capacity building. Incremental administration costs for project administration, including annual audits, will also be financed.

D. Investment and Financing Plans

16. The project is estimated to cost \$52 million (Table 1).

17. The government has requested a loan in various currencies equivalent to SDR26,382,000 from ADB's Special Funds resources (A-loan) and a loan of \$10,000,000 through the participation of the ASEAN Infrastructure Fund (B-loan) to help finance the project. The A-loan will have a 32-year term, including a grace period of 8 years, an interest rate of 1.0% per annum during the grace period and 1.5% per annum thereafter (the interest and other charges during construction to be capitalized in the A-loan), and such other terms and conditions set forth in the draft loan agreement. The B-loan will have a 20-year term, including a grace period of 5 years, an annual interest rate determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility¹¹ and such other terms and conditions set forth in the draft loan agreement. Financing from both loans will be provided on a pro rata basis.

¹¹ The interest includes a maturity premium of 10 basis points. This is based on the B-loan terms and the government's choice of repayment and dates.

Table 1: Project Investment Plan
(\$ million)

Item	Amount ^a
A. Base Cost	
1. Houayxay riverbank upgrading and protection	2.36
2. Houayxay riverside road and walkway	0.91
3. Houayxay river port rehabilitation	1.31
4. Houayxay ecological park and recreation area	1.46
5. Houayxay solid waste management	2.19
6. Houayxay urban roads and drainage upgrading	10.43
7. Luang Namtha solid waste management	2.12
8. Luang Namtha urban village upgrading	10.64
9. Luang Namtha urban roads drainage	2.46
10. Luang Namtha urban recreation facilities upgrading	1.32
11. Luang Namtha Nam Tha River bridge	2.55
12. Project implementation and capacity building	3.39
13. Incremental administration cost ^b	0.98
Subtotal (A)^c	42.11
B. Contingencies^d	8.19
C. Financing Charges During Implementation^e	1.70
Total (A+B+C)	52.00

Note: Numbers may not sum precisely because of rounding.

^a Includes taxes and duties of \$4.53 million (\$4.42 million financed by the government through exceptions, and \$0.11 million for taxes and duties for incremental administration cost financed by the Asian Development Bank (ADB) and the Association of Southeast Asian Nations (ASEAN) Infrastructure Fund loans, and land acquisition and resettlement costs of \$0.44 million. ADB will finance taxes and duties for incremental administration cost, provided that (i) the amount will be within the reasonable threshold identified during the country partnership strategy preparation process, (ii) the amount will not represent an excessive share of the project investment plan, (iii) the taxes and duties apply only to ADB-financed expenditures, and (iv) the financing of the taxes and duties is material and relevant to the success of the project.

^b Incremental administration cost includes salaries; travel expenses; office running costs (including utilities); equipment (e.g., computer, copier, fax machine, air conditioner, camera, telephone, global positioning system, and voice recorder); insurance; vehicles (leased or purchased); workshops, training, and seminars (including venue rental and per diems, honoraria, transport, workshop materials, translation costs, and lodging costs for participants); and annual audit costs. These recurrent costs are financed under the ADB and ASEAN Infrastructure Fund loans.

^c Base cost in April 2015 prices.

^d Physical contingencies of 7.7%–10.0% are assumed for all project costs, except land acquisition and resettlement costs, where physical contingencies are 0%. Price contingency is based on foreign inflation rates of 0.3% in 2015, 1.5% in 2016, 1.4% in 2017, and 1.5% from 2018 onward; and local inflation rates of 3.5% in 2015, 4.0% in 2016, and 4.5% from 2017 onward.

^e Interest during construction for the A-loan has been computed at 1.0% per year during the grace period and 1.5% thereafter; for the B-loan interest has been computed at London interbank offered rate plus 150 basis points (140 basis points contractual spread and 10 basis points maturity premium). This interest will be capitalized under the ADB and ASEAN Infrastructure Fund loans.

Source: ADB estimates.

18. The financing plan is presented in Table 2.

Table 2: Financing Plan

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank (Special Funds resources loan)	37.00	71.2
ASEAN Infrastructure Fund ^a	10.00	19.2
Government of the Lao People's Democratic Republic	5.00	9.6
Total	52.00	100.0

ASEAN = Association of Southeast Asian Nations.

^a Administered by the Asian Development Bank.

Source: Asian Development Bank estimates.

E. Implementation Arrangements

19. The Ministry of Public Works and Transport (MPWT) will be the executing agency for the project, through the Department of Housing and Urban Planning. It will provide for overall policy guidance and oversee implementation in accordance with the objectives and scope of the project. Under the Department of Housing and Urban Planning, a project coordination unit (PCU) will work as the technical team and will liaise with project implementation units (PIUs) to be established at the provincial departments of public works and transport. A central project steering committee will be established. It will be chaired by a vice minister from the MPWT and will include representation from other key ministries and provincial administrative units. A provincial project steering committee will be established for each town, chaired by the respective province's vice governor and including representation from other key provincial departments and district administrative units. The implementation arrangements are summarized in Table 3 and described in detail in the project administration manual (PAM).¹²

Table 3: Implementation Arrangements

Aspects	Arrangements		
Implementation period	January 2016–December 2020		
Estimated completion date	31 December 2020 (Estimated loan closing date: 30 June 2021)		
Management	CPSC; Vice minister from the MPWT (chair); Vice governors from Bokeo and Luang Namtha provinces; director general of the DHUP; PDPWTs; and representatives from the Ministry of Finance, the Ministry of Planning and Investment, the Ministry of Home Affairs, and the Ministry of Natural Resources and Environment (members); The project coordination unit will be the secretariat of the CPSC for meeting arrangement		
(i) Oversight body			
(ii) Executing agency	The MPWT through the DHUP		
(iii) Key implementing agencies	PDPWTs in Houayxay and Luang Namtha		
(iv) Project coordination unit	Project director, deputy project directors, procurement officer, accountant, secretary, cashier, and other support staff		
(v) PPSCs (two)	Provincial vice governor (chair) District governor; directors of PDPWTs; and representatives from the Department of Finance, the Department of Planning and Investment, the Department of Home Affairs, and the Department of Natural Resources and Environment (members) PIUs will be the secretariat of PPSCs for meeting arrangement		
(vi) PIUs	Project manager, deputy project manager, municipal engineers, civil engineers, environment specialist, resettlement specialist, social development and gender expert, urban planner, landscape architect, procurement specialist, and technical support staff (financial management, accounting, administration, English speaking secretary)		
Procurement	International competitive bidding	3 contracts	\$34.61 million
	National competitive bidding	3 contracts	\$2.71 million
	All procurement under the ADB loan will be in accordance with ADB's Procurement Guidelines (2015, as amended from time to time)		
Consulting services	PISCB consultants (QCBS, 90:10, full technical proposal) ^a	331 person-months	\$3.39 million
Advance contracting	The MPWT will ask for advance contracting of project implementation support and the capacity building consultant. Advance action does not commit ADB to subsequent project approval.		
Disbursement	The loan proceeds will be disbursed in accordance with ADB's <i>Loan Disbursement Handbook</i> (2015, as amended from time to time) and detailed arrangements agreed between the government and ADB.		

ADB = Asian Development Bank, CPSC = central project steering committee, DHUP = Department of Housing and Urban Planning, MPWT = Ministry of Public Works and Transport, PDPWT = provincial department of public works and transport, PISCB = project implementation support and capacity building, PIU = project implementation unit, PPSC = provincial project steering committee, QCBS = quality- and cost-based selection.

^a ADB-funded consultants will be recruited in accordance with ADB's Guidelines on the Use of Consultants (2013, as amended from time to time).

Source: ADB.

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

III. DUE DILIGENCE

A. Technical

20. The subprojects were selected for the provision of basic environmental services. This will be achieved through improved solid waste management, urban roads and drainage upgrades, and urban recreation opportunities (Houayxay and Luang Namtha); riverbank protection, a riverside road and walkway and river port rehabilitation (Houayxay); urban village upgrade, and construction of a bridge (Luang Namtha). The subprojects are technically feasible and use optimum design solutions and standards, where the technology for undertaking the civil works and O&M can be managed by the provincial and municipal authorities. Climate resilient design has been ensured including, for example, through designing the Houayxay riverbank protection upgrade, and riverside road and walkway, with an extra height; and by designing drainage in both Houayxay and Luang Namtha to account for future rainfall increases due to climate change. Appropriate levels of capacity building and training are assured in the project loan.

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

B. Economic and Financial

22. An economic analysis was undertaken for all subprojects to determine their viability, using the computation of economic internal rate of return (EIRR) as the indicator. The base case results indicate all components are economically viable with an estimated EIRR exceeding the assumed economic opportunity cost of capital of 12%. The EIRR results range from 16% to 33% for Houayxay and 14% to 19% for Luang Namtha. All subprojects were generally also viable under adverse scenarios in which costs were higher or benefits lower by 10% compared to the base case.¹³ These scenarios included a 10% increase in capital cost, 10% increase in O&M cost, 10% reduction in benefits, and a 1-year delay in the realization of benefits.

23. A financial analysis was conducted for both the revenue- and the nonrevenue-generating subprojects of each town to confirm the sustainability of the investment. The analysis established that, for both towns, sufficient counterpart funds for their investment components will be available. None of the public entities involved in the operation of the respective project components is corporatized. They are all general government sector units, and their accounts are not ring-fenced. Therefore, a financial internal rate of return has not been calculated. The tariffs collected for the revenue-generating components (e.g., solid waste management) currently do not fully cover the cost for O&M, but will be adjusted over time to meet these requirements. Any funding gap for meeting the full O&M cost will be covered by the provincial governments, a commitment that has been covenanted in the loan agreement.

C. Governance

24. Assessment shows that the executing agency has experience with the financial management and fund disbursement systems applicable to ADB projects. It has developed the institutional capacity to undertake international and national competitive bidding for civil works and goods. The project financial management risk is considered high, primarily in the provinces and municipalities. Capacity development and training assistance will be provided to the PCU and PIUs on financial and procurement management and fund disbursement.

¹³ Economic Analysis (accessible from the list of linked documents in Appendix 2).

25. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government and the MPWT.¹⁴ The specific policy requirements and supplementary measures are described in the PAM (footnote 12).

D. Poverty and Social

26. From the poverty and social analysis conducted, the project is classified as general intervention.¹⁵ The overall project social impacts are expected to be positive, with expected improvements to the quality of life for people in both towns. The project will result in improved climate-resilient infrastructure for the participating towns, benefiting all social strata, including the urban poor and other vulnerable groups in each town. Proposed tariffs for solid waste management have been assessed as affordable for low-income groups. Specifically, the subproject component proposals for improving urban drainage will improve flood protection for the project-affected people, their homes, and their property. Poor and vulnerable households located in low-lying flood-prone areas and who experience insufficient and/or lack basic environmental sanitation services stand to benefit the most.

27. The project is categorized as effective gender mainstreaming. The gender analysis concluded that women in the subproject areas might not fully realize project benefits and opportunities if gender issues concerning women's employment opportunities and sector representation in decision making are not mainstreamed in project activities. Accordingly, a gender action plan has been prepared with the aim of (i) promoting the mainstreaming of gender issues in project planning and implementation, (ii) addressing specific impacts and risks that may affect women differently or disproportionately compared with men, and (iii) enhancing participation of women in project benefits.

E. Safeguards

28. **Social safeguards.** The safeguard category for involuntary resettlement is B. Two resettlement plans, one per town, will be prepared for components that will trigger land acquisition and resettlement (LAR) impacts. For both the subprojects, a total area of 29.11 hectares of land will be acquired, affecting 55 affected households (351 affected persons), including 32 severely affected households (177 affected persons). In addition to partial loss of land, other impacts include loss of crops, trees, and aquaculture. The total LAR cost, estimated at \$440,000 (including contingencies), will be provided through counterpart financing.¹⁶

29. All affected households are entitled to compensation and rehabilitation assistance. Severely affected and vulnerable households will be provided income restoration through cash assistance and skills training, and receive priority for employment in project-related construction works. A cutoff date will be established following extensive stakeholder consultation and participation. Project information has been disclosed to affected persons throughout project preparation, and a project information booklet will be updated and distributed during a detailed measurement survey during project implementation. There will be effective internal monitoring during all stages of the subprojects' implementation. In compliance with ADB's information disclosure and consultation requirements, the safeguard documents will be posted on ADB's website.

¹⁴ ADB. 2010. *Anticorruption and Integrity: Policies and Strategies*. Manila.

¹⁵ Summary Poverty Reduction and Social Strategy (accessible from the list of linked documents in Appendix 2); Gender Action Plan (accessible from the list of linked documents in Appendix 2).

¹⁶ Resettlement Plan: Luang Namtha Subproject (accessible from the list of linked documents in Appendix 2); Resettlement Plan: Houayxay Subproject (accessible from the list of linked documents in Appendix 2).

30. **Indigenous peoples.** Indigenous peoples safeguards are not triggered by any project component in Houayxay or Luang Namtha, and the safeguard category for indigenous peoples is C in accordance with the requirements of ADB's Safeguard Policy Statement (2009).

31. **Environment safeguards.** The project is classified as category B for environment in accordance with ADB's Safeguard Policy Statement. One initial environmental examination (IEE) report and two environmental management plans (EMPs) (one per town) have been prepared.¹⁷ The proposed subprojects are not expected to cause irreversible adverse environmental impacts. Mitigation measures for identified impacts have been incorporated in the EMPs. In addition, potential impacts of climate change and natural hazards (e.g., flooding and earthquake) on the project have been recommended for integration into the detailed design stage as part of the IEE assessment whenever appropriate.

32. The final EMPs will form part of the contract bidding documents. Environmental considerations during design, and allocation of sufficient budget for O&M, will help mitigate potential adverse impacts during operation. Effective environmental monitoring at all stages of subproject implementation will be supported by including budget and institutional arrangements for EMP implementation and monitoring. Specifically, EMP implementation will be supported by a designated environment officer in the respective PIUs of the executing agency (footnote 17).

33. Climate change projections and climate change impacts on the project are discussed in the climate vulnerability and risk assessment section of the IEE. Costs that may be attributed to climate change adaptation are estimated at \$1 million, representing about 2% of the total loan amount.

34. Resettlement and environment documents have been prepared in consultation with local communities and are in accordance with ADB's Safeguard Policy Statement and the laws and regulations of the Lao PDR. The documents have been endorsed, approved, and posted on the ADB website. The project towns have demonstrated a high level of commitment to social safeguards, and have allocated their own resources for LAR. Implementation arrangements include designated responsibilities for safeguards monitoring.

F. Risks and Mitigating Measures

35. The integrated benefits and impacts from the project are expected to outweigh the costs. The overall risk is assessed as medium. Major risks and mitigating measures are summarized in Table 4 and described in detail in the risk assessment and risk management plan.¹⁸

Table 4: Summary of Risks and Mitigating Measures

Risks	Mitigating Measures
Lack of capacity for project implementation and management	Support and training provided by project implementation and capacity development consultants.
Irregularities in procurement and financial management	Provisions included in loan agreement and bidding documents. The executing agency will disclose contract awards and use of loan proceeds.
Lack of financial sustainability due to noncost recovery tariffs	Capacity building provided for (i) sustainable operation and maintenance of the new facilities, and (ii) tariff setting and financial management. Provincial governments will cover the funding gap if revenues are insufficient.
Delay in project start-up and implementation	Support for project start-up activities provided under the project preparatory technical assistance, including for advance action on recruitment of the project implementation support and capacity building consultant.

¹⁷ Initial Environmental Examination (accessible from the list of linked documents in Appendix 2).

¹⁸ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

Risks	Mitigating Measures
Potential presence of unexploded ordnance	Surveys to identify potential unexploded ordnance contamination will be undertaken.
Potential archeological finds could cause delays	Measures and recommendations identified in initial environmental examinations

Source: Asian Development Bank.

IV. ASSURANCES AND CONDITIONS

36. The government and the MPWT have assured ADB that implementation of the project shall conform to all applicable ADB policies including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in detail in the PAM and loan documents. The government and MPWT have agreed with ADB on certain covenants and disbursement conditions for the project, which are set forth in the loan agreements (A-loan agreement and B-loan agreement).

37. The following condition to the effectiveness of the A-loan is set forth in the A-loan agreement: the B-loan agreement has been executed and has become effective. The following condition to the effectiveness of the B-loan is set forth in the B-loan agreement: the A-loan agreement has been executed and has become effective. The following condition of disbursement for the A-loan and the B-loan is set forth in the respective agreements: prior to a disbursement of the loan, the borrower shall cause, directly or indirectly through the project executing agency or the relevant provincial authority, the PCU, and each PIU, to employ the necessary financial management and accounting staff to administer, implement, coordinate, and undertake all financial management and accounting activities required under the PAM or as otherwise required by or agreed to with ADB.

V. RECOMMENDATION

38. 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

- (i) the A-loan in various currencies equivalent to SDR26,382,000 to the Lao People's Democratic Republic for the Second Greater Mekong Subregion Corridor Towns Development Project, from ADB's Special Funds resources, with an interest charge at the rate of 1.0% per annum during the grace period and 1.5% per annum thereafter; for a term of 32 years, including a grace period of 8 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; and
- (ii) the B-loan of \$10,000,000 to the Lao People's Democratic Republic for the Second Greater Mekong Subregion Corridor Towns Development Project, to be funded through the participation of the ASEAN Infrastructure Fund, on terms and conditions as are substantially in accordance with those set forth in the draft loan agreement presented to the Board.

Takehiko Nakao
President

23 October 2015

DESIGN AND MONITORING FRAMEWORK

Impacts the Project is aligned with: Maintain economic growth, achieve poverty reduction targets, ensure sustainable development, and support regional integration in the towns of Houayxay and Luang Namtha (Seventh Five-Year National Socio-Economic Development Plan, 2011–2015) ^a			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
Outcome Improved urban services in Houayxay and Luang Namtha	By 2021 a. 35.9 km of roads built or upgraded (including drainage improvements) for improved mobility, safety, and reduced travel time in both towns (2015 baseline: 0 km) b. 24,175 people serviced by solid waste collection in the two towns (2015 baseline: 17,460 people) c. 10,600 people with enhanced protection from flooding due to improved flood management for 640 hectares of land in both towns (2015 baseline: 0 people) d. 7,645 women in Houayxay and 6,620 in Luang Namtha benefit from improved urban infrastructure (2015 baseline: 0 women) e. Annual number of trips by big boats (passengers and freight) in Houayxay increases by 33% to 2,000 (2015 baseline: 1,460 trips)	a–e Construction records, project progress reports, end of project survey	Lack of capacity for project implementation and management. Lack of financial sustainability due to non-cost recovery tariffs.
Outputs 1. The SLEDPs developed	By 2016 1a. SLEDPs endorsed by the participating provinces and towns (2015 baseline: final drafts of SLEDPs completed)	1a. Letter of endorsement from executing agency	Delay in project start-up and implementation. Irregularities in procurement and financial management.
2. Priority urban infrastructure investments implemented	By 2020 2a. 10% of unskilled laborers employed for subproject construction are women, 30% of staff employed in operation and maintenance are women, and 75% of all unskilled laborers are of local origin (2015 baseline: not applicable)	2a. Construction records and progress monitoring reports	Potential presence of unexploded ordnance. Potential archeological finds could cause delays.

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
	<p>2b. 2 km of riverbank stabilization works that considers climate change factors designed and is in line with government standards (2015 baseline: 0 km)</p> <p>2c. Two existing landfills rehabilitated and made operational, one in each town (2015 baseline: 0)</p> <p>2d. 100% of informal waste pickers near existing dump sites given continued access to rehabilitated landfill sites (2015 baseline: 30 people)</p> <p>2e. Solid waste bill collection efficiency increased to 90% (2015 baseline: 60%)</p> <p>2f. 20.8 km of roads (including drainage improvements) and 13.1 km of drainage channels built in Houayxay and Luang Namtha; 2 km of river walkway built and upgraded in Houayxay (2015 baseline: 0)</p> <p>2g. 6.8 km of wastewater drains rehabilitated in Houayxay and Luang Namtha (2015 baseline: 0), with residents benefiting from free connections and affordable tariffs</p> <p>2h. River port in Houayxay rehabilitated (2015 baseline: not applicable)</p> <p>2i. Urban parks and recreation space in both towns increased to 38.6 ha, with 36.5 ha in Houayxay and 2.1 ha in Luang Namtha (2015 baseline: 0 ha)</p>	<p>2b. Construction records, subproject completion reports</p> <p>2c. Construction records and progress monitoring reports</p> <p>2d. PCU and PIU monitoring reports</p> <p>2e. Reports of the departments of public works and transport, Urban Development and Administration Authority reports, project progress reports</p> <p>2f. Construction records, subproject completion reports</p> <p>2g. Construction records, subproject completion reports</p> <p>2h. Government statistics</p> <p>2i. Construction records and progress monitoring reports</p>	
3. Institutional capacities for managing public investments strengthened	<p>By 2020</p> <p>3a. At least 20 persons (30% female) trained in project management (Baseline: not applicable)</p>	<p>3a. Project progress and completion reports, training manuals</p>	

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
	<p>3b. At least 100 persons (50% female) provided gender sensitization training (Baseline: not applicable)</p> <p>3c. PCU and PIUs recruit at least 30% female staff, including 20% in decision-making positions (Baseline: not applicable)</p>	<p>3b. Project progress and completion reports, training manuals</p> <p>3c. Government employment records</p>	
4. Community awareness of project activities and environmental sustainability improved	4a. At least six community awareness and dissemination campaigns covering environmental sustainability themes conducted, with equal participation by men and women (2015 baseline: 0)	4a. Attendance records, project progress, and completion reports, surveys	
<p>Key Activities with Milestones</p> <p>Output 1: The SLEDPs developed</p> <p>1.1 Participating provinces and towns endorse SLEDPs (Q2 2016)</p> <p>Output 2: Priority urban infrastructure investments implemented</p> <p>2.1 Complete detailed engineering designs (Q4 2016)</p> <p>2.2 Complete land acquisition and resettlement (Q4 2016)</p> <p>2.3 Bid on civil works contracts (Q4 2017)</p> <p>2.4 Sign civil works contracts (Q4 2017)</p> <p>2.5 Complete civil works (Q4 2020)</p> <p>2.6 Conduct safeguards monitoring and reporting (Q1 2016–Q4 2020)</p> <p>Output 3: Institutional capacities for managing public investments strengthened</p> <p>3.1 Formulate capacity building program (Q4 2016)</p> <p>Output 4: Community awareness on project activities and environmental sustainability improved</p> <p>4.1 Conclude community awareness and dissemination campaigns (Q4 2020)</p> <p>Inputs</p> <p>Asian Development Bank: \$37,000,000 (loan)</p> <p>ASEAN Infrastructure Fund: \$10,000,000 (loan)</p> <p>Government of the Lao People's Democratic Republic: \$5,000,000</p> <p>Assumptions for Partner Financing</p> <p>Not applicable</p>			

ASEAN = Association of Southeast Asian Nations, ha = hectare, km = kilometer, PCU = project coordination unit, PIU = project implementation unit, SLEDP = strategic local economic development plan.

^a Government of the Lao People's Democratic Republic, Ministry of Planning and Investment. 2010. *Seventh Five-Year National Socio-Economic Development Plan, 2011–2015*. Vientiane.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=46443-003-3>

1. Loan Agreement: A-Loan
2. Loan Agreement: B-Loan
3. Sector Assessment (Summary): Water and Other Urban Infrastructure and Services
4. Project Administration Manual
5. Contribution to the ADB Results Framework
6. Development Coordination
7. Financial Analysis
8. Economic Analysis
9. Country Economic Indicators
10. Summary Poverty Reduction and Social Strategy
11. Gender Action Plan
12. Initial Environmental Examination
13. Resettlement Plan: Houayxay Subproject
14. Resettlement Plan: Luang Namtha Subproject
15. Risk Assessment and Risk Management Plan

Supplementary Documents

16. Summary of Investment Components
17. Summary on Climate Change
18. Economic Analysis–Supplementary Tables